
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

MORGAN STANLEY DEAN WITTER

MORGAN STANLEY DEAN WITTER ASIA LIMITED
30TH FLOOR, THREE EXCHANGE SQUARE
CENTRAL, HONG KONG

摩根士丹利添惠亞洲有限公司
香港中環交易廣場第三座三十樓

TEL 電話(852) 2848 5200 FAX 傳真(852) 2845 1012

September 3, 1999

To the Board of Directors
Hong Kong Futures Exchange Limited
6/F, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Hong Kong

Dear Sirs,

**Proposal for the Futures Exchange to become
a wholly owned subsidiary of HKEC and
related proposals for the Stock Exchange and
HKSCC to become wholly owned subsidiaries of HKEC**

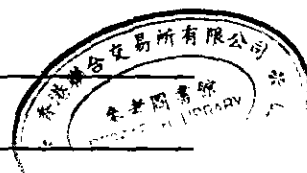
INTRODUCTION

We understand that the Board of the Futures Exchange (the "Futures Exchange Board") will make recommendations to Futures Exchange Shareholders in relation to the Futures Exchange Proposal which is part of the Overall Proposal pursuant to which the Futures Exchange will be demutualised and will enter into a merger with the Stock Exchange and the HKSCC and all of them will become wholly owned subsidiaries of HKEC. The Futures Exchange Proposal is described in the Letter from the Futures Exchange Board, the Letter from HKEC and the Explanatory Statement which, together with this letter and the appendices, we refer to as the "Document" in this letter. Terms defined in the Document will have the same meaning when used in this letter.

The Futures Exchange Board and the Council of the Stock Exchange have agreed an exchange ratio as between the Futures Exchange Shareholders and the Stock Exchange Shareholders of 30%:70%, respectively (the "Exchange Ratio"). The Exchange Ratio may vary depending on the form of consideration chosen by Futures Exchange Shareholders and by Stock Exchange Shareholders under the Futures Exchange Scheme and the Stock Exchange Scheme respectively. The Futures Exchange Board has asked Morgan Stanley Dean Witter Asia Limited ("Morgan Stanley") for our opinion as to whether the offer to Futures Exchange Shareholders pursuant to the terms of the Futures Exchange Scheme is fair and reasonable from a financial point of view.

THE PROPOSALS

To effect the Futures Exchange Proposal, under the Futures Exchange Scheme those persons who are Futures Exchange Shareholders on the Effective Date will have all Futures Exchange Scheme Shares held by them cancelled and, in consideration for such cancellation,



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each Futures Exchange Shareholder will be allotted and issued HKEC Shares and, where an election is made under the Futures Exchange Cash Alternative, the payment of cash, subject to the Futures Exchange Cash Limit. The Stock Exchange Scheme similarly provides for a surrender of the Stock Exchange Shares by the Stock Exchange Shareholders for an allotment and issue of HKEC Shares and, where an election is made under the Stock Exchange Cash Alternative, will receive the payment of cash, subject to the Stock Exchange Cash Limit. Pursuant to the Enabling Legislation, HKSCC will be re-registered as a company limited by shares and as a wholly owned subsidiary of HKEC.

Under the Futures Exchange Scheme, Futures Exchange Shareholders may receive between them up to 320,505,000 HKEC Shares and, under the Stock Exchange Scheme, Stock Exchange Shareholders may receive between them up to 747,845,000 HKEC Shares. Alternatively, the Futures Exchange Shareholders and the Stock Exchange Shareholders may each elect to receive a cash element in their Cancellation Consideration.

A. Futures Exchange Proposal

On the basis that the issued share capital of the Futures Exchange is 230 Futures Exchange Scheme Shares at the Effective Date, each Futures Exchange Shareholder can choose, for each Futures Exchange Share held by them:—

1. to be issued 1,393,500 HKEC Shares; or
2. to make an election under the Futures Exchange Cash Alternative.

