

Introduction to HKEx

January 2006

Hong Kong's competitive advantages

- **China's growth and development presents tremendous business opportunities**
- **Hong Kong is in a unique position to capture these opportunities**
 - No foreign exchange controls or withholding tax
 - No capital gain tax, and no controls on foreign investment or investors
 - Freely convertible currency
 - Proximity to Mainland China
 - Active retail and institutional participation in securities market
 - A free, transparent and fair securities marketplace
 - Rule of Law
 - International accounting standards and management best practices
 - Abundant of professional expertise (investment bankers, accountants, lawyers, valuers)

HKEx's operations include

- ❖ Securities market
- ❖ Derivatives market
- ❖ Clearing houses for securities and derivatives markets

HKEx's securities market is ranked 8th globally by market capitalisation

Rank	Exchange	Dec 2005 (US\$ bn)
1	New York Stock Exchange	13,330
2	Tokyo Stock Exchange	4,572
3	Nasdaq	3,648
4	London Stock Exchange	3,058
5	Euronext	2,706
6	Toronto Stock Exchange	1,482
7	Deutsche Borse	1,221
8	The Stock Exchange of Hong Kong	1,054
9	BME Spanish Exchanges	959
10	Swiss Exchange	935

Securities market participants



Local retail investors

34%

Overseas institutional investors

33%

Local institutional investors

22%

Other

11%

Oct 2003 to Sep 2004

Key market statistics

Jan-Dec 2005

Securities market turnover (average daily)

HK\$18.2 bn

Derivatives market turnover (total)

25.5 mn contracts

Listed companies

1,135

New listings

67*

Total funds raised

HK\$292.7 bn

* Includes two GEM withdrawals listed on the Main Board

Since the 1980s, Hong Kong has helped link Mainland China and the world

1980s	1993	1994	2003	2004
<ul style="list-style-type: none"> ❖ Many HK listed companies had manufacture operations in Pearl River Delta ❖ HK- or foreign-incorporated Mainland enterprises listed in HK as Red Chips 	<ul style="list-style-type: none"> ❖ H-shares market developed 	<ul style="list-style-type: none"> ❖ Stock options, futures & warrants for individual Mainland enterprises developed 	<ul style="list-style-type: none"> ❖ H-shares Index Futures launched 	<ul style="list-style-type: none"> ❖ H-shares Index Options launched ❖ iShares FTSE/Xinhua A50 China Tracker launched

Since 1993, over HK\$1 trillion of equity funds were raised by Mainland China enterprises, representing 50% of market total

