
FUTURE PLANS AND PROSPECTS

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Strategy and vision

HKEx's strategy and vision are focused on several key directions:

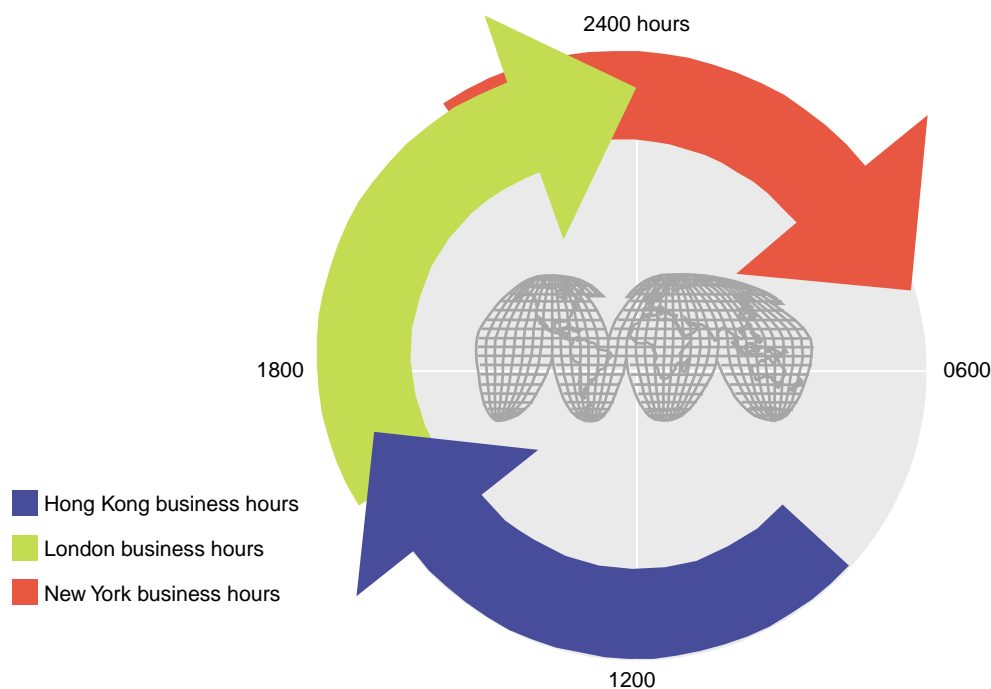
- it will proactively seek opportunities for alliances with other major international exchanges;
- it will focus on continuing to serve as mainland China's primary venue for capital raising;
- it will continue to pursue business growth opportunities offered by Hong Kong's domestic capital requirements through (i) providing services that add real value for investors, market intermediaries and listed companies, (ii) continuing to introduce innovative products and services, and (iii) capitalising on the benefits offered by the merger of the Exchanges and Clearing Houses under HKEx; and
- in order to both increase competitiveness and enhance the integrity and stability of the stock and futures markets, it will continue with its commitment to invest in technology to increase the speed and efficiency of transactions, and expand the compatibility and linkage of its trading and settlement systems to enable the early realisation of straight through processing.

Strategic alliances

As described in the section of this document headed "Industry overview — global stock and futures markets", the world's stock and futures exchanges are going through profound changes propelled by the forces of technological advances and globalisation. Whereas exchanges previously served largely domestic issuers and investors, they now operate in international capital markets where technological changes have lowered the entry barriers to establishing new and alternative trading platforms, international capital flows predominate and deregulation is opening up local markets to international participation. In response, the world's exchanges are increasingly adopting corporate style ownership and management structures in order to become more commercial, performance-driven and competitive organisations, and strategic initiatives intended to promote extended trading hours, lower costs, wider product bases, lower stock trading spreads and increased global liquidity. Hong Kong's proactive approach to these issues has positioned it at the forefront of this movement through the merger of the Exchanges and Clearing Houses under HKEx. The Group is also committed to seeking opportunities for alliances and cooperation arrangements with other major international exchanges. In establishing such alliances and cooperation arrangements the Group will focus on building and developing relationships that will link it with other exchanges to provide trading opportunities for investors across the Asian, European and American time zones.

FUTURE PLANS AND PROSPECTS

In this respect trading in Hong Kong provides a convenient bridge between the normal working days in Europe and North America. The Group can therefore play a key role in any grouping of exchanges that wishes to provide trading across multiple time zones.