Under the Futures Exchange Cash Alternative, Futures Exchange Shareholders may elect to receive HK\$3.88 in cash for each HKEC Share in place of all or some of the HKEC Shares to which they become entitled under the Futures Exchange Scheme, subject to an overall aggregate limit of HK\$400.8 million (i.e. the Futures Exchange Cash Limit). At HK\$3.88 per HKEC Share and on the basis of 230 Futures Exchange Scheme Shares in issue at the Effective Date, the Futures Exchange Cash Limit of HK\$400.8 million will enable an aggregate of 103,298,980 HKEC Shares to be replaced by cash pursuant to the Futures Exchange Cash Alternative, or 449,126 HKEC Shares (which is equivalent to HK\$1,742,608.88) for every Futures Exchange Scheme Share held. Accordingly, under the Futures Exchange Scheme, a Futures Exchange Shareholder who elects for the Futures Exchange Cash Alternative up to a level of 449,126 HKEC Shares for each Futures Exchange Scheme Share held will have his election satisfied in full and will accordingly receive at least 944,374 HKEC Shares and up to HK\$1,742,608.88 in cash. A Futures Exchange Shareholder may submit an election in respect of more than 449,126 HKEC Shares for each Futures Exchange Scheme Share held, in which event the amount of cash in excess of the sum of HK\$1,742,608.88 to which he will be entitled will be dependent on the remaining balance of the Futures Exchange Cash Limit, if any, and any balance so available will be shared amongst such Futures Exchange Shareholders in place of HKEC Shares in proportion to the sizes of the elections made by such Futures Exchange Shareholders in respect of each Futures Exchange Share. In the event that the aggregate amount of elections for the Futures Exchange Cash Alternative does not exceed the Futures Exchange Cash Limit, a Futures Exchange Shareholder who elects to receive cash in respect of all of the HKEC Shares to which he becomes entitled under the Futures Exchange Scheme will receive HK\$5,406,780 in cash (equivalent to 1,393,500 HKEC Shares) for each Futures Exchange Scheme Share held, and no HKEC Shares.

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On the basis of the 230 Futures Exchange Shares in issue, the assured cash entitlement of each Futures Exchange Scheme Share is HK\$1,742,608.88. If every Futures Exchange Shareholder makes an election to receive the Futures Exchange Cash Alternative up to the level of his assured entitlement, each Futures Exchange Shareholder will only receive the assured amount in cash and the rest of his entitlement will be in the form of HKEC Shares.

Further details of the Futures Exchange Proposal are set out in the Explanatory Statement at pages 54 to 64 of the Document.

B. Comparison with the Stock Exchange Proposal

Upon the Stock Exchange Scheme becoming effective, Stock Exchange Shareholders will be entitled to receive 747,845,000 HKEC Shares in aggregate. Accordingly, on the basis of the 929 Stock Exchange Shares in issue, each Stock Exchange Shareholder will be entitled to receive 805,000 HKEC Shares in consideration for every Stock Exchange Share cancelled.

The Stock Exchange Scheme also offers Stock Exchange Shareholders the Stock Exchange Cash Alternative. Under the Stock Exchange Cash Alternative, Stock Exchange Shareholders may elect to receive HK\$3.88 in cash for each HKEC Share in place of all or part of the HKEC Shares to which they become entitled under the Stock Exchange Scheme subject to an overall aggregate limit of HK\$935.2 million (i.e. the Stock Exchange Cash Limit).

In the event that the shareholders of one Exchange do not elect, pursuant to the cash alternative available to them, to receive cash up to the aggregate cash limit applicable to them, the unused cash will not be applied towards the cash alternative available to the shareholders of the other Exchange.

