

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong dollars)

|  | Note  | 2000<br>\$'000   | 1999<br>\$'000   |
|--|-------|------------------|------------------|
| <b>INCOME</b>  |       |                  |                  |
| Transaction levy, trading tariff and trading fees        | 3     | 548,472          | 427,535          |
| Stock Exchange listing fees                              |       | 269,567          | 205,594          |
| Clearing and settlement fees                             |       | 305,465          | 196,260          |
| Depository, custody and nominee services fees            |       | 257,490          | 143,702          |
| Income from sale of information                          |       | 351,736          | 229,074          |
| Interest income  | 4     | 414,327          | 473,567          |
| Other income   | 5     | 165,146          | 139,245          |
|  | 2     | <u>2,312,203</u> | <u>1,814,977</u> |
| <b>OPERATING EXPENSES</b>                                |       |                  |                  |
| Staff costs and related expenses                         |       | 593,433          | 570,818          |
| Information technology and computer maintenance expenses |       | 216,665          | 197,708          |
| Premises expenses  |       | 109,112          | 115,145          |
| Product marketing and promotion expenses                 |       | 31,076           | 37,526           |
| Legal and professional fees                              |       | 32,134           | 35,954           |
| Depreciation and amortisation                            |       | 177,450          | 150,197          |
| Other operating expenses                                 |       | 74,258           | 90,268           |
| Merger, listing and integration expenses                 | 6     | 93,385           | 60,202           |
|  |       | <u>1,327,513</u> | <u>1,257,818</u> |
| <b>PROFIT BEFORE TAXATION</b>                            | 2/7   | 984,690          | 557,159          |
| <b>TAXATION</b>  | 11(a) | <u>(105,801)</u> | <u>(36,493)</u>  |
| <b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>               |       | 878,889          | 520,666          |
| <b>DIVIDENDS</b>   |       | <u>343,419</u>   | <u>—</u>         |
| <b>RETAINED PROFIT FOR THE YEAR</b>                      | 26    | <u>535,470</u>   | <u>520,666</u>   |
|  |       | \$               | \$               |
| Earnings per share                                       | 12    | 0.84             | 0.50             |
| Dividends per share                                      |       |                  |                  |
| Interim dividend paid                                    |       | 0.08             | —                |
| Final dividend payable                                   |       | 0.25             | —                |
|  |       | <u>0.33</u>      | <u>—</u>         |

**CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2000**

(Expressed in Hong Kong dollars)

|  | Note  | <b>2000</b>           | <b>1999</b>           |
|--|-------|-----------------------|-----------------------|
|  |       | <b>\$'000</b>         | <b>\$'000</b>         |
| Change in valuation of investment property   | 23    | <b>(800)</b>          | (8,500)               |
| Change in valuation of other properties  | 23    | <b>(62,520)</b>       | –                     |
| Change in fair value of non-trading securities arising from  |       |                       |                       |
| - investment revaluation reserve   | 23    | <b>8,715</b>          | (13,831)              |
| - Clearing House Funds reserves  | 24(a) | –                     | (3,577)               |
| - Cash and Derivatives Market Development Fund reserve   | 24(c) | –                     | (392)                 |
| Write-back of overprovision for claims of prior years in<br>Compensation Fund Reserve Account            | 24(b) | <u>2,966</u>          | <u>–</u>              |
| Net deficit not recognised in the consolidated profit and loss account                                   |       | <b>(51,639)</b>       | (26,300)              |
| Profit attributable to shareholders  |       | <b>878,889</b>        | 520,666               |
| Add: Realisation of investment revaluation reserve on<br>maturity and disposal of non-trading securities | 23    | <u>39,092</u>         | <u>4,281</u>          |
| <b>TOTAL RECOGNISED GAINS</b>  |       | <u><b>866,342</b></u> | <u><b>498,647</b></u> |

**CONSOLIDATED  
FINANCIAL  
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# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2000

(Expressed in Hong Kong dollars)

|   | Note  | 2000<br>\$'000    | 1999<br>\$'000    |
|---|-------|-------------------|-------------------|
| <b>NON-CURRENT ASSETS</b>   |       |                   |                   |
| Fixed assets  | 13(a) | 673,815           | 620,171           |
| Clearing House Funds  | 14    | 889,895           | 887,935           |
| Compensation Fund Reserve Account   | 15    | 34,204            | 42,033            |
| Cash and Derivatives Market Development Fund  | 16    | 914               | 100,914           |
| Non-trading securities maturing over one year   | 17    | 609,500           | 516,587           |
|   |       | <u>2,208,328</u>  | <u>2,167,640</u>  |
| <b>CURRENT ASSETS</b>   |       |                   |                   |
| Margin funds on derivatives contracts   | 18    | 5,381,719         | 5,860,064         |
| Accounts receivable, prepayments and deposits   | 19(a) | 2,673,486         | 2,827,953         |
| Taxation recoverable  |       | 2,686             | 11,823            |
| Non-trading securities maturing within one year                                       | 17    | 255,166           | 293,541           |
| Bank balances and time deposits pledged   | 32    | 10,000            | 1,754,736         |
| Bank balances and time deposits   |       | 3,625,186         | 1,545,141         |
|   |       | <u>11,948,243</u> | <u>12,293,258</u> |
| <b>CURRENT LIABILITIES</b>  |       |                   |                   |
| Bank borrowings under repurchase agreements for<br>financing margin funds             | 18    | –                 | 204,433           |
| Margin deposits and securities received from Participants<br>on derivatives contracts | 18    | 5,381,719         | 5,655,631         |
| Accounts payable, accruals and other liabilities                                      | 19(b) | 2,969,953         | 3,456,295         |
| Deferred revenue  |       | 233,036           | 191,748           |
| Taxation payable  |       | 58,333            | 28,343            |
| Payable to the Unified Exchange Compensation Fund                                     |       | –                 | 200,000           |
| Final dividend payable  |       | 260,166           | –                 |
|   |       | <u>8,903,207</u>  | <u>9,736,450</u>  |

**CONSOLIDATED BALANCE SHEET (continued)****AT 31 DECEMBER 2000**

(Expressed in Hong Kong dollars)

|   | Note  | 2000<br>\$'000          | 1999<br>\$'000          |
|---|-------|-------------------------|-------------------------|
| <b>NET CURRENT ASSETS</b>   |       | <u>3,045,036</u>        | <u>2,556,808</u>        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                                  |       | <u>5,253,364</u>        | <u>4,724,448</u>        |
| <b>NON-CURRENT LIABILITIES</b>  |       |                         |                         |
| Deferred taxation   | 11(b) | 65,738                  | 52,860                  |
| Participants' admission fees received   | 20    | 110,250                 | 108,300                 |
| Participants' contributions to Clearing House Funds                           | 14    | 415,740                 | 413,780                 |
| Amount reserved for successful claims in Compensation<br>Fund Reserve Account |       | <u>22,157</u>           | <u>32,952</u>           |
|   |       | <u>613,885</u>          | <u>607,892</u>          |
| <b>NET ASSETS</b>   |       | <u><u>4,639,479</u></u> | <u><u>4,116,556</u></u> |
| <b>CAPITAL AND RESERVES</b>   |       |                         |                         |
| Share capital   | 22    | 1,040,665               | 1,040,665               |
| Revaluation reserves  | 23    | 84,353                  | 99,866                  |
| Designated reserves   | 24    | 622,878                 | 670,392                 |
| Retained earnings   | 26    | <u>2,891,583</u>        | <u>2,305,633</u>        |
| <b>SHAREHOLDERS' FUNDS</b>  |       | <u><u>4,639,479</u></u> | <u><u>4,116,556</u></u> |

