

Listing

Establishment of Listing Operations Department

The Listing Operations Department was established on 14 February 2007 to support the implementation of listing-related initiatives such as issuer regulatory filings and dissemination, automation of the IPO process, development and on-going regulation of debt and structured products, and collaboration with the Shanghai and Shenzhen stock exchanges on projects concerning primary and secondary market regulation and operations.

Statutory Backing to Major Listing Requirements

In February 2007, the Government and the SFC announced the conclusions to their 2005 consultations regarding the proposal to give statutory backing to some of the more important provisions in the Listing Rules, namely (i) periodic financial reporting; (ii) disclosure of price sensitive information; and (iii) certain notifiable transactions and connected transactions which require shareholders' approval. The SFC's consultation conclusions set out a revised approach to codifying the relevant parts of the Listing Rules. HKEx will continue to work with the Government and the SFC on the transitional arrangements.

Listing of Overseas Issuers

On 7 March 2007, SEHK and the SFC published a Joint Policy Statement Regarding the Listing of Overseas Companies. The policy statement is aimed at facilitating the listing of overseas companies on the Main Board or GEM by clarifying the listing requirements (mainly shareholder protection standards equivalent to those offered in Hong Kong) and providing a clear roadmap for potential issuers incorporated outside Hong Kong or the recognised/approved jurisdictions (Mainland China, Bermuda, the Cayman Islands, Australia and Canada (British Columbia)) and their advisers as they seek a primary listing in Hong Kong.

Electronic Disclosure Project

On 23 March 2007, HKEx announced that straight-through electronic disclosure and the abolition of the requirement for Main Board issuers to publish paid announcements in newspapers ("Electronic Disclosure Project") would commence on 25 June 2007. For a six month transitional period (Phase 1), a Main Board listed issuer will be required to publish a notification in newspapers whenever it publishes an announcement on the HKEx website and its own website. From 25 December 2007 onwards, Main Board issuers will no longer be required to publish notifications in newspapers. Main Board issuers without their own website must publish full announcements in newspapers in addition to publication on the HKEx website until 12 months after commencement of Phase 1. From 25 June 2008 onwards, every issuer must have its own website where the public must be able to access documents free of charge.

Operational and system preparations for the Electronic Disclosure Project are progressing smoothly. Registration of users of the ESS is completed. Briefing sessions were held for ESS registered users in Hong Kong and the Mainland in January and February 2007 and hands-on familiarisation sessions were held in March and early April 2007. Over 90 per cent of listed issuers participated in these sessions.

Major efforts have been and will continue to be made to improve investor education and communication. HKEx has issued a Communication Paper to inform the market and stakeholders of the impact of the Electronic Disclosure Project.

Report on Implementation of CG Code

On 30 March 2007, HKEx published a report on the findings from its review of the corporate governance practices disclosed in listed issuers' 2005 annual reports. The review, which covered 621 issuers' annual reports, was aimed at determining how effectively the CG Code of the Listing Rules is being implemented. The report has been posted on the HKEx website.

GEM Review

The proposal on the revised GEM Model was endorsed by the Listing Committees subject to a few amendments. The Board will be consulted on the consultation paper on the development of GEM before its release in the middle of the year.

Cash Market

Market Performance

There were 13 newly listed companies on the Main Board (none on GEM) in the first quarter of 2007 with total capital raised, including post-listing funds, reaching \$52.6 billion. As at 31 March 2007, 983 and 197 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about \$13,551 billion. In addition, there were 2,396 derivative warrants, nine ETFs, six REITs, 41 CBBCs and 178 debt securities listed as at the end of March 2007. The average daily turnover in the first quarter of 2007 was about \$52.6 billion on the Main Board and about \$307 million on GEM. On 28 February 2007, the turnover value of the Cash Market reached a record high of \$80,859 million.

Market Infrastructure Improvements

HKEx has been in touch with Mainland brokers who are interested in setting up offices in Hong Kong and provided them with the necessary support in their applications to be EPs. Five Mainland brokers have been approved to set up offices in Hong Kong and have subsequently been admitted as the SEHK EPs since January 2007.