C. Resulting Ownership of HKEC

The resulting percentage ownership of the HKEC by Futures Exchange Shareholders will vary depending on the extent to which the Futures Exchange Shareholders and the Stock Exchange Shareholders elect to take the cash alternatives being offered to them under the respective schemes. If the Futures Exchange Shareholders and the Stock Exchange Shareholders elect the same percentage of cash consideration under the respective cash alternatives made available to them, then the Futures Exchange Shareholders will own (in aggregate) 30% of HKEC. If the percentage of Cancellation Consideration elected by the Futures Exchange Shareholders under the Futures Exchange Cash Alternative is less than the percentage of cancellation consideration elected by the Stock Exchange Shareholders pursuant to the Stock Exchange Cash Alternative, then the Futures Exchange Shareholders will own (in aggregate) more than 30% of the share capital of HKEC, and vice versa.

It should be noted that after implementation of the Overall Proposal, no party or parties acting in concert will be permitted to own more than 5 per cent. of the issued share capital of HKEC. However, this limit may be waived by the SFC in consultation with the Financial Secretary of Hong Kong where it can be demonstrated that an exemption is in the interest of the public and the market, such as an equity alliance with another exchange.

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D. Funding of Cash Alternatives

The Futures Exchange Cash Alternative and the Stock Exchange Cash Alternative will be financed by HKEC from:

- (a) loans arranged by HKEC with The Hongkong and Shanghai Banking Corporation Limited, Bank of China and Standard Chartered Bank in the sum of HK\$600 million;
- (b) a loan from the Futures Exchange from surplus cash resources of the Futures Exchange of up to HK\$77 million; and
- (c) a loan from the Stock Exchange from surplus cash resources of the Stock Exchange of up to HK\$669 million.

The principal terms of the loans by the Futures Exchange and the Stock Exchange are set out in the Letter from HKEC at page 47 of the Document. The advance of such loans by the Futures Exchange is subject to the sanction of the Court and the Futures Exchange Scheme becoming effective.

ELIGIBILITY TO GIVE OPINION

John S. Wadsworth, Jr. the Chairman of the Board of Morgan Stanley, is the Vice Chairman of the Futures Exchange Board. Amanda Henricks, a Vice President of Morgan Stanley, is a director of Hong Kong Clearing Corporation (the clearing house of the Futures Exchange). There is also an existing relationship between the Morgan Stanley Dean Witter Group and the Futures Exchange in that Morgan Stanley Dean Witter Futures (Hong Kong) Limited is a member of the Futures Exchange and holds one Futures Exchange Share (representing only 0.435%) of a total of 230 issued Futures Exchange Shares. Morgan Stanley Dean Witter Hong Kong Securities Limited is also a member of the Stock Exchange and holds 2 Stock Exchange Shares (representing only 0.215%) of a total of 929 issued Stock Exchange Shares.

Morgan Stanley will receive a fee from the Futures Exchange Board for acting as its financial adviser in relation to these matters.

There is no connection between Morgan Stanley and the Futures Exchange Board, the Futures Exchange or the Stock Exchange, financial or otherwise, of a kind likely to create a conflict of interest or which is reasonably likely to affect the objectivity of our opinion. Based on the foregoing, we consider that the position disclosed above does not preclude us from acting as an independent financial adviser to the Futures Exchange in accordance with Rules 2.6 and 2.7 of the Takeovers Code.

BASIS OF OPINION

We have been advised by the Futures Exchange Board that, having made reasonable enquiries and to the best of their knowledge and belief, no material information has been omitted from the information provided to us by the Futures Exchange Board, including the information referred to and contained in the Document. There is nothing that has come to our attention that would cause us to doubt the truth or completeness of the information provided to us. On this basis, in formulating our opinion we have relied upon, without independent

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verification, the information, opinions and representations supplied to us and the information and opinions contained in the Document, and have assumed that they are true at the time they are supplied and continue to be true at the date of the Document. With respect to any future financial estimates and projections of the Futures Exchange, the Stock Exchange and the HKSCC, we have assumed that they have been reasonably prepared on bases reflecting the best currently available information, views and judgements of the future financial performance of the Futures Exchange, the Stock Exchange and the HKSCC. We have not made any independent valuation or appraisal of the assets and liabilities of the Futures Exchange, the Stock Exchange, HKSCC or, after implementation of the Overall Proposal, HKEC. Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof.