Ultimately, the Directors believe that success in this objective will require the Group to be non-Japan Asia's centre of excellence and the partner of choice in the Asian time zone. HKEx believes it is strongly positioned to achieve this, leveraging on the strengths it has as referred to in the section of this document headed "Business — strengths of the Group", and through the development of its businesses as referred to in this section.

In May, 2000, the Stock Exchange and NASDAQ introduced a pilot program for the trading of selected NASDAQ stocks in Hong Kong. The Stock Exchange will look to expand this arrangement with other exchanges in order to enhance its ability to act as a platform for investors and institutions wishing to invest in the stocks of companies with global presence and high market capitalisations. HKEx is also currently participating in discussions with NYSE, the Tokyo Stock Exchange, ASX, ParisBourse SBF SA, the Amsterdam Exchanges N.V., the Brussels Exchanges Limited, the Toronto Stock Exchange, the Bolsa Mexicana de Valores and the Bolsa de Valores de Sao Paulo to explore the feasibility of inter-connecting the participating exchanges' trading systems in a market structure based on the principles of transparency, self-regulation and agency auction price discovery. The proposed alliance would seek to provide investors around the world with a transparent, round-the-clock, trading mechanism for the world's global companies, increasing the global liquidity of their stocks and aiding global price discovery.

Developing the mainland China market

Historically, Hong Kong has been mainland China's primary venue for equity capital fund raising in the international arena. In this respect, there are currently 46 H share companies and over 60 red chip companies listed on the Stock Exchange. These entities have, since 1993,

FUTURE PLANS AND PROSPECTS

raised some HK\$277 billion through the Hong Kong and overseas markets. Of equal importance to the 11 H share companies that are dual listed on the Stock Exchange and on another exchange is the extent to which the markets provide relative liquidity, and in this respect for the great majority of such entities their trading volumes are dominated by turnover on the Stock Exchange.

Going forward the Directors believe that mainland China will have vast needs for equity capital and financial services as it continues its economic development. While these needs can, in part, be met through the markets provided by mainland China's own stock exchanges, the Directors believe that the needs of mainland Chinese issuers to raise funding in freely convertible currencies are such that they will continue to seek to list securities on overseas exchanges and that Hong Kong is strategically ideally positioned to meet this requirement. Accordingly, with mainland China's ongoing state owned enterprises ("SOEs") reform continuing to gather momentum, it is expected that more SOEs will seek to list in Hong Kong. Moreover, the rapid development of the private sector will boost the status of private enterprises and enhance their capital raising capacity on both GEM and the main board of the Stock Exchange. Mainland China's expected entry into the World Trade Organisation will also create new investment opportunities in the country and correspondingly lead to an increase in demand for equity funds.

The Group will continue to focus particular attention on attracting mainland China issuers, and retaining investors who are interested in mainland China stocks. Fundamental to this is the quality of the markets operated by the Group. In addition, to promote Hong Kong further as the venue of choice for the listing and trading of mainland China stocks, the Group will focus attention on providing training for potential mainland China listing candidates in regard to matters such as corporate governance in order to facilitate their entry into the international capital markets. The Group will also seek opportunities to assist regulators in mainland China in developing overall legal and regulatory infrastructures conducive to meeting mainland China's equity funding requirements.

Business development

Following completion of the merger of the Exchanges and Clearing Houses under HKEx, the Group is focusing particular attention on realising the benefits of the merger set out in the section of this document headed "Business — history and development".

The Group will support Government initiatives promoting the integrity of the securities and futures markets through reforms of the legal and regulatory framework of Hong Kong. The Group will also explore how its risk management techniques can be modified and improved.

One factor relevant to the competitiveness of the Stock Exchange is the level of fees payable in relation to any trade. The Government has publicly stated its objective to reduce transaction costs in order to enhance the competitiveness of the securities market in Hong Kong. More recently, in accordance with this initiative and with effect from 12th June, 2000, transaction levy has been reduced from 0.011 per cent. to 0.010 per cent. of the value of a trade and the Stock Exchange's share of the levy has been reduced from 0.007 per cent. to 0.005 per cent. of the value of a trade. In addition, in line with the Group being a profit driven, commercial entity, the Board anticipates that the Stock Exchange will in due course cease to retain any portion of the transaction levy and will, in lieu of and subject to the approval of the SFC, impose a user transaction fee. However, the time at which either or both of these events

FUTURE PLANS AND PROSPECTS

will occur is currently unknown. Secondly, the Government has also already reduced, with effect from 7th April, 2000, the stamp duty payable on the sale and purchase of securities from HK\$1.25 to HK\$1.125 for every HK\$1,000 of part thereof of the consideration. Thirdly, the Board has endorsed a proposal to remove, with effect from 1st April, 2002, the rules which fix the respective minimum brokerage commission rates for stock and futures transactions. Most major international stock and derivative exchanges have adopted a system of free negotiation with respect to brokerage commission rates, and the Board has taken this market-driven initiative in order for the Group to remain competitive in the world market and to meet the challenges it will face in the light of globalisation and technological advancement.