A new scheme which facilitates the sale and purchase of trading rights was implemented on 7 March 2007. Under which, a trading right application will be opened for tender by all existing trading right holders, and the lowest auctioned price will be chosen. If no tender is received, HKEx will issue a new non-transferable trading right to the applicant at \$500,000 each.

On 21 March 2007, HKEx published a consultation paper on “The Introduction of a Closing Auction Session” to invite market views and comments. Similar to the current pre-opening session for securities, the proposed closing auction session will offer a single-price auction that matches buy and sell orders at the price that maximises transactions. The proposal is aimed at improving the price discovery process for determining closing prices for all listed securities, reducing price volatility towards the close of the trading day, enhancing market liquidity and facilitating trading at market close.

Product Enhancements

In late February 2007, HKEx informed structured product issuers that iShares FTSE/Xinhua A50 China Tracker was eligible to be the underlying for the issue of derivative warrants. On 12 March 2007, the first day of trading, a total of 19 such derivative warrants were issued on the Exchange with total turnover of about \$68 million. Pursuant to HKEx’s strategic plan, the issuance and trading of more structured products on Mainland-related underlying assets will be facilitated.

Six new ETFs were listed and began trading in April 2007, bringing the total number of ETFs listed in Hong Kong from nine to 15. The launch of the six new ETFs provides more choice for investors in Hong Kong and further enhances HKEx’s ETF platform as a leading one in the region. The ETF market in Hong Kong has been growing rapidly with an average daily turnover of over \$500 million in the first quarter of 2007, the highest in Asia-Pacific excluding Japan.

Derivatives Market

Market Performance

In the first quarter of 2007, some products achieved record highs as shown in the following table.

Products	Daily Volume		Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
HSI Options	5 Mar	62,909	28 Mar	424,874
Mini-HSI Futures	26 Jan	20,425	–	–
Mini-HSI Options	9 Feb	2,403	27 Mar	4,513
H-shares Index Futures	28 Mar	91,499	28 Mar	112,026
H-shares Index Options	6 Mar	33,126	28 Mar	166,238
Stock Futures	28 Mar	27,966	14 Mar	25,956
Stock Options	29 Mar	414,243	28 Mar	4,089,426

Market Infrastructure Improvements

The pre-market opening arrangements for both HSI Futures and Mini-HSI Futures markets have been in place since 2000. As the mechanism has proved to be useful in establishing an orderly market open and enhancing market efficiency, it was extended to the Hang Seng China Enterprises (“H-shares”) Index Futures market on 8 January 2007, and since then, has been actively used by market participants.

To keep pace with market growth and development, in particular with the increasing trading and hedging needs of EPs and their clients, a new delta-based position limit for H-shares Index Futures and Options was implemented to adjust limits of 6,000 open futures contracts in any one contract month or 6,000 open option contracts in any one option series to 12,000 delta for all contract months combined effective 30 March 2007. This new delta-based position limit allows netting of positions with opposite market direction. The position limits for all equity index futures and options are now calculated in accordance with a standardised methodology.

Regulatory approval was obtained for introducing a third calendar quarter expiry month or any other longer-dated expiry months in selected stock option classes to cope with the growing demand for longer-dated expiry months in the stock options market. A third calendar quarter expiry month in five active stock option classes came into effect on 2 April 2007. On the same day, HKEx also revised the market making obligations in its stock options and stock futures markets to enable market makers to better manage their risks and to improve the market making quality.

Product Development

On 19 March 2007, HKEx expanded the range of China-related products and started offering trading of options and futures on three more stocks. HKEx also obtained regulatory approval to introduce Hang Seng China H-Financials Index (“HFI”) Futures on 16 April 2007. HFI Futures is a trading and hedging tool specific to Mainland financial stocks, complementing the recent significant trading demand from investors in this particular group of stocks.

In February 2007, HKEx proceeded with the process for conducting a feasibility study on the trading of commodities derivatives and emission-related products in Hong Kong. A Selection Committee was formed by the Board to shortlist consultants and to invite them to submit full proposals by 11 May 2007.