The valuation of non publicly-traded securities is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and beyond our control. Consequently, the views expressed herein are not necessarily indicative of (i) the price levels at which the HKEC Shares may actually trade in the public market at any future time, or (ii) the amount which could be potentially realised upon a sale of the HKEC Shares. These would be expected to fluctuate with changes in prevailing market conditions, the financial conditions and prospects of HKEC and other factors which generally influence the prices of securities, and may differ substantially from estimates available from other sources.

We have not considered any taxation consequences arising for the Futures Exchange Shareholders as a result of the implementation of the Futures Exchange Scheme except that we have assumed that HKSCC or any of its successor entities will not have in the future any branch or agency through which assets will be held in the UK. Each Futures Exchange Shareholder should consider its own tax position and should consult independent professional advisers if in any doubt as to its position.

The holder of the Non-Voting Redeemable Share will not be entitled to receive any Cancellation Consideration under the Futures Exchange Scheme for the reasons set out in the Explanatory Statement at page 56 of the Document. Accordingly, we have not performed any analysis of the rights of the holder of the Non-Voting Redeemable Share and do not deal with such rights in the section in this letter dealing with the allocation of HKEC Shares to Futures Exchange Shares or in the section relating to "Trading Rights".

NATURE OF REVIEW AND ANALYSIS, AND PRINCIPAL FACTORS AND REASONS

In giving our opinion, we have undertaken the following reviews and analyses and taken into account the principal factors and reasons set out below:—

1. Scope of Work

For the purposes of our opinion set forth herein, we have:—

- (a) reviewed certain publicly available financial statements and other information of the Futures Exchange, the Stock Exchange and the HKSCC;
- (b) been provided with certain internal financial statements and other financial and operating data concerning the Futures Exchange, the Stock Exchange and the HKSCC prepared by the management of each of the Futures Exchange, the

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Stock Exchange and the HKSCC and provided in the case of the Futures Exchange, by the management of the Futures Exchange, in the case of the Stock Exchange by the independent financial adviser to the board of the Stock Exchange, and in the case of the HKSCC by the management of the HKSCC;

- (c) reviewed certain financial projections of the management of the Futures Exchange;
- (d) discussed the past and current operations and financial condition and the prospects of the Futures Exchange, the Stock Exchange and the HKSCC with senior executives of each entity as well as with the financial advisors of the Stock Exchange and HKEC and the business structure advisor of the Government of the Hong Kong Special Administrative Region;
- (e) compared the financial performance of the Futures Exchange, the Stock Exchange and the HKSCC with that of certain other comparable publicly-traded exchanges and their securities;
- (f) reviewed the financial terms, to the extent publicly available, of certain comparable acquisition or merger transactions;
- (g) participated in discussions among representatives of the Futures Exchange, the Stock Exchange, the HKSCC and their financial and legal advisors;
- (h) reviewed the information contained in the Document; and
- (i) performed such other analysis and considered such other factors as we have deemed appropriate.

2. Valuation Analysis

The ratio for the exchange of HKEC Shares for Futures Exchange Shares recommended by the Futures Exchange Board is based, among other things, on the relative valuation of the Futures Exchange to the Stock Exchange and the HKSCC.

Certain financial information in relation to the Futures Exchange, the Stock Exchange and HKSCC as at 30th June, 1999 is set out in Appendices II, III and IV respectively to the Document.