# CONSOLIDATED FINANCIAL STATEMENTS

## HONG KONG EXCHANGES AND CLEARING LIMITED (HKEx)

### BALANCE SHEET

AT 31 DECEMBER 2000

(Expressed in Hong Kong dollars)

|  |       | <b>2000</b>             | <b>1999</b>     |
|--|-------|-------------------------|-----------------|
|  | Note  | <b>\$'000</b>           | <b>\$'000</b>   |
| <b>NON-CURRENT ASSETS</b>                        |       |                         |                 |
| Fixed assets                                     | 13(b) | <b>9,671</b>            | –               |
| Investments in subsidiaries                      | 21    | <b>4,560,292</b>        | –               |
|  |       | <u><b>4,569,963</b></u> | <u>–</u>        |
| <b>CURRENT ASSETS</b>                            |       |                         |                 |
| Accounts receivable, prepayments and deposits    | 19(a) | <b>3,569</b>            | 31              |
| Bank balances and time deposits                  |       | <b>56</b>               | –               |
|  |       | <u><b>3,625</b></u>     | <u>31</u>       |
| <b>CURRENT LIABILITIES</b>                       |       |                         |                 |
| Accounts payable, accruals and other liabilities | 19(b) | <b>12,846</b>           | 12,538          |
| Final dividend payable                           |       | <b>260,166</b>          | –               |
|  |       | <u><b>273,012</b></u>   | <u>12,538</u>   |
| <b>NET CURRENT LIABILITIES</b>                   |       | <u><b>(269,387)</b></u> | <u>(12,507)</u> |
| <b>NET ASSETS/(LIABILITIES)</b>                  |       | <u><b>4,300,576</b></u> | <u>(12,507)</u> |
| <b>CAPITAL AND RESERVES</b>                      |       |                         |                 |
| Share capital                                    | 22    | <b>1,040,665</b>        | –               |
| Merger reserve                                   | 25    | <b>2,997,115</b>        | –               |
| Retained earnings/(accumulated loss)             | 26    | <b>262,796</b>          | (12,507)        |
| <b>SHAREHOLDERS' FUNDS</b>                       |       | <u><b>4,300,576</b></u> | <u>(12,507)</u> |

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2000**

(Expressed in Hong Kong dollars)

|   | 2000                          | 1999                    |
|---|-------------------------------|-------------------------|
|   | \$'000                        | \$'000                  |
|   | Note                          |                         |
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>  | 27(a) <b>444,878</b>          | 684,061                 |
| <b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>  |                               |                         |
| Interest received   | 642,982                       | 963,773                 |
| Interest paid   | (194,844)                     | (337,454)               |
| Dividends paid  | (83,253)                      | –                       |
| Net cash inflow from returns on investments and servicing of finance                            | <u>364,885</u>                | <u>626,319</u>          |
| <b>TAXATION</b>   |                               |                         |
| Hong Kong Profits Tax paid  | (69,160)                      | (45,971)                |
| Refund of Hong Kong Profits Tax   | 15,364                        | 9,951                   |
| Net cash outflow from taxation  | <u>(53,796)</u>               | <u>(36,020)</u>         |
| <b>INVESTING ACTIVITIES</b>   |                               |                         |
| Payments for purchase of fixed assets   | (309,265)                     | (227,060)               |
| Proceeds from sales of fixed assets   | 401                           | 3,866                   |
| Increase in non-trading securities  | (6,316)                       | (1,498,612)             |
| Decrease/(increase) in time deposits with original maturity more than three months              | 1,392,158                     | (341,799)               |
| Cash paid as part of the consideration in exchange for the equity interests in the subsidiaries | (107,418)                     | –                       |
| Net cash inflow/(outflow) from investing activities   | <u>969,560</u>                | <u>(2,063,605)</u>      |
| Net cash inflow/(outflow) before financing  | <u>1,725,527</u>              | <u>(789,245)</u>        |
| <b>FINANCING</b>  |                               |                         |
| Admission fees received less refunds to Participants  | 1,950                         | (1,650)                 |
| Redemption of non-voting redeemable share by a subsidiary                                       | (10)                          | –                       |
| Net cash inflow/(outflow) from financing  | <u>1,940</u>                  | <u>(1,650)</u>          |
| <b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <b>1,727,467</b>              | <b>(790,895)</b>        |
| Cash and cash equivalents at the beginning of the year  | <u>1,323,180</u>              | <u>2,114,075</u>        |
| Cash and cash equivalents at the end of the year  | 27(b) <u><u>3,050,647</u></u> | <u><u>1,323,180</u></u> |

# CONSOLIDATED FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Group has opted to adopt the provisions of Hong Kong Statement of Standard Accounting Practice (SSAP) 14 (Revised) Leases in advance of its effective date instead of SSAP 14 Accounting for leases and hire purchase contracts issued in 1987.

### (b) Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain land and buildings, investment properties, non-trading securities and the marking to market of shares borrowed and receivable by HKSCC for the purpose of settlement under the Continuous Net Settlement (CNS) basis.

### (c) Basis of consolidation

- (i) The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December. All material intra-group transactions and balances have been eliminated on consolidation.
- (ii) The Group has adopted merger accounting in the preparation of the consolidated accounts. The consolidated accounts have been prepared as if the current group structure of HKEx and the Merged Subsidiaries had been in existence throughout the current and prior periods, rather than from the effective date of the merger on 6 March 2000. The comparative figures as at 31 December 1999 and for the year ended 31 December 1999 have been prepared on the same basis.

Except for the accounts of HKEx, HKEC Nominees Limited, Hong Kong Financial Markets Development Limited and HKEx (Singapore) Limited, which have been included in the consolidated accounts since their incorporation in 1999 and 2000, the consolidated accounts include the accounts of all subsidiaries for each of the whole year ended 31 December 1999 and 2000.

- (iii) In HKEx's balance sheet, investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) Turnover

Turnover comprises transaction levy, trading tariff and trading fees from securities and options traded on the Stock Exchange and derivatives contracts traded on the Futures Exchange, Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, interest income and other income, which are **disclosed as Income** in the consolidated profit and loss account.

### (e) Revenue recognition

Income is recognised in the profit and loss account on the following basis:

- (i) Transaction levy and trading tariff on securities and options traded on the Stock Exchange are recognised on a trade date basis.
- (ii) Trading fees on derivatives contracts traded on the Futures Exchange are recognised on the day when the derivatives contracts are entered into.
- (iii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on outstanding contracts at the official final settlement day.
- (iv) Fees for clearing and settlement of broker-to-broker trades in eligible securities transacted on the Stock Exchange are recognised in full on T + 1, i.e. on the day following the trade day, upon acceptance of the trades. Fees for settlement of other trades and transactions are recognised upon completion of the settlement.
- (v) Custody fees for securities held in the Central Clearing and Settlement System (CCASS) depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.
- (vi) Income from sale of information and from annual listing fees is recognised on a straight line basis over the period covered by the respective fees received in advance.
- (vii) Interest income is recognised on a time apportionment basis, taking into account the principal outstanding and applicable interest rates.
- (viii) Other fees are recognised when the related services are rendered.
- (ix) Rental income is recognised on an accrual basis.



# CONSOLIDATED FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (f) Interest income

Interest income included in the profit and loss account represents gross interest income from bank deposits and non-trading securities, realised gains and losses arising from maturity and disposal of non-trading securities, offset against interest expenses payable to Participants on margin funds received and cash collateral.

Since the majority of interest income is composed of interest income earned from the margin funds and interest expenses mainly represent interest paid to Participants who have contributed to the margin funds, the Directors are of the opinion that the above presentation is the most appropriate to the Group.

### (g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with any rental income being negotiated at arm's length.

Investment properties are carried in the balance sheet at valuations determined annually by independent valuers. The valuations are on an open market value basis and are incorporated in the accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged and thereafter to investment properties revaluation reserve.

Upon the disposal of investment properties, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

### (h) Fixed assets

Land and buildings, other than investment properties, are stated at valuation less accumulated depreciation. Fair value is determined by the directors based on independent valuations which are performed periodically. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. The directors review the carrying value of the land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged and thereafter to other properties revaluation reserve.

Other tangible fixed assets are stated at cost less accumulated depreciation.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (h) Fixed assets (continued)

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

|                                       |              |
|---------------------------------------|--------------|
| Leasehold land                        | 0.1% to 0.8% |
| Buildings                             | 4%           |
| Leasehold improvements                | 20%          |
| Computer trading and clearing systems |              |
| – software                            | 20%          |
| – hardware                            | 33.33%       |
| Other computer hardware and software  | 33.33%       |
| Furniture and equipment               | 20%          |
| Motor vehicles                        | 33.33%       |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives.