Education and Marketing

HKEx was one of the sponsors of a product promotion programme conducted between December 2006 and February 2007 for the investing public. The programme, consisting of a series of interviews, radio promotional sessions, article insertions in magazines and a one-day investment expo which attracted 1,700 people, served to increase retail investors’ knowledge of Mainland-related equity futures and options.

The Options Reference Educator, an interactive education tool for options, on the HKEx website was revised on 9 January 2007 to enable easier navigation by users. A refined simplified Chinese version is now also available. Respective interactive training courses were conducted for staff of Options Trading EPs.

Clearing

Improvements to CCASS Nominee Services

As of 2 January 2007, broker and custodian participants have been provided with an additional option to have certain CCASS payments effected intra-day through the Real Time Gross Settlement payment mechanism during the same business day. These CCASS payments include the return of overpaid cash prepayments in respect of securities being settled on a CNS basis and corporate action-related payments.

Enhancements to SSA with Statement Service

HKSCC introduced new features to its SSA with Statement Service on 2 January 2007. After streamlining the account opening procedures, CCASS broker and custodian participants are now provided with online functions to open SSAs and maintain detailed profiles. SSA users can choose to receive physical statements in either English or Chinese. They can also enquire about their stock balances and movements in the accounts electronically through the CCASS Internet System and CCASS Phone System. SSA users can also opt to receive alert message via short message service (“SMS”) and/or by email when there is any movement in the SSA.

HKSCC will continue to improve the SSA with Statement Service. Further enhancements, including introduction of electronic voting, share movement affirmation and money settlement services, and removal of the limit on the number of SSA that can be opened by a CCASS participant, will be launched in mid-2007.

Third Party Clearing (“TPC”)

HKSCC plans to introduce TPC to the securities market to help ensure that the securities clearing infrastructure in Hong Kong conforms to international standards and is in line with developments in other major financial markets. The proposed TPC model has been presented to interested clearing service providers and CCASS participants, and is being finalised for implementation by the end of 2007.

Risk Management Measures

The insurance and guarantee facilities for the Guarantee and Reserve Funds of the three clearing houses, totalling \$848 million, have been discontinued upon their expiry on 31 December 2006. This resulted in an annual saving of approximately \$10 million.

Default of Participants

In respect of the failure of Tai Wah Securities Limited (in liquidation) to meet its obligations to HKSCC, recovery from the HKSCC Guarantee Fund will be made if the outstanding balance of about \$1.8 million cannot be fully settled upon completion of the liquidation process.

Regarding the failure of Yicko Futures Limited (in liquidation) to meet its obligations to HKCC, recovery from the HKCC Reserve Fund will be made if the outstanding debt of about \$7.8 million cannot be fully settled upon completion of the liquidation process.

Business Development

Promotion Activities for Prospective Mainland and Hong Kong Issuers

HKEx continued offering its promotional activities to prospective Mainland issuers in the Mainland and Hong Kong. Since the beginning of 2007, HKEx representatives had attended conferences in Beijing, Shanxi, Shaanxi, Jiangxi, Jiangsu, Shanghai, Sichuan, Jilin, Fujian and Hong Kong to promote listing in Hong Kong to over 2,500 attendees from the Mainland.

On 25 April 2007, HKEx co-organised a listing seminar in Guangzhou with the Economic and Trade Commission of the Guangdong Province, State-owned Assets Supervision and Administration Commission of Guangdong Provincial People's Government and the Financial Service Office of the Guangdong Province. Over 300 attendees, including senior government officials and prospective issuers, from the Mainland participated and 31 intermediaries from Hong Kong joined HKEx in the event.

During the period, HKEx co-organised a seminar with six universities in Hong Kong and Hong Kong Science and Technology Parks to introduce to their members and incubatees the benefits of listing in Hong Kong. In addition, HKEx also participated in two seminars organised by local business organisations to promote listing in Hong Kong to local entrepreneurs and companies.