For the purposes of our opinion set forth herein, we discussed the valuation methodology and key assumptions for valuing the Futures Exchange, the Stock Exchange, and the HKSCC, with the independent financial adviser to the Stock Exchange, the independent financial adviser to HKEC, and the business structure adviser to the Government of the Hong Kong Special Administrative Region. Subsequently, the valuation methodology was discussed with the Futures Exchange Board. The valuation methodology adopted by us is based on the net present value of the potential future earnings of each of the Futures Exchange, the Stock Exchange and the HKSCC on a standalone basis. Net earnings for each of the Futures Exchange, the Stock Exchange and the HKSCC were forecasted for a 10 year period, and a perpetual growth rate consistent with the long term nominal growth rate of the Hong Kong economy was applied

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to determine the value in subsequent years. The discount rate used to arrive at the respective valuations for each of the Futures Exchange, the Stock Exchange and the HKSCC was estimated using the cost of equity capital on the basis that each of these entities is debt free. In addition, the valuation of the HKSCC was determined on the basis of the value of the option to start a new clearing operation of similar characteristics. This is consistent with our understanding of the Government's view as to how HKSCC should be treated for the purposes of this merger.

3. Background to, and Reasons for, the Overall Proposal

We have taken into account the background to, and reasons for, the Overall Proposal as set out in the Letter from HKEC at pages 29 to 32 of the Document. These include:—

- (a) global expectations and demand for markets with high transparency, liquidity, low costs of intermediation, diversified product base, sound regulation, high quality of service and robust infrastructure;
- (b) increasing competition from traditional exchanges in other Asian markets;
- (c) that increased competition in the global securities and futures industry will require innovation, technological advances, streamlining of the Hong Kong securities industry's procedures and practices, increased size and scale, a broadened product offering and the consolidation of the trading, clearing and settlement functions; and
- (d) the inability of Hong Kong's current model to cope with the complex and competitive global environment and the trend for exchanges around the world to adopt new performance-driven organisations to overcome these difficulties.

4. Benefits of the Overall Proposal

We have taken into account the benefits which may be realised by Futures Exchange Shareholders as a result of the implementation of the Overall Proposal including the benefits and reasons set forth by the Government in the Policy Paper and in the Position Paper, as summarised in the Letter from HKEC at pages 31 and 32 of the Document. These benefits include:—

- (a) that increasing access to trading facilities by non-member brokers (and possibly in the longer term by investors) will allow investors to move freely between securities and futures markets and will be a determining factor in the success of an international exchange;
- (b) that a normal corporate structure will enable ownership and management to reflect broader user interests in response to market forces;
- (c) that demutualisation will result in professional management and organisational streamlining which will enable more effective and timely decision-making by reference to best prevailing corporate practices;

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- (d) the increased capital raising potential of a publicly listed company resulting from the greater access to capital markets, the need for increased capital being to provide users with "state of the art" trading and settlement systems;
- (e) the benefits associated with public ownership from the proposed listing of HKEC Shares on the Stock Exchange, including encouraging market operators to subject themselves to increased transparency, accountability and market discipline; and
- (f) the benefits associated with the separation of trading rights and ownership.

5. Trading Rights

We have taken into account the fact that the HKEC Board has stated in the Letter from HKEC at pages 33 and 34 of the Document that:—

- (a) from the Effective Date ownership of shares in the Exchanges or HKEC and access to their trading facilities will be separated;
- (b) one Futures Exchange Trading Right for each Futures Exchange Scheme Share will automatically be conferred on all persons who are Futures Exchange Shareholders on the Effective Date. In order to trade it will be necessary for the person to be a Futures Exchange Participant;
- (c) it will establish a moratorium on the issuance of new Trading Rights for both the cash and futures markets (other than rights that may be issued in respect of alliances with other recognised exchanges) for a period of two years from the Effective Date;
- (d) for a further two year period thereafter, it will not issue any new Trading Rights for the instruments currently traded on the Stock Exchange for less than HK\$3 million per trading right or for the instruments currently traded on the Futures Exchange for less than HK\$1.5 million per Trading Right; and
- (e) existing Trading Rights will be freely transferable (on a one time only basis) for a period of ten years from the Effective Date.