The carrying amounts of fixed assets are reviewed regularly by the Directors of the respective Group companies to assess whether their recoverable amounts have declined below their carrying amounts. The Group has not discounted the expected future cash flows in determining the recoverable amounts.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Development expenditure which satisfied the capitalisation criteria is recognised as a fixed asset in the balance sheet. It comprises all direct and allocated operating expenses attributable to development activities of distinct major projects.

All operating and maintenance expenses incurred after the date of completion of the projects as well as all expenses incurred on other non-qualifying projects and development activities are charged as expenses to the profit and loss account in the period in which such expenses are incurred.

Amortisation of the cost of capitalised development expenditure is provided from the dates when the projects become operational.

# CONSOLIDATED FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Clearing House Funds/Cash and Derivatives Market Development Fund (CDMD Fund)

Income arising from bank deposits and investments comprising these funds and expenses incurred for these funds are dealt with in the profit and loss account. Annual investment income net of expenses of these funds may be appropriated from retained earnings to the respective designated reserves of these funds. Starting from 1 January 2000, future investment income net of expenses of these funds may be contributed to and appropriated from these designated reserves at the discretion of the Board of Directors of HKEx.

Changes in valuation of the non-trading securities comprising these funds were previously included in the funds. Starting from 1 January 2000, such changes in valuation are dealt with in the investment revaluation reserve.

Net assets of the Clearing House Funds, which are derived from contributions from CCASS Participants (other than Investor Participants), HKCC Participants and SEOCH Participants (Clearing Participants) and the respective clearing houses, and the accumulated investment income net of expenses of these funds appropriated from retained earnings, are included in the balance sheet as non-current assets. Clearing Participants' contributions are treated as non-current liabilities in the balance sheet. Contributions from the respective clearing houses and the accumulated investment income net of expenses of these funds appropriated from retained earnings are included in the balance sheet as designated reserves.

Net assets of the CDMD Fund, which are derived from the accumulated investment income net of expenses of this fund appropriated from retained earnings, are included in the balance sheet as non-current assets. The accumulated investment income net of expenses of this fund appropriated from retained earnings is included in the balance sheet as a designated reserve.

### (j) Margin funds on derivatives contracts/margin deposits and securities received from Participants on derivatives contracts

Margin funds are established by deposits and securities received from SEOCH and HKCC Clearing Participants for their open positions in derivatives contracts.

The funds are refundable to the Clearing Participants when they close their positions on derivatives contracts. As a result, the margin deposits and securities received are reflected as liabilities to the Clearing Participants. These funds are held for the Clearing Participants' liabilities to the respective clearing houses and are held in segregated accounts of the respective clearing houses.

Interest income arising from bank deposits and investments comprising these margin funds and expenses incurred for these funds are dealt with in the profit and loss account. Changes in fair value of the securities comprising these margin funds are dealt with in the investment revaluation reserve. The Clearing Participants are entitled to interest at a rate determined daily by HKCC and SEOCH on the margin deposits that they place with HKCC and SEOCH respectively. Interest paid to Clearing Participants is offset against interest income earned from the margin funds as explained in note 1(f).

**1. PRINCIPAL ACCOUNTING POLICIES (continued)**

**(k) Non-trading securities**

Securities held by the Group for non-trading purposes are stated in the balance sheet at fair value. Fair values of listed and unlisted non-trading securities are based on market quotes and quotations from independent financial institutions respectively. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, matures, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sale proceeds and the carrying amount of the relevant security, together with any changes in fair value transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual securities are reviewed at each balance sheet date to determine whether they are impaired. When a security is considered to be impaired, the cumulative loss recorded in the investment revaluation reserve is taken to the profit and loss account. Cumulative losses transferred from the investment revaluation reserve to the profit and loss account as a result of impairment are written back to the profit and loss account when the circumstances and events leading to the impairment cease to exist.

**(l) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the CNS basis**

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the Clearing Participants as the settlement counterparty to the trades through novation. Final acceptance of Stock Exchange trades is confirmed on T + 1 by details contained in the final clearing statement transmitted to every Clearing Participant.

The CNS money obligations due by/to Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T + 1.

For all other trades and transactions, HKSCC merely provides a facility for settlement within CCASS and does not interpose itself between the Clearing Participants as the settlement counterparty to the trades. The settlement of these trades does not constitute money obligations and is excluded from the consolidated accounts of the Group.

**(m) Repurchase transactions**

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is recorded as a liability.

# CONSOLIDATED FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (o) Deferred revenue

Deferred revenue comprises annual listing fees received in advance, payments received for undelivered services in relation to the sales of stock market information and telecommunication line rentals for the second and third terminals.

### (p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease term.

### (q) Retirement benefit costs

Contributions to the defined contribution provident funds regulated under the Occupational Retirement Schemes Ordinance (ORSO) and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Contributions to one of the two ORSO approved provident funds of the Group are offset by contributions forfeited in respect of employees who leave the provident fund prior to vesting fully in the contributions. Forfeited contributions of another provident fund are not used to offset existing contributions but are credited to a reserve account of that provident fund. Reserves of the provident fund representing forfeited employer's contributions are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident funds and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

### (r) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

(Expressed in Hong Kong dollars)

## 2. PRINCIPAL ACTIVITIES OF OPERATIONS

The Group is principally engaged in operating the only stock exchange and futures exchange in Hong Kong and their related clearing houses. The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income and contribution to operating profit during the year by line of business is as follows:

|                    | Income           |                  | Operating profit before taxation |                |
|--------------------|------------------|------------------|----------------------------------|----------------|
|                    | 2000             | 1999             | 2000                             | 1999           |
|                    | \$'000           | \$'000           | \$'000                           | \$'000         |
| Cash market        | 1,305,179        | 959,261          | 614,805                          | 338,881        |
| Derivatives market | 300,925          | 395,154          | 96,067                           | 127,393        |
| Clearing business  | 705,390          | 460,562          | 419,535                          | 151,097        |
| Others             | 709              | –                | (145,717)                        | (60,212)       |
|                    | <u>2,312,203</u> | <u>1,814,977</u> | <u>984,690</u>                   | <u>557,159</u> |

The **cash market** business refers to the operations of the Stock Exchange, which cover all products traded on the cash market platforms, such as equities, warrants, equity options, rights, debt securities and unit trusts. Currently, the Group operates two cash market platforms, the Main Board and Growth Enterprise Market. Major sources of income of the business are transaction levy, trading tariff and listing fees and income from sale of information.

The **derivatives market** business refers to the operations of the Futures Exchange, which include the provision and maintenance of a trading platform for a range of derivatives products, such as equity, currency and interest rate futures and options and the related clearing business. Its income mainly comes from the trading fees imposed and the interest income on the margin funds received.

The **clearing business** is the business of HKSCC, which is responsible for clearing, settlement and custodian activities and related risk management of cash market activities. Its income comes primarily from the fees charged on providing clearing, settlement, depository and nominee services.

**Others** refer to various expenses of the Group which are mainly staff costs of HKEx and merger, listing and integration expenses.

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3. TRANSACTION LEVY, TRADING TARIFF AND TRADING FEES

|  | 2000           | 1999           |
|--|----------------|----------------|
|  | \$'000         | \$'000         |
| Transaction levy, trading tariff and trading fees<br>are derived from: |                |                |
| Securities and options traded on the Stock Exchange                    | 459,028        | 314,449        |
| Derivatives contracts traded on the Futures Exchange                   | 89,444         | 113,086        |
|  | <u>548,472</u> | <u>427,535</u> |

## 4. INTEREST INCOME

|   | 2000           | 1999           |
|---|----------------|----------------|
|   | \$'000         | \$'000         |
| Interest income from bank deposits and non-trading securities                             | 609,755        | 648,430        |
| Interest expenses payable to Participants on margin funds<br>received and cash collateral | (195,428)      | (174,863)      |
|   | <u>414,327</u> | <u>473,567</u> |

## 5. OTHER INCOME

|  | 2000           | 1999           |
|--|----------------|----------------|
|  | \$'000         | \$'000         |
| Stock Exchange terminal user fees          | 47,759         | 45,467         |
| Participants' subscription fees            | 38,011         | 36,762         |
| Share registration services fees           | 32,325         | 14,544         |
| Gross rental income                        | 364            | 1,236          |
| Income received from former clearing house | 263            | 7,024          |
| Miscellaneous income                       | 46,424         | 34,212         |
|  | <u>165,146</u> | <u>139,245</u> |

(Expressed in Hong Kong dollars)

## 6. MERGER, LISTING AND INTEGRATION EXPENSES

|                      | 2000          | 1999          |
|----------------------|---------------|---------------|
|                      | \$'000        | \$'000        |
| Merger expenses      | 10,001        | 60,202        |
| Listing expenses     | 11,520        | –             |
| Integration expenses | 71,864        | –             |
|                      | <u>93,385</u> | <u>60,202</u> |

Merger and listing expenses are mainly legal and professional fees. Integration expenses are primarily redundancy payments to employees and consultancy fees.

