Getting up to speed –
What’s Next for the Hong Kong Securities Market

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Market turnover has grown substantially

Average Daily Turnover of Equities and Other Cash Market Products (2003 – YTM Apr 2008)

Source: HKEx statistics
* Others include: Equity Warrants, Debt Securities and Pilot Programme securities
No of Exchange Participants (EP) has increased for the first time in recent years

<table>
<thead>
<tr>
<th>Year</th>
<th>No of cash EP</th>
<th>Net change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>434</td>
<td>-3</td>
</tr>
<tr>
<td>2005</td>
<td>429</td>
<td>-5</td>
</tr>
<tr>
<td>2006</td>
<td>425</td>
<td>-4</td>
</tr>
<tr>
<td>2007</td>
<td>439</td>
<td>+14</td>
</tr>
<tr>
<td>2008 YTM</td>
<td>448</td>
<td>+9</td>
</tr>
</tbody>
</table>

- 31 new cash EPs admitted from Jan 2007 to Apr 2008, now accounting 3.5% of cash market turnover in Jan-Apr 2008
- 3 new cash EPs ranked in Category B

Note: () refers to new applications
Response time has improved significantly after recent technology upgrade


Statistics highlight:
- Total number of throttles: 4,456, which include
  - 3,306 for normal trading
  - 1,150 for structured product liquidity providers
- Sales
  - 1H 2007: 69 throttles per month
  - 2H 2007: 198 throttles per month
  - YTM Apr 2008: 110 throttles per month

Demand for order throughput has increased substantially

Average 2nd Response Time before and after Itanium Upgrade (1 Jan 2007 – 30 Apr 2008)

Itanium upgrade on 28 Jan 2008
Order to trade ratio has increased by 45%

Order to Trade Ratio (1 Jan 2007 – 30 Apr 2008)

Food for thoughts in a growing complex marketplace

<table>
<thead>
<tr>
<th>Entity</th>
<th>Venue</th>
<th>Mechanism</th>
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</thead>
<tbody>
<tr>
<td>Who are the players?</td>
<td>Where are trades taking place?</td>
<td>How trades are conducted?</td>
</tr>
<tr>
<td>- Participant Mix</td>
<td>- Market Impact Minimization</td>
<td>- Latency</td>
</tr>
<tr>
<td>- Institutional vs Retail</td>
<td>- Reserve liquidity</td>
<td>- Capacity</td>
</tr>
<tr>
<td>- Local vs Overseas</td>
<td>- Regulations (eg MiFID, Reg NMS)</td>
<td>- Order to Trade Ratio</td>
</tr>
<tr>
<td>- Agency vs Market Makers vs Proprietary</td>
<td>- Central Clearing Houses</td>
<td>- Atomic - Algo / Program / Electronic / Pinging</td>
</tr>
<tr>
<td>- Buy side vs sell side</td>
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</tbody>
</table>

Market Dynamics

Opportunities & Challenges

- DMA
- Co-location
- Third Party Clearing
- Remote Participantship
- Connectivity
- Set-Up Cost

- Exchange-sponsored platform
- Agency-owned platform / internalization
- Buy-side only platform
- Smart order routing

- Technology
- Order Types
- Order/trade information & analytic
- Block Trade
- Transaction Costs
- Closing Auction
- Tick Rule
Conclusion: The crave for efficiency in the midst of inefficiency

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