Listing Promotion to the Rest of Asia and Other Parts of the World

Following marketing work in 2006, HKEx visited other regions and countries to promote listing in Hong Kong. Since the beginning of 2007, HKEx representatives had made two trips to Moscow, Russia and visited Hanoi and Ho Chi Minh City, Vietnam; Kaohsiung and Taipei, Taiwan; Seoul, South Korea; Bangkok, Thailand; and Almaty, Kazakhstan. In nine conferences, HKEx representatives delivered presentations and speeches to over 1,000 participants and held more than 40 meetings with prospective issuers, intermediary firms as well as government officials. In April 2007, HKEx co-organised a conference with the Korean Chamber of Commerce in Hong Kong to introduce new developments of Hong Kong securities market to Korean companies and intermediaries.

On 28 March 2007, HKEx signed a Memorandum of Understanding with the Abu Dhabi Securities Market on cooperation and the exchange of information.

Information Services

IIS – Better Service and Lower Fee

On 26 March 2007, HKEx launched the new version of its IIS, the datafeed service for transmitting issuer disclosures electronically to the market via information vendors. The new version provides a higher capacity to cater for the increasing volume of issuer news. The new FTP (File Transfer Protocol) file retrieval function allows more robust and efficient retrieval of news announcements and helps shorten the time for delivery of large IIS documents by at least 90 per cent compared to the old, message-based technology.

With effect from 1 June 2007, the IIS standard fee on information vendors will be reduced by more than 50 per cent from \$96,000 per quarter to \$45,000 per quarter. The number of information vendors is envisaged to rise as a result of the IIS fee reduction, and thus facilitating the accessibility and availability of real-time issuer information for investors.

New Measures for Delayed Market Data

The delay for HKEx delayed market data has been shortened to 15 minutes from 60 minutes for the Cash Market and 30 minutes for the Derivatives Market with effect from 2 April 2007.

Effective 1 January 2008, information vendors licensed for redistribution of delayed securities market data only will be subject to a flat fee of \$5,000 per month.

Derivatives Market Data on HKEx Website

To improve the transparency of the Derivatives Market, more information is now available on the HKEx website, including the delayed intra-day prices and turnover of all futures and options contracts traded on the HKEx Derivatives Market, a chart showing the real-time index level and intra-day movement of the H-shares Index, and the latest turnover of HSI Futures and H-shares Index Futures contracts.

Enhancement of Issuer News Alert Service

The Issuer News Alert Service has been enhanced since 2 April 2007 to provide better service to investors. Subscribers of the service will receive alerts from HKEx by email and/or SMS whenever there is publication of a document from or a disclosure of interests notice relating to one of their designated listed companies on the HKEx website. HKEx has upgraded the email/SMS news alert service by doubling the maximum number of companies per subscription from 10 to 20 and shortening the interval of issuing the alerts from one hour to 30 minutes.

Information Technology

Production Systems Stability and Reliability

Up to the end of March 2007, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets achieved 100 per cent operational system uptime. HKEx will continue its efforts to uphold system stability and reliability.

System Capacity Planning and Upgrade

On 27 January 2007, a market-wide rehearsal was conducted to validate that AMS/3 is capable of handling at least 1.5 million trades in a trading day, and to enable our EPs and information vendors to review and verify the capacity and performance of their systems and trading facilities amid high market activity.

HKEx is upgrading the CCASS/3 mainframe machine for the Cash Market clearing and settlement and the HKATS, DCASS and PRS hardware for the Derivatives Market to support the future business initiatives and market activities.

Technology Development and Upgrade

The CCASS/3 Middle-tier system software was replaced and upgraded in March 2007. The upgraded software is cost effective and can run on an open platform which provides technology flexibility in the future.

All the OG and MWS installed at EPs' premises were upgraded in April 2007 to address the technology obsolescence as well as to prepare for further AMS/3 system capacity expansion.

System Consolidation and Operational Efficiency

Enhancements were made to AMS/3 during the period as part of HKEx's continuous effort to improve the overall operational efficiency of the market. These included: (i) reducing the dissemination time for closing prices to about three minutes after market close; (ii) increasing the maximum outstanding orders per price queue from 10,000 for the pre-opening session and 8,000 for the continuous trading session to 20,000 for both sessions; (iii) removing the maximum limit of 4,000 outstanding orders per broker ID; and (iv) raising the maximum order size from 600 to 3,000 board lots per order (with a newly introduced consideration limit check to safeguard against erroneous order input).