Definitions of Mainland enterprises

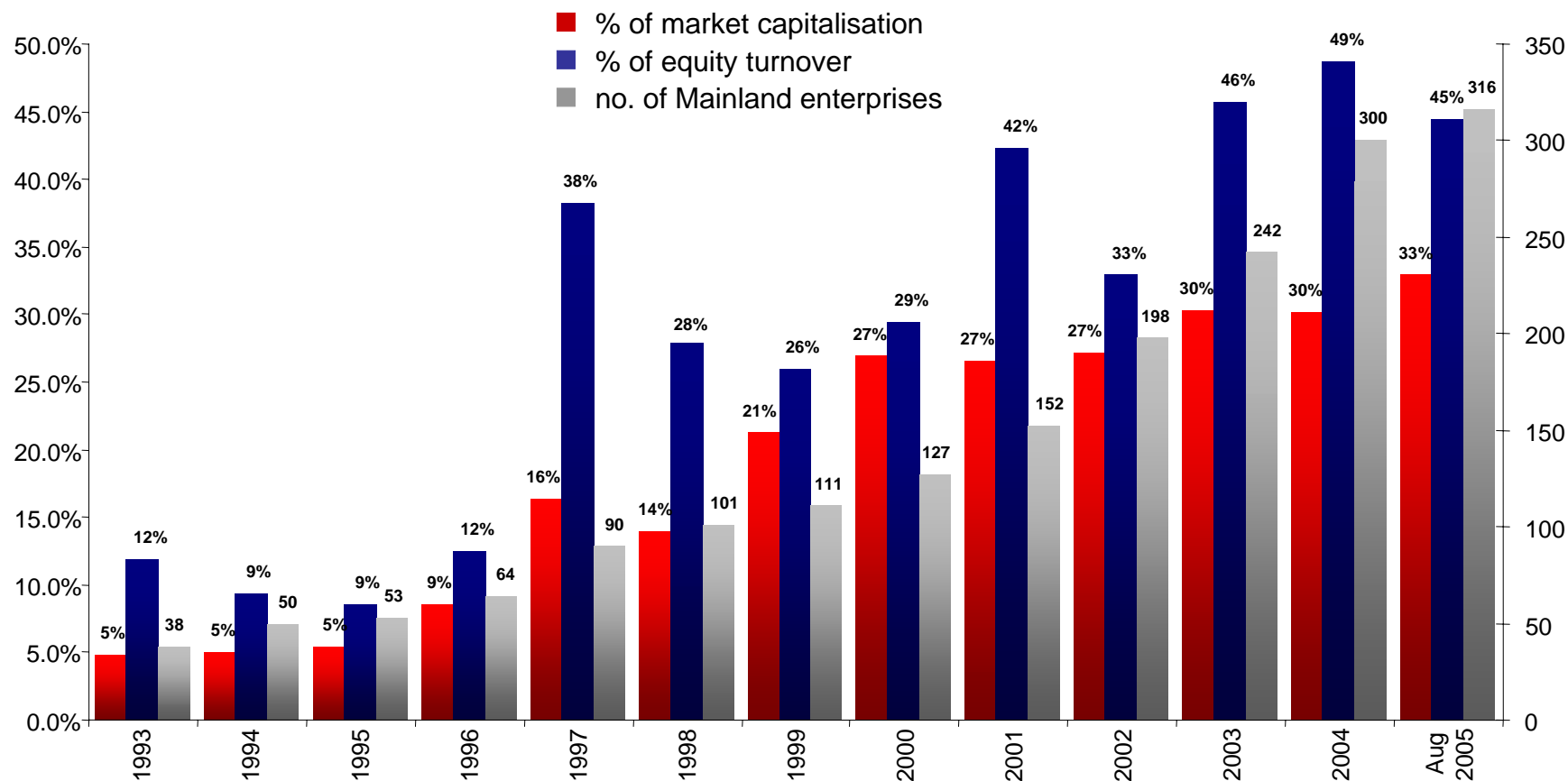
H shares	Enterprises incorporated in the Mainland which are either controlled by Mainland Government entities or individuals
Red Chips	Enterprises incorporated outside of Mainland and controlled by Mainland Government entities
Non-H shares Mainland Private Enterprises	Enterprises incorporated outside of Mainland and controlled by Mainland individuals
Mainland operating enterprises	Other enterprises with substantial Mainland operations

Growing influence of Mainland enterprises in Hong Kong securities market

Jan-Dec 2005

Listed companies	30%
Market capitalisation	39%
Average daily equity turnover	46%
Total funds raised	65%
IPO funds raised	91%