## 7. PROFIT BEFORE TAXATION

|  | 2000    | 1999    |
|--|---------|---------|
|  | \$'000  | \$'000  |
| Profit before taxation is stated after charging:   |         |         |
| Staff costs including retirement benefit cost of \$44,372,000<br>(1999: \$46,018,000), excluding directors' emoluments | 585,957 | 570,818 |
| Auditors' remuneration   | 2,597   | 2,086   |
| Operating lease rentals  |         |         |
| - land and buildings   | 70,370  | 81,597  |
| - computer hardware and software   | 61,200  | 52,927  |
| Loss on disposal of fixed assets   | 14,450  | 2,118   |



# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 8. DIRECTORS' EMOLUMENTS

Total emoluments of the directors, excluding share option benefits, for the year amounted to \$7,476,000 (1999: \$Nil) of which \$5,863,000 was attributable to salaries, other allowances and benefits in kind. Annual discretionary bonus and employer's contribution to retirement scheme for the year amounted to \$957,000 and \$656,000. None of the directors received any fees during the year (1999: \$Nil).

None of HKEx's independent non-executive directors received or will receive any fees or emoluments in respect of their services to the Group during the year (1999: \$Nil).

The emoluments of sixteen (1999: seven) directors fell within the \$0 - \$1,000,000 band. The emoluments of the remaining one director (1999: none) were within the \$7,000,001 - \$7,500,000 band.

In addition to the above emoluments, a director was granted share options under HKEx's Pre-Listing Share Option Scheme. Details of this are disclosed under Directors' interests in shares and options in the Report of the Directors.

## 9. FIVE TOP-PAID EMPLOYEES

One (1999: none) of the five top-paid employees is a director, whose emoluments is disclosed in note 8. Details of the emoluments of the other four (1999: five) top-paid employees are as follows:

|   | 2000          | 1999          |
|---|---------------|---------------|
|   | \$'000        | \$'000        |
| Salaries, other allowances and benefits in kind | 18,627        | 21,205        |
| Performance award                               | 1,460         | 2,776         |
| Retirement scheme contributions by employer     | 1,778         | 2,018         |
| Compensation for loss of office                 | —             | 4,239         |
|   | <hr/>         | <hr/>         |
|   | <b>21,865</b> | <b>30,238</b> |
|   | <hr/> <hr/>   | <hr/> <hr/>   |

(Expressed in Hong Kong dollars)

## 9. FIVE TOP-PAID EMPLOYEES (continued)

The emoluments of these employees are within the following bands:

|                           | 2000                | 1999                |
|---------------------------|---------------------|---------------------|
|                           | Number of employees | Number of Employees |
| \$4,500,001 – \$5,000,000 | –                   | 2                   |
| \$5,000,001 – \$5,500,000 | 3                   | –                   |
| \$5,500,001 – \$6,000,000 | 1                   | 1                   |
| \$6,500,001 – \$7,000,000 | –                   | 1                   |
| \$8,000,001 – \$8,500,000 | –                   | 1                   |
|                           | <hr/>               | <hr/>               |
|                           | 4                   | 5                   |
|                           | <hr/> <hr/>         | <hr/> <hr/>         |

The employees, whose emoluments is disclosed above, include the senior executives who were also directors of the subsidiaries during the years. No directors of the subsidiaries waived any emoluments.

## 10. RETIREMENT BENEFIT COSTS

The Group sponsors two staff provident fund schemes which are registered under ORSO and have obtained Mandatory Provident Fund (MPF) exemption. The two ORSO schemes, being the Hong Kong Exchanges and Clearing Provident Fund Scheme (the Plan) and the Hong Kong Futures Exchange Provident Scheme (the HKFE Scheme), are for all full-time permanent employees. Contributions to these two retirement schemes by the Group and employees are calculated as a percentage of employees' basic salaries. In compliance with the MPF Ordinance, HKEx has participated in a master trust MPF scheme, the AIA-JF Premium MPF Scheme (the MPF Scheme) to provide retirement benefits to full-time permanent employees who elect to join the MPF Scheme and all temporary or part-time employees who are not eligible for joining the staff provident fund schemes approved by ORSO. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance.

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 10. RETIREMENT BENEFIT COSTS (continued)

The retirement benefit costs charged to the profit and loss account represent contributions paid and payable by the Group to the ORSO schemes and the MPF Scheme.

For the Plan, contributions during the year were not offset by contributions forfeited in respect of employees who left the Plan prior to vesting fully in the contributions. Instead, forfeited contributions were credited to a reserve account of the Plan for the benefit of its members. Forfeited contributions of the Plan during the year were as follows:

|  | 2000<br>\$'000 | 1999<br>\$'000 |
|--|----------------|----------------|
| Forfeited contributions retained in the Plan | <u>2,687</u>   | <u>3,140</u>   |

Contributions to the HKFE Scheme during the year were offset by contributions forfeited in respect of employees who left the HKFE Scheme prior to vesting fully in the contributions. Forfeited contributions totalling \$541,285 were utilised during 2000 (1999: \$853,206), leaving \$189,259 (1999: \$263,448) to reduce future contributions to the HKFE Scheme.

## 11. TAXATION

### (a) Taxation in the consolidated profit and loss account represents:

|   | 2000<br>\$'000 | 1999<br>\$'000  |
|---|----------------|-----------------|
| Provision for Hong Kong Profits Tax for the year                            | 95,824         | 44,660          |
| Overprovision in respect of prior years                                     | (2,901)        | (5,348)         |
| 10% Hong Kong Profits Tax rebate relating to the year of assessment 1997/98 | <u>—</u>       | <u>(12,785)</u> |
|   | 92,923         | 26,527          |
| Deferred taxation (note 11(b))  | <u>12,878</u>  | <u>9,966</u>    |
|   | <u>105,801</u> | <u>36,493</u>   |

Hong Kong Profits Tax has been provided for at 16% (1999: 16%) on the estimated assessable profit for the year.

(Expressed in Hong Kong dollars)

## 11. TAXATION (continued)

### (b) Deferred taxation in the consolidated balance sheet represents:

|  | <b>2000</b>          | <b>Group</b>         |
|--|----------------------|----------------------|
|  | <b>\$'000</b>        | <b>1999</b>          |
|  |                      | <b>\$'000</b>        |
| At 1 January   | 52,860               | 42,894               |
| Transfer from the consolidated profit and loss<br>account (note 11(a)) | <u>12,878</u>        | <u>9,966</u>         |
| At 31 December   | <u><u>65,738</u></u> | <u><u>52,860</u></u> |

The amount represents the tax effect of accelerated depreciation allowances on fixed assets.

The revaluation of investment property and land and buildings (note 13) does not constitute a timing difference for deferred taxation purposes as realisation of the revaluation surplus would not result in any tax liability.

There was no other material unprovided deferred taxation for the year.

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$878,889,000 (1999: \$520,666,000) and on the assumption that the 1,040,664,846 shares were in issue as set out in note 22 throughout the years ended 31 December 2000 and 1999.

The share options granted during the year as set out in note 22 did not have a material dilutive effect on the basic earnings per share.