6. Effect of the Overall Proposal not Being Implemented

We have taken into account the consequences to Futures Exchange Shareholders if the Overall Proposal is not implemented, in that:—

- (a) the Government has stated, in its Policy Paper, that maintaining the status quo is not an option for Hong Kong, and that if the reforms proposed in that paper are not implemented by market participants, the Government will pursue alternative action that will achieve the primary objectives of those reforms; and
- (b) the Government has subsequently reiterated that if the Overall Proposal fails to receive the required support from the shareholders of the Exchanges, the Government will be duty-bound to proceed with the reforms through alternative routes, including mobilising resources in existing statutes and pursuing new legislative and administrative measures. The Government's objectives include

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reforming the governance of the Exchanges and Clearing Houses, reforming the market environment in terms of access for intermediaries and opening up the markets to greater competition. It may also reform the transaction levy and minimum commission structures.

ALLOCATION OF HKEC SHARES BETWEEN ORDINARY SHAREHOLDERS AND STANDARD SHAREHOLDERS

In giving our opinion, we have considered whether there should be any difference in the allocation of HKEC Shares between Ordinary Shares and Standard Shares (but not the Non-Voting Redeemable Share) and have taken into account the following factors:—

1. Share capital

The authorised share capital of the Futures Exchange as at the Latest Practicable Date was HK\$70,000,000 divided into 641 Ordinary Shares, 36 Standard Shares and 500 Non-Voting Redeemable Shares.

The issued share capital of the Futures Exchange as at the Latest Practicable Date was HK\$20,460,000 divided into 196 Ordinary Shares of HK\$100,000 each, 34 Standard Shares of HK\$25,000 each and 1 Non-Voting Redeemable Share of HK\$10,000.

2. Dividends

Under paragraph 4 of the Memorandum of Association of the Futures Exchange the income and property of the Futures Exchange can only be applied by the Futures Exchange Board towards the promotion of the objects of the Futures Exchange and these objects do not include payment by way of dividend, bonus or any other way of profits to shareholders of the Futures Exchange. Article 113 of the Articles of Association provides that the Futures Exchange shall not declare dividends, make any other distribution or payment to Futures Exchange Shareholders, or make any distribution in specie or by way of bonus to Futures Exchange Shareholders other than on a return of capital on liquidation. Entitlement to dividends and other capital distributions are therefore not relevant in determining the ratio of HKEC Shares to Ordinary Shares and Standard Shares.

3. Other share rights

Under the Articles of Association of the Futures Exchange, the rights of the holders of Ordinary Shares and the rights of the holders of Standard Shares are generally the same. However, on a winding-up of the Futures Exchange where there is a surplus of assets available to repay the whole of the paid up capital, then the surplus assets will be distributed to Futures Exchange Shareholders pro rata according to the paid-up share capital in respect of Ordinary Shares and Standard Shares held by each Shareholder at the commencement of the winding-up.

The Futures Exchange Scheme provides for the cancellation of the Futures Exchange Shares and the issue of HKEC Shares (or cash and HKEC Shares) and does not involve the winding-up of the Futures Exchange. Moreover, a winding-up of the Futures Exchange is not foreseeable in the current circumstances known to us.

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Accordingly, we have concluded that the rights of Futures Exchange Shareholders of Standard Shares and Ordinary Shares in a winding-up situation should not be taken to have a material effect on the allocation of the Cancellation Consideration between Standard Shares and Ordinary Shares in the context of the Futures Exchange Scheme.

4. Trading rights

Under the Rules of the Futures Exchange there are no substantive differences in Futures Exchange Trading Rights between holders of Ordinary Shares and holders of Standard Shares.

5. Market price

Ordinary Shares and Standard Shares have historically been, and are currently, traded at approximately the same market price, notwithstanding the difference in their par values.

For the reasons referred to above, holders of Ordinary Shares and holders of Standard Shares will participate equally in the Cancellation Consideration.