The Group intends to introduce new products, including through development of:

- *index funds* — the Stock Exchange has established the infrastructure for the development of exchange traded index funds which track the performance of major indices. The first index fund, the Tracker Fund of Hong Kong, was launched in November, 1999. The infrastructure will provide a platform for launching local and regional index funds to enable Hong Kong to become an international trading centre for exchange traded index funds; and
- *new derivative products* — the Futures Exchange is developing a trading platform for medium-term interest rate futures products which will allow investors to hedge interest rate risk to a greater extent. Index futures and options on developing sectors (such as technology) are also under consideration with the aim of providing effective risk management instruments for the investment market.

The Group intends to introduce new services, for example:

- *capturing e-business* — the Group has launched a web based service which contains data and announcements of listed companies, delayed market data, and an investment portfolio tracker for registered users. The service will also support active e-mail and mobile phone alert messages based on individually registered portfolios, and it is intended that other new functions will be developed;
- *the development of Investor Participant accounts* — the Group will look to increase the propensity of investors to carry out securities transactions through Investor Participant accounts. Strategies for achieving this under consideration include bundling new electronic services with the accounts and promoting the benefits of having securities held under the custody of the Group; and
- *the development of a service bureau for Stock Exchange Participants* — the Group is studying the feasibility of providing bureau services to meet the demand of market intermediaries in such areas as post-trade securities and money processing services, custodial and nominee services, and client accounting services which can be integrated with their client portfolio and other back office systems.

The Group will look to diversify and increase its investor base, including through the education of retail investors as to the range of investments available on the markets operated by the Group and the opportunities these provide. The Group will also look to broaden its issuer base, including through promoting GEM as a leading listing venue for emerging companies and through providing the resources for its continuing development, through

FUTURE PLANS AND PROSPECTS

working with relevant Government bodies in the process of privatising and increasing the floats of Government-owned companies and through promoting Hong Kong as non-Japan Asia's premier capital market hub. The Group will also look to position itself as non-Japan Asia's premier capital market hub for technology related companies.

Technological and systems development

The Stock Exchange will introduce AMS/3 before the end of the year 2000. AMS/3 will provide extensive capabilities enhancements over AMS/2, bringing a number of significant advantages:

- *ability to handle multiple markets* — the functions of AMS/3 will enable investors to trade on the Stock Exchange, for over 20 hours a day, various products under different trading methods e.g. market making and auction;
- *provision of an order routing system* — this will allow investors to place orders anywhere and anytime by the most convenient channel, thereby increasing market accessibility. It will also bring operational efficiencies to brokers. The system's security features will enhance investors' protection and strengthen risk management, while its provision of automatic confirmations through the channel that an investor places an order will create better audit trails for investors and reduce the manual workload of brokers. The system will also make the handling of EIPOs more efficient, shortening the period for which cash is locked up and, again, reducing the manual workload of brokers;
- *provision of an open gateway* — this will allow easier access to the market for investors and reduce investment risk as orders are executed more efficiently. It will allow greater flexibility to customise to brokers' needs and streamline their order processing; and
- *allows the Stock Exchange to suspend connection with a brokers' system when an error is detected* — this will enhance market integrity by ensuring the smooth functioning of the market.

HKSCC will shortly complete the enhancement of CCASS to enable the system to handle clearing and settlement in currencies other than Hong Kong dollars. HKSCC expects to commence providing US dollar clearing and settlement services for all broker-to-broker trades and all other transactions that are settled through CCASS in the third quarter of 2000, following the Hong Kong Monetary Authority permitting US dollar clearing in the banking sector (currently expected in August, 2000).

In the longer term, the Group will work towards establishing a single platform, covering both the stock and futures markets, that achieves straight through processing of transactions. This will bring both competitive advantages and risk management benefits which would have been unobtainable before the merger when competition between the businesses of the Stock Exchange and Futures Exchange prevented the integration of their systems. It is also the intention of the Group that such a platform should be compatible with the platforms of other exchanges thereby allowing connectivity between them and facilitating the development of strategic alliances and other cooperation arrangements with those exchanges.