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 13. FIXED ASSETS

### (a) Group

|                                 | Investment<br>property<br>under long-<br>term lease in<br>Hong Kong<br>\$'000 | Land and<br>buildings<br>under long-<br>term lease in<br>Hong Kong<br>\$'000 | Computer<br>trading and clearing<br>systems<br>hardware<br>\$'000 | Computer<br>trading and clearing<br>systems<br>software<br>\$'000 | Other<br>computer<br>hardware<br>and<br>software<br>\$'000 | Leasehold<br>improvements,<br>furniture,<br>equipment<br>and motor<br>vehicles<br>\$'000 | Total<br>\$'000 |
|---------------------------------|---|--|---|---|--|--|-----------------|
| <b>Cost or valuation</b>        |   |  |   |   |  |  |                 |
| At 1 January 2000               | 16,500  | 235,096  | 344,323   | 659,722   | 278,312  | 219,533  | 1,753,486       |
| Additions                       | –   | –  | 20,266  | 200,695   | 38,820   | 49,484   | 309,265         |
| Revaluation                     | (800)   | (86,096)   | –   | –   | –  | –  | (86,896)        |
| Disposals                       | –   | –  | (2,547)   | (2,441)   | (13,092)   | (89,468)   | (107,548)       |
| At 31 December 2000             | 15,700  | 149,000  | 362,042   | 857,976   | 304,040  | 179,549  | 1,868,307       |
| <b>Representing</b>             |   |  |   |   |  |  |                 |
| At cost                         | –   | –  | 362,042   | 857,976   | 304,040  | 179,549  | 1,703,607       |
| At valuation – 31 December 2000 | 15,700  | 149,000  | –   | –   | –  | –  | 164,700         |
|                                 | 15,700  | 149,000  | 362,042   | 857,976   | 304,040  | 179,549  | 1,868,307       |
| <b>Accumulated depreciation</b> |   |  |   |   |  |  |                 |
| At 1 January 2000               | –   | 20,112   | 217,701   | 523,154   | 202,107  | 170,241  | 1,133,315       |
| Charge for the year             | –   | 3,464  | 18,465  | 100,475   | 32,431   | 22,615   | 177,450         |
| Revaluation                     | –   | (23,576)   | –   | –   | –  | –  | (23,576)        |
| Disposals                       | –   | –  | (2,547)   | (269)   | (13,003)   | (76,878)   | (92,697)        |
| At 31 December 2000             | –   | –  | 233,619   | 623,360   | 221,535  | 115,978  | 1,194,492       |
| <b>Net Book Value</b>           |   |  |   |   |  |  |                 |
| At 31 December 2000             | 15,700  | 149,000  | 128,423   | 234,616   | 82,505   | 63,571   | 673,815         |
| At 31 December 1999             | 16,500  | 214,984  | 126,622   | 136,568   | 76,205   | 49,292   | 620,171         |

(Expressed in Hong Kong dollars)

### 13. FIXED ASSETS (continued)

#### (a) Group (continued)

The cost of investment property was \$8,229,000 (1999: \$8,229,000). The investment property was revalued as at 31 December 2000 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. A deficit of \$800,000 was charged to the investment properties revaluation reserve during 2000 (1999: deficit of \$8,500,000) (note 23).

Land and buildings were revalued as at 31 December 2000 on the basis of their open market value in existing use carried out by Jones Lang LaSalle, an independent firm of qualified property valuers. A deficit of \$62,520,000 was charged to other properties revaluation reserve during 2000 (1999: \$Nil) (note 23).

The total cost of land and buildings of the Group was \$101,087,000 (1999: \$101,087,000). The carrying value of these land and buildings as at 31 December 2000 would have been \$84,313,000 (1999: \$88,695,500) had they been carried at cost less accumulated depreciation.

#### (b) HKEx

|                                 | <b>Other computer<br/>hardware and<br/>software</b> | <b>Leasehold<br/>improvements,<br/>furniture,<br/>equipment and<br/>motor vehicles</b> | <b>Total</b> |
|---------------------------------|---|--|--------------|
|                                 | \$'000  | \$'000   | \$'000       |
| <b>Cost</b>                     |   |  |              |
| At 1 January 2000               | –   | –  | –            |
| Additions                       | 5,918   | 4,266  | 10,184       |
| At 31 December 2000             | 5,918   | 4,266  | 10,184       |
| <b>Accumulated depreciation</b> |   |  |              |
| At 1 January 2000               | –   | –  | –            |
| Charge for the year             | 105   | 408  | 513          |
| At 31 December 2000             | 105   | 408  | 513          |
| <b>Net Book Value</b>           |   |  |              |
| At 31 December 2000             | 5,813   | 3,858  | 9,671        |
| At 31 December 1999             | –   | –  | –            |

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 14. CLEARING HOUSE FUNDS

|   | Group           |                |
|---|-----------------|----------------|
|   | 2000            | 1999           |
|   | \$'000          | \$'000         |
| Net asset values of the Clearing House Funds are as follows:  |                 |                |
| HKSCC Guarantee Fund  | 353,601         | 356,141        |
| SEOCH Reserve Fund  | 117,132         | 114,132        |
| HKCC Reserve Fund   | 419,162         | 417,662        |
|   | <u>889,895</u>  | <u>887,935</u> |
| The Clearing House Funds are composed of:   |                 |                |
| Unlisted non-trading securities, at fair value  |                 |                |
| - debt securities   | 198,078         | 75,198         |
| - fixed rate Hong Kong dollar instruments   | 233,473         | 218,991        |
| - professionally managed debt securities portfolio  | -               | 100,000        |
| Contributions receivable from Participants  | 30,450          | 31,050         |
| Other receivables   | 7,938           | 9,307          |
| Bank balances and time deposits   | 436,822         | 457,283        |
|   | <u>906,761</u>  | 891,829        |
| Less: Accounts payable  | <u>(16,866)</u> | <u>(3,894)</u> |
|   | <u>889,895</u>  | <u>887,935</u> |
| The Clearing House Funds are funded by:   |                 |                |
| Participants' contributions   | 415,740         | 413,780        |
| Clearing house contributions and accumulated investment income net of expenses appropriated from retained earnings (note 24(a)) | 474,155         | 474,155        |
|   | <u>889,895</u>  | <u>887,935</u> |

(Expressed in Hong Kong dollars)

#### **14. CLEARING HOUSE FUNDS (continued)**

The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from their Stock Exchange trades accepted for settlement on the CNS basis and defective securities deposited into CCASS. The SEOCH Reserve Fund and the HKCC Reserve Fund were established for the exclusive purpose of supporting SEOCH and HKCC to fulfil their counterparty obligations in the event that one or more Clearing Participants fail to meet their obligations to SEOCH and HKCC.

#### **15. COMPENSATION FUND RESERVE ACCOUNT**

The Securities and Futures Commission (SFC) is responsible for maintaining the Unified Exchange Compensation Fund (Compensation Fund). The Stock Exchange is required by the Securities Ordinance (SO) to deposit with the SFC and keep deposited \$50,000 in respect of each Stock Exchange Trading Right in the Compensation Fund. The Stock Exchange maintains an account known as the Compensation Fund Reserve Account for all receipts and payments in relation to Compensation Fund under the Rules of the Exchange, in particular the following:

- (a) The interest received from the SFC on the statutory deposits paid in respect of each Stock Exchange Trading Right into the Compensation Fund maintained by the SFC;
- (b) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively, and
- (c) Amounts reserved for successful claims to the Compensation Fund.

The Compensation Fund is further explained in notes 29(a)(i) and (a)(ii).



# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 16. CASH AND DERIVATIVES MARKET DEVELOPMENT FUND

|  | <b>Group</b>      |                |
|--|-------------------|----------------|
|  | <b>2000</b>       | 1999           |
|  | <b>\$'000</b>     | \$'000         |
| Net asset value of HKCC's CDMD Fund              | <u><b>914</b></u> | <u>100,914</u> |
| The Fund is composed of:                         |                   |                |
| Unlisted non-trading securities, at fair value   |                   |                |
| - debt securities                                | -                 | 39,451         |
| - fixed rate Hong Kong dollar instruments        | -                 | 60,619         |
| Bank balances and time deposits                  | -                 | 844            |
| Others   | <u><b>914</b></u> | <u>-</u>       |
|  | <u><b>914</b></u> | <u>100,914</u> |
| The Fund represents:                             |                   |                |
| Amount payable to the Compensation Fund          | -                 | 100,000        |
| Accumulated investment income net of expenses    |                   |                |
| appropriated from retained earnings (note 24(c)) | <u><b>914</b></u> | <u>914</u>     |
|  | <u><b>914</b></u> | <u>100,914</u> |

The CDMD Fund was established by the cash received from the Hong Kong Futures Guarantee Corporation Limited (the former clearing house of the Futures Exchange) for the purpose of providing funding for the development and betterment of the cash and derivatives markets in Hong Kong.