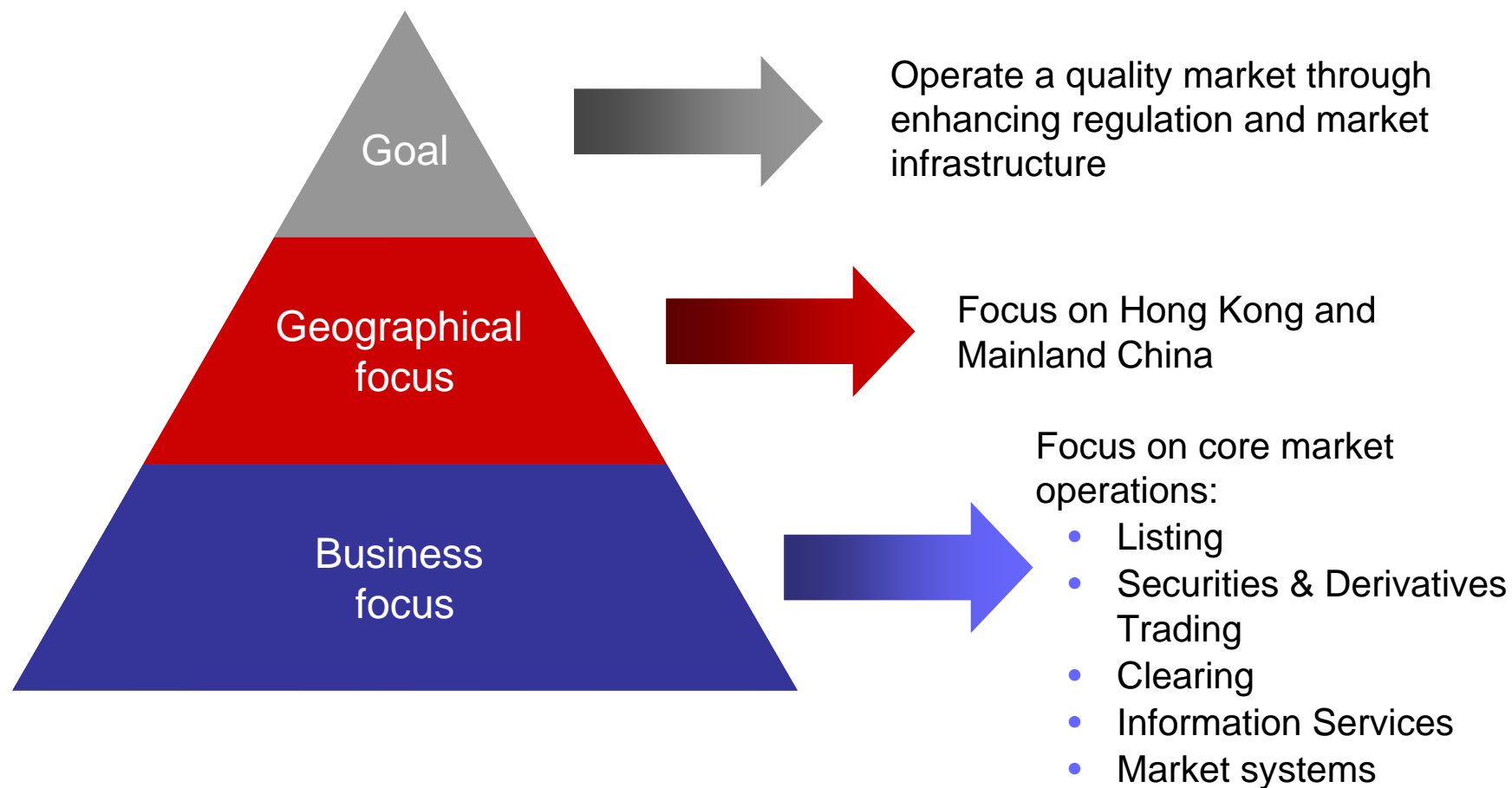
Market capitalisation and equity turnover contributed by Mainland enterprises



Top 10 IPOs since 1986 have all been by Mainland enterprises

Rank	Company	Listing date	Type	Funds raised (HK\$bn)
1	<i>China Construction Bank</i>	<i>27 Oct 2005</i>	<i>H shares</i>	<i>71.6</i>
2	China Unicom	22 Jun 2000	Red Chip	43.6
3	China Mobile	23 Oct 1997	Red Chip	32.7
4	China Life	18 Dec 2003	H shares	26.7
5	Sinopec	19 Oct 2000	H shares	26.7
6	<i>China Shenhua</i>	<i>15 Jun 2005</i>	<i>H shares</i>	<i>25.5</i>
7	PetroChina	7 Apr 2000	H shares	22.3
8	BOC Hong Kong	25 Jul 2002	Red Chip	20.5
9	<i>Bank of Communications</i>	<i>23 Jun 2005</i>	<i>H shares</i>	<i>16.8</i>
10	Ping An Insurance	24 Jun 2004	Red Chip	14.3

HKEx's strategic focus



HKEx Website

www.hkex.com.hk