CONDITIONALITY

The Futures Exchange Scheme is conditional upon (a) the required approval of holders of Ordinary Shares at the Ordinary Shares Court Meeting and holders of Standard Shares at the Standard Shares Court Meeting respectively, (b) the passing of the appropriate resolutions approving the Futures Exchange Scheme (and any ancillary matters) at an Extraordinary General Meeting of the Futures Exchange, (c) the sanction of the Futures Exchange Scheme by the Court, (d) the enactment of the Enabling Legislation, the effective time and date of the Stock Exchange Scheme being the same as that of the Futures Exchange Scheme and (e) the registration by the Registrar of Companies in Hong Kong of the Order of the Court sanctioning the Futures Exchange Scheme. The Conditions are set out in more detail in the Explanatory Statement at pages 56 and 57 of the Document.

FUTURES EXCHANGE CASH ALTERNATIVE

The decision to elect the Futures Exchange Cash Alternative by any Futures Exchange Shareholders will result in a change in the percentage of the HKEC owned by those Futures Exchange Shareholders as well as in the aggregate percentage ownership of HKEC by all Futures Exchange Shareholders as a whole.

In determining the level of the election (if any) to be made by each Futures Exchange Shareholder, Futures Exchange Shareholders should consider that the higher the percentage of cash in the Cancellation Consideration elected by each of them, the lower the number of HKEC Shares that will be issued to each of them.

The aggregate number of HKEC Shares owned by Futures Exchange Shareholders in proportion to the aggregate number of HKEC Shares owned by Stock Exchange Shareholders will vary depending on the extent to which Future Exchange Shareholders and Stock Exchange Shareholders elect to take the cash alternatives being offered to them under the respective proposals. For example, assuming that no Futures Exchange Shareholders make an election

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to take the Futures Exchange Cash Alternative, but that Stock Exchange Shareholders elect to receive cash up to the Stock Exchange Cash Limit, then immediately following completion of the Overall Proposal, Futures Exchange Shareholders will hold approximately 39 per cent. in aggregate of the issued HKEC Shares. Conversely, if Futures Exchange Shareholders make elections to take the Futures Exchange Cash Alternative up to the Futures Exchange Cash Limit, but no Stock Exchange Shareholders elect to take the Stock Exchange Cash Alternative, then, immediately following completion of the Overall Proposal, Futures Exchange Shareholders will hold approximately 23 per cent. in aggregate of the issued HKEC Shares.

It should be noted that the price of HK\$3.88 for each HKEC Share under the Futures Exchange Cash Alternative is not necessarily the market value of one HKEC Share on or following implementation of the Overall Proposal.

We do not express any opinion as to whether Futures Exchange Shareholders should make an election or as to the level of any election (if any) which should be made by them.

CHANGES IN CIRCUMSTANCES

Futures Exchange Shareholders should consider the matters set out in the Explanatory Statement at page 59 of the Document under the heading "Changes in Circumstances" which states that much of the information contained in the Letter from HKEC and in Appendix VI in the Document is in the form of proposals only and may be implemented in whole or in part subject to modification or amendment. Our opinion is based on the information and proposals as set out in the Document. The Futures Exchange Scheme will become effective provided that the Conditions are satisfied notwithstanding any event, series of events or circumstances concerning or relating to or otherwise having an adverse effect on, or any change in, local, national or international financial, political, economic, legal, fiscal, regulatory or market matters or conditions.

CONCLUSION

Based upon the foregoing (including HKEC's undertakings with regards to Trading Rights), we advise the Futures Exchange Board that it is our opinion that the Futures Exchange Scheme is fair and reasonable to Futures Exchange Shareholders from a financial point of view. In reaching our opinion, we did not consider the Exchange Ratio in isolation, but rather took it into account together with the other factors and reasons referred to above.

Yours faithfully,
For and on behalf of
Morgan Stanley Dean Witter Asia Limited
Carlos A. Oyarbide
Managing Director