In 1999, the Group set aside \$100 million out of the resources of the CDMD Fund for the satisfaction of the special additional contribution to the Compensation Fund as stated in note 29(a)(ii).

(Expressed in Hong Kong dollars)

## 17. NON-TRADING SECURITIES

The maturity profile of non-trading securities analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

|  | <b>2000</b>           | <b>Group</b>   |
|--|-----------------------|----------------|
|  | <b>\$'000</b>         | <b>1999</b>    |
|  |                       | <b>\$'000</b>  |
| Five years or less, but over one year              | <b>609,500</b>        | 516,587        |
| Within one year                                    | <b>255,166</b>        | 293,541        |
|  | <u><b>864,666</b></u> | <u>810,128</u> |
| Non-trading securities, at fair value:             |                       |                |
| Unlisted   |                       |                |
| – fixed rate Hong Kong dollar instruments          | 7,456                 | 19,906         |
| – professionally managed debt securities portfolio | <b>798,713</b>        | 790,222        |
|  | <u><b>806,169</b></u> | 810,128        |
| Listed outside Hong Kong                           | <b>58,497</b>         | –              |
|  | <u><b>864,666</b></u> | <u>810,128</u> |

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 18. MARGIN FUNDS ON DERIVATIVES CONTRACTS

|  | Group            |                  |
|--|------------------|------------------|
|  | 2000             | 1999             |
|  | \$'000           | \$'000           |
| The margin funds comprise:   |                  |                  |
| SEOCH Clearing Participants' margin funds  | 740,191          | 1,001,961        |
| HKCC Clearing Participants' margin funds   | 4,641,528        | 4,858,103        |
|  | <u>5,381,719</u> | <u>5,860,064</u> |
| The assets of the margin funds comprise:   |                  |                  |
| Bank balances and time deposits  | 1,749,867        | 2,124,733        |
| Listed securities deposited as alternatives to cash deposits, at market value      | 572,300          | 329,848          |
| Margin receivable from Participants  | 9,752            | 2,406            |
| Unlisted non-trading securities, at fair value                                     |                  |                  |
| - money market fund  | 592,890          | 801,832          |
| - debt securities  | 650,235          | 430,622          |
| - fixed rate Hong Kong dollar instruments  | 1,806,675        | 2,170,623        |
|  | <u>5,381,719</u> | <u>5,860,064</u> |
| The Group's liabilities in respect of the margin funds are as follows:             |                  |                  |
| Bank borrowings under repurchase agreements for financing margin funds             | -                | 204,433          |
| Margin deposits and securities received from Participants on derivatives contracts | 5,381,719        | 5,655,631        |
|  | <u>5,381,719</u> | <u>5,860,064</u> |

There was no bank borrowing as at 31 December 2000. In 1999, included within fixed rate instruments were securities pledged for short-term bank borrowings repayable within one year under a repurchase agreement with a bank. The fair value of the securities pledged as at 31 December 1999 was \$205,680,000.

(Expressed in Hong Kong dollars)

## 19. ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS/ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

### (a) Accounts receivable, prepayments and deposits

|   | Group            |                  | HKEx         |           |
|---|------------------|------------------|--------------|-----------|
|   | 2000             | 1999             | 2000         | 1999      |
|   | \$'000           | \$'000           | \$'000       | \$'000    |
| Receivable from Exchange and Clearing Participants: |                  |                  |              |           |
| - CNS money obligations                             | 2,271,803        | 2,327,161        | —            | —         |
| - transaction levy, stamp duty and fees receivable  | 100,320          | 156,876          | —            | —         |
| Other fees receivable                               | 151,296          | 150,884          | —            | —         |
| Interest receivable                                 | 71,628           | 104,855          | —            | —         |
| Other receivables, deposits and prepayments         | 78,439           | 88,177           | 3,569        | 31        |
|   | <u>2,673,486</u> | <u>2,827,953</u> | <u>3,569</u> | <u>31</u> |

### (b) Accounts payable, accruals and other liabilities

|  | Group            |                  | HKEx          |               |
|--|------------------|------------------|---------------|---------------|
|  | 2000             | 1999             | 2000          | 1999          |
|  | \$'000           | \$'000           | \$'000        | \$'000        |
| Payable to Exchange and Clearing Participants: |                  |                  |               |               |
| - CNS money obligations                        | 2,193,606        | 2,163,990        | —             | —             |
| - cash collateral and others                   | 87,811           | 445,864          | —             | —             |
| - arising from exercise of stock options       | 75,501           | 170,742          | —             | —             |
| Transaction levy payable to the SFC            | 18,000           | 21,922           | —             | —             |
| Stamp duty payable                             | 40,940           | 168,497          | —             | —             |
| Deposits received                              | 155,649          | 90,912           | —             | —             |
| Other payables and accruals                    | 398,446          | 394,368          | 12,846        | 12,538        |
|  | <u>2,969,953</u> | <u>3,456,295</u> | <u>12,846</u> | <u>12,538</u> |

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 19. ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS/ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES (continued)

- (c) CNS money obligations receivable represent 85% (1999: 82%) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represent 74% (1999: 63%) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts receivable, prepayments, deposits, accounts payable, accruals and other liabilities will mature within three months.

## 20. PARTICIPANTS' ADMISSION FEES RECEIVED

The admission fees are non-interest bearing and may be repayable upon the expiry of seven years from the date of admission of a Participant or upon the termination of a Participant's participation in CCASS, whichever is later.

## 21. INVESTMENTS IN SUBSIDIARIES

|   | HKEx             |          |
|---|------------------|----------|
|   | 2000             | 1999     |
|   | \$'000           | \$'000   |
| Investments in unlisted shares, at cost | 4,145,198        | —        |
| Amounts due from subsidiaries           | 415,094          | —        |
|   | <u>4,560,292</u> | <u>—</u> |

The amounts due from subsidiaries are interest free and have no fixed terms of repayment.

(Expressed in Hong Kong dollars)

## 21. INVESTMENTS IN SUBSIDIARIES (continued)

### Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2000, all of which are wholly owned private companies incorporated in Hong Kong. Details of these companies are as follows:

| Company   | Issued and fully paid up share capital            | Principal activities   |
|---|---|--|
| <b>Direct subsidiaries:</b>                     |   |  |
| The Stock Exchange of Hong Kong Limited         | A shares<br>\$929                                 | Operates the single, unified stock exchange in Hong Kong for the purposes of the Stock Exchange Unification Ordinance          |
| Hong Kong Futures Exchange Limited              | Ordinary<br>\$19,600,000<br>Standard<br>\$850,000 | Operates a futures and options exchange  |
| Hong Kong Securities Clearing Company Limited   | Ordinary<br>\$2                                   | Operates CCASS and the central securities depository, custody and nominee services for eligible securities listed in Hong Kong |
| HKEC Nominees Limited                           | Ordinary<br>\$2                                   | Nominee services   |
| Hong Kong Financial Markets Development Limited | Ordinary<br>\$2                                   | Promotes the securities, futures and financial industry  |
| HKEx (Singapore) Limited                        | Ordinary<br>\$2                                   | Investment holding   |

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 21. INVESTMENTS IN SUBSIDIARIES (continued)

### Particulars of subsidiaries (continued)

| Company   | Issued and<br>fully paid up<br>share capital | Principal activities  |
|---|--|---|
| <b>Indirect subsidiaries:</b>                                       |  |   |
| The SEHK Options Clearing House Limited                             | Ordinary<br>\$1,000,000                      | Operates a clearing house for option contracts traded on the<br>Stock Exchange        |
| Stock Exchange Information Services Limited                         | Ordinary<br>\$100                            | Sale of stock market information  |
| Prime View Company Limited  | Ordinary<br>\$20                             | Property holding  |
| The Stock Exchange Club Limited                                     | Ordinary<br>\$8                              | Property holding  |
| The Stock Exchange Nominee Limited                                  | Ordinary<br>\$2                              | Nominee services  |
| HKFE Clearing Corporation Limited                                   | Ordinary<br>\$1,000,000                      | Operates a clearing house for derivatives contracts traded on<br>the Futures Exchange |
| HKFE Clearing Linkage Limited                                       | Ordinary<br>\$2                              | Dormant   |
| HKSCC Nominees Limited  | Ordinary<br>\$20                             | Acting as common nominee in respect of securities held in the<br>CCASS depository     |
| Hong Kong Registrars Limited<br>(formerly HKSCC Registrars Limited) | Ordinary<br>\$20                             | Acting as share registrar of companies listed in Hong Kong                            |

(Expressed in Hong Kong dollars)

## 22. SHARE CAPITAL

|                                  | 2000             |
|----------------------------------|------------------|
|                                  | \$'000           |
| Authorised:                      |                  |
| 2,000,000,000 shares of \$1 each | <u>2,000,000</u> |
| Issued and fully paid:           |                  |
| 1,040,664,846 shares of \$1 each | <u>1,040,665</u> |

HKEx was incorporated on 8 July 1999 in Hong Kong under the Hong Kong Companies Ordinance as a private company. As at the date of incorporation and as at 31 December 1999, the authorised share capital of HKEx was \$1,000 divided into 1,000 shares of \$1.00 each of which two were issued and fully paid at par.