The SDNet, a new Optical Ethernet network for the securities and derivatives markets, project commenced in January 2005 with its entire network infrastructure completed in September 2005. The first three phases of the migration to the SDNet have been successfully completed (Phase 1: Derivatives Market circuits migrated in October 2005; Phase 2: CCASS/3 circuits migrated in June 2006; and Phase 3: Market Datafeed circuits migrated in December 2006). The last phase of AMS/3 circuits' migration is in good progress. AMS/3 optical circuit installations for all EPs have been completed. Large scale connectivity tests and market rehearsal are in progress. The cutover to SDNet is scheduled to take place in batches during mid-2007.

Redevelopment of Derivatives Market risk management systems was completed and launched in early April 2007 to improve their operational efficiency.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$36.2 billion on average for the three months ended 31 March 2007 (2006 average: \$22.4 billion).

As compared with 31 December 2006, the overall size of funds available for investment as at 31 March 2007 increased by 11 per cent or \$3.3 billion to \$33.3 billion (2006: \$30.0 billion). Details of the asset allocation of the investments as at 31 March 2007 against those as at 31 December 2006 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Mar 2007	Dec 2006	Mar 2007	Dec 2006	Mar 2007	Dec 2006	Mar 2007	Dec 2006
Corporate Funds	7.0	5.9	55%	52%	39%	41%	6%	7%
Margin Funds	24.5	21.8	63%	51%	37%	49%	0%	0%
Clearing House Funds	1.8	2.3	11%	14%	89%	86%	0%	0%
Total	33.3	30.0	59%	48%	40%	51%	1%	1%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds (\$0.4 billion as at 31 March 2007 and \$0.4 billion as at 31 December 2006), which have no maturity date, the maturity profiles of the remaining investments as at 31 March 2007 (\$32.9 billion) and 31 December 2006 (\$29.6 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	
	Mar 2007	Dec 2006	Mar 2007	Dec 2006	Mar 2007	Dec 2006	Mar 2007	Dec 2006	Mar 2007	Dec 2006	Mar 2007	Dec 2006
Corporate Funds	6.6	5.5	21%	24%	30%	16%	20%	30%	19%	20%	10%	10%
Margin Funds	24.5	21.8	36%	32%	7%	22%	55%	46%	2%	0%	0%	0%
Clearing House Funds	1.8	2.3	82%	86%	7%	0%	11%	14%	0%	0%	0%	0%
Total	32.9	29.6	35%	35%	12%	19%	46%	40%	5%	4%	2%	2%

Credit exposure is well diversified. The Group's bond portfolio is of investment grade and, as at 31 March 2007, had a weighted average credit rating of Aa2 (31 December 2006: Aa2) and a weighted average maturity of 0.7 year (31 December 2006: 0.7 year). 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 the first quarter of 2007 and the fourth quarter of 2006 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	Jan-Mar 2007	Oct-Dec 2006	Jan-Mar 2007	Oct-Dec 2006	Jan-Mar 2007	Oct-Dec 2006
Corporate Funds	17.0	15.3	19.0	15.9	14.4	14.5
Margin Funds	12.6	8.6	14.3	9.3	10.1	8.1
Clearing House Funds	0.2	0.3	0.2	0.3	0.1	0.2

Details of the Group's investment income are set out in the Income section under the Financial Review and note 6 to the condensed consolidated accounts of this quarterly report.

Investment in Associate

CHIS

As at 31 March 2007, the Group had a 30 per cent interest in CHIS. The cost of the investment in CHIS was \$52 million (31 December 2006: \$52 million) and the book value was \$67 million (31 December 2006: \$68 million).

On 29 March 2007, the Group entered into an agreement to sell all of its interest in CHIS for a consideration of \$270 million. The transaction was completed on 3 April 2007. The accounting profit on disposal of the investment amounted to \$206 million and was recognised in the profit and loss account in April 2007.