Pursuant to a written resolution passed on 2 March 2000, the authorised share capital of HKEx was increased by 1,999,999,000 shares of \$1.00 each, ranking pari passu in all respects with the existing share capital of HKEx, to \$2,000,000,000.

Pursuant to the Scheme of Arrangement of the Stock Exchange between the Stock Exchange and the holders of Stock Exchange Scheme Shares and the Scheme of Arrangement of the Futures Exchange between the Futures Exchange and the holders of Futures Exchange Scheme Shares, both dated 3 September 1999, under section 166 of the Hong Kong Companies Ordinance and upon the redemption in cash of one non-voting redeemable share of \$10,000 in the Futures Exchange on 6 March 2000, HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries upon the effective date of the Schemes of Arrangement on 6 March 2000. A total of 1,040,664,844 shares, ranking pari passu with the existing shares, were allotted and issued as fully paid at \$3.88 per share together with a total cash consideration of \$107,418,405 paid to the holders of Stock Exchange Scheme Shares and the holders of Futures Exchange Scheme Shares on 6 March 2000 in accordance with the terms of the Schemes of Arrangement.

The Group has adopted merger accounting as stated in note 1(c)(ii) in the preparation of the consolidated accounts. As a result, HKEx and the Merged Subsidiaries were deemed to be in existence throughout the current and prior periods, instead of from the effective date of the merger on 6 March 2000. This has resulted in a deemed share capital of \$1,040,664,846 in the consolidated balance sheet as at 31 December 1999.

As at 31 December 2000, the outstanding options under the Pre-Listing Share Option Scheme of HKEx were:

| Date share options granted | Exercise price per share | Exercisable period         | Number of share options outstanding |
|----------------------------|--------------------------|----------------------------|-------------------------------------|
| 20 June 2000               | \$7.52                   | 6 March 2002 – 30 May 2010 | 30,589,240                          |



# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 23. REVALUATION RESERVES

|  | <b>Investment<br/>properties<br/>revaluation<br/>reserve<br/>\$'000</b> | <b>Other<br/>properties<br/>revaluation<br/>reserve<br/>\$'000</b> | <b>Group<br/>Investment<br/>revaluation<br/>reserve<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|--|---|--|--|-------------------------|
| At 1 January 1999  | 16,771  | 105,426  | (4,281)  | 117,916                 |
| Change in valuation of investment property                     | (8,500)   | –  | –  | (8,500)                 |
| Change in fair value of non-trading securities                 | –   | –  | (13,831)   | (13,831)                |
| Realisation on maturity and disposal of non-trading securities | –   | –  | 4,281  | 4,281                   |
|  | <hr/>   | <hr/>  | <hr/>  | <hr/>                   |
| At 31 December 1999  | 8,271   | 105,426  | (13,831)   | 99,866                  |
| Change in valuation of properties                              | (800)   | (62,520)   | –  | (63,320)                |
| Change in fair value of non-trading securities                 | –   | –  | 8,715  | 8,715                   |
| Realisation on maturity and disposal of non-trading securities | –   | –  | 39,092   | 39,092                  |
|  | <hr/>   | <hr/>  | <hr/>  | <hr/>                   |
| At 31 December 2000  | <u>7,471</u>  | <u>42,906</u>  | <u>33,976</u>  | <u>84,353</u>           |

The revaluation reserves are segregated for their respective specific purposes and are not available for distribution to shareholders.

(Expressed in Hong Kong dollars)

## 24. DESIGNATED RESERVES

|  | 2000           | 1999           |
|--|----------------|----------------|
|  | \$'000         | \$'000         |
| Clearing House Funds reserves (note a)             |                |                |
| - HKSCC Guarantee Fund reserve                     | 241,861        | 241,861        |
| - SEOCH Reserve Fund reserve                       | 35,132         | 35,132         |
| - HKCC Reserve Fund reserve                        | 197,162        | 197,162        |
|  | <hr/>          | <hr/>          |
|  | 474,155        | 474,155        |
| Compensation Fund Reserve Account reserve (note b) | 12,047         | 9,081          |
| CDMD Fund reserve (note c)                         | 914            | 914            |
| Development Reserves (note d)                      |                |                |
| - the Stock Exchange                               | 135,762        | 180,007        |
| - the Futures Exchange                             | -              | 6,235          |
| Other reserves (note e)                            | -              | -              |
|  | <hr/>          | <hr/>          |
|  | <u>622,878</u> | <u>670,392</u> |

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 24. DESIGNATED RESERVES (continued)

The directors of HKEx have resolved that these reserves be segregated for their specific purposes and are available for distribution to the shareholders in the future at the directors' discretion. Details of the movements on the reserves during the year are as follows:

### (a) Clearing House Funds reserves

|   | <b>HKSCC</b>     | <b>SEOCH</b>   | <b>HKCC</b>    |                |
|---|------------------|----------------|----------------|----------------|
|   | <b>Guarantee</b> | <b>Reserve</b> | <b>Reserve</b> |                |
|   | <b>Fund</b>      | <b>Fund</b>    | <b>Fund</b>    |                |
|   | <b>reserve</b>   | <b>reserve</b> | <b>reserve</b> | <b>Total</b>   |
|   | \$'000           | \$'000         | \$'000         | \$'000         |
| At 1 January 1999   | 30,988           | 29,341         | 165,836        | 226,165        |
| Change in fair value of non-trading securities            | –                | –              | (3,577)        | (3,577)        |
| Investment income net of expenses of Clearing House Funds |                  |                |                |                |
| transferred from retained earnings                        | 10,873           | 5,791          | 21,800         | 38,464         |
| Transfer from retained earnings                           | –                | –              | 13,103         | 13,103         |
| Transfer from Reserve for Guarantee Fund                  |                  |                |                |                |
| and Risk Management                                       | 200,000          | –              | –              | 200,000        |
|   | <u>241,861</u>   | <u>35,132</u>  | <u>197,162</u> | <u>474,155</u> |
| At 31 December 1999 and at 31 December 2000               | <u>241,861</u>   | <u>35,132</u>  | <u>197,162</u> | <u>474,155</u> |

### (b) Compensation Fund Reserve Account reserve

|  |               |
|--|---------------|
|  | \$'000        |
| At 1 January 1999  | 5,340         |
| Investment income net of expenses of Compensation Fund transferred from retained earnings  | <u>3,741</u>  |
| At 31 December 1999  | 9,081         |
| Write-back of overprovision for claims of prior years in Compensation Fund Reserve Account | <u>2,966</u>  |
| At 31 December 2000  | <u>12,047</u> |

(Expressed in Hong Kong dollars)

## 24. DESIGNATED RESERVES (continued)

### (c) CDMD Fund reserve

|   | \$'000     |
|---|------------|
| At 1 January 1999   | –          |
| Change in fair value of non-trading securities                                    | (392)      |
| Investment income net of expenses of CDMD Fund transferred from retained earnings | 7,385      |
| Transfer income of former clearing house from retained earnings                   | 7,024      |
| Transfer to retained earnings for commitment to the Compensation Fund             | (13,103)   |
|   | <hr/>      |
| At 31 December 1999 and at 31 December 2000                                       | <u>914</u> |

### (d) Development Reserves

|                               | <b>The Stock<br/>Exchange<br/>Development<br/>Reserve</b> | <b>The Futures<br/>Exchange<br/>Development<br/>Reserve</b> | <b>Total</b>   |
|-------------------------------|---|---|----------------|
|                               | \$'000  | \$'000  | \$'000         |
| At 1 January 1999             | 265,805   | 32,157  | 297,962        |
| Transfer to retained earnings | (85,798)  | (25,922)  | (111,720)      |
|                               | <hr/>   | <hr/>   | <hr/>          |
| At 31 December 1999           | 180,007   | 6,235   | 186,242        |
| Transfer to retained earnings | (44,245)  | (6,235)   | (50,480)       |
|                               | <hr/>   | <hr/>   | <hr/>          |
| At 31 December 2000           | <u>135,762</u>  | <u>–</u>  | <u>135,762</u> |

The reserves were set aside for systems development for the Stock Exchange and Futures Exchange.

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 24. DESIGNATED RESERVES (continued)

### (e) Other reserves

|   | Reserves set up by HKSCC           |                                     |                 |  | Reserve set up by the Stock Exchange | Total       |
|---|------------------------------------|-------------------------------------|-----------------|--|--------------------------------------|-------------|
|   | Reserve for Capital Infrastructure | Reserve for Project and Development | General Reserve | Reserve for Guarantee Fund and Risk Management | General Reserve-Property             |             |
|   | \$'000                             | \$'000                              | \$'000          | \$'000   | \$'000                               | \$'000      |
| At 1 January 1999                           | 450,000                            | 50,000                              | 300,000         | 300,000  | 150,000                              | 1,250,000   |
| Transfer from retained earnings             | –                                  | 50,000                              | 80,000          | –  | 100,000                              | 230,000     |
| Transfer to Clearing House Funds reserves   | –                                  | –                                   | –               | (200,000)                                      | –                                    | (200,000)   |
| Transfer to retained earnings               | (450,000)                          | (100,000)                           | (380,000)       | (100,000)                                      | (250,000)                            | (1,280,000) |
| At 31 December 1999 and at 31 December 2000 | –                                  | –                                   | –               | –  | –                                    | –           |

(i) Reserves set up by HKSCC

The reserves represent the amount of retained earnings set aside by HKSCC for investment in fixed assets, projects and development, providing additional resources to the CCASS Guarantee Fund and for general risk management purposes in support of CCASS and depository operations, and for making good any future temporary operating deficit in the profit and loss account of HKSCC as a result of shrinkage in stock market turnover.

(ii) Reserve set up by the Stock Exchange

This represents the amount of retained earnings set aside by the Stock Exchange for the purpose of acquiring office premises in the future.

(iii) The directors of HKSCC and the Stock Exchange resolved to transfer the balance of the reserves at 31 December 1999 to retained earnings as their requirements on reserves would be considered in conjunction with those of HKEx.

(Expressed in Hong Kong dollars)

## 25. MERGER RESERVE

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000 (note 22) as a merger reserve. In the consolidated balance sheet, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 26(c).

## 26. RETAINED EARNINGS/(ACCUMULATED LOSS)

|  | Group            |                  | HKEx           |                 |
|--|------------------|------------------|----------------|-----------------|
|  | 2000<br>\$'000   | 1999<br>\$'000   | 2000<br>\$'000 | 1999<br>\$'000  |
| At 1 January   | 2,305,633        | 1,799,182        | (12,507)       | —               |
| Transfer to Clearing House Funds reserves                                | —                | (13,103)         | —              | —               |
| Transfer income of former clearing house to CDMD Fund reserve            | —                | (7,024)          | —              | —               |
| Transfer from CDMD Fund reserve for commitment to the Compensation Fund  | —                | 13,103           | —              | —               |
| Transfer to other reserves   | —                | (230,000)        | —              | —               |
| Transfer from other reserves   | —                | 1,280,000        | —              | —               |
| Transfer from Development Reserves                                       | 50,480           | 111,720          | —              | —               |
| Investment income net of expenses of Compensation Fund Reserve           |                  |                  |                |                 |
| Account transferred to Compensation Fund Reserve Account reserve         | —                | (3,741)          | —              | —               |
| Investment income net of expenses of CDMD Fund transferred to            |                  |                  |                |                 |
| CDMD Fund reserve  | —                | (7,385)          | —              | —               |
| Investment income net of expenses of Clearing House Funds transferred to |                  |                  |                |                 |
| Clearing House Funds reserve   | —                | (38,464)         | —              | —               |
| Retained profit for the year (note a)                                    | 535,470          | 520,666          | 275,303        | (12,507)        |
| Elimination of reserve arising on consolidation (note c)                 | —                | (1,119,321)      | —              | —               |
|  | <u>2,891,583</u> | <u>2,305,633</u> | <u>262,796</u> | <u>(12,507)</u> |
| At 31 December   | <u>2,891,583</u> | <u>2,305,633</u> | <u>262,796</u> | <u>(12,507)</u> |

(a) The profit attributable to shareholders includes a profit of \$618,722,000 (1999: loss of \$12,507,000) which has been dealt with in the accounts of HKEx.

(b) The Group's profit after taxation includes the investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of \$35,671,000 (1999: \$49,590,000). Appropriations of the investment income net of expenses of the funds are at the discretion of the Board of Directors of HKEx.

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 26. RETAINED EARNINGS/(ACCUMULATED LOSS) (continued)

- (c) The reserve arising on consolidation of \$4,116,436,000, representing the difference between the cost of acquiring the Merged Subsidiaries and their respective issued share capital, was offset against merger reserve of \$2,997,115,000 (note 25) and retained earnings of \$1,119,321,000.

## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit before taxation to net cash inflow from operating activities

|   | 2000           | 1999           |
|---|----------------|----------------|
|   | \$'000         | \$'000         |
| Profit before taxation  | 984,690        | 557,159        |
| Interest income   | (609,755)      | (648,430)      |
| Interest expenses   | 195,428        | 174,863        |
| Unrealised exchange gain  | (415)          | –              |
| Depreciation and amortisation   | 177,450        | 150,197        |
| Loss on disposal of fixed assets  | 14,450         | 2,118          |
| Amount received from CDMD fund for payment to Compensation Fund         | 100,000        | –              |
| Decrease/(increase) in accounts receivable, prepayments and deposits    | 121,240        | (1,315,293)    |
| (Decrease)/increase in accounts payable, accruals and other liabilities | (379,498)      | 1,782,522      |
| Increase in deferred revenue  | 41,288         | 17,822         |
| Decrease in payable to the Compensation Fund                            | (200,000)      | (36,897)       |
|   | <hr/>          | <hr/>          |
| Net cash inflow from operating activities                               | <u>444,878</u> | <u>684,061</u> |

(Expressed in Hong Kong dollars)

## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Analysis of cash and cash equivalents

|  | 2000<br>\$'000          | 1999<br>\$'000          |
|--|-------------------------|-------------------------|
| Time deposits with original maturity within three months | 2,728,866               | 613,762                 |
| Cash at bank and in hand                                 | <u>321,781</u>          | <u>709,418</u>          |
| Cash and cash equivalents at the end of the year         | <u><u>3,050,647</u></u> | <u><u>1,323,180</u></u> |

- (c) The net assets in Clearing House Funds, Compensation Fund Reserve Account, CDMD Fund and margin funds are held in segregated accounts for specific purposes. Movements in individual items of the net assets of the funds during the year therefore do not constitute any cash or cash equivalent transactions to the Group except for the investment income net of expenses of these funds which has been accounted for as the Group's assets and profit.

## 28. COMMITMENTS

### (a) Commitments in respect of capital expenditure:

|                                   | Group                 |                       | HKEx                 |                 |
|-----------------------------------|-----------------------|-----------------------|----------------------|-----------------|
|                                   | 2000<br>\$'000        | 1999<br>\$'000        | 2000<br>\$'000       | 1999<br>\$'000  |
| Contracted but not provided for   | 3,181                 | 89,257                | –                    | –               |
| Authorised but not contracted for | <u>378,191</u>        | <u>152,725</u>        | <u>86,444</u>        | <u>–</u>        |
|                                   | <u><u>381,372</u></u> | <u><u>241,982</u></u> | <u><u>86,444</u></u> | <u><u>–</u></u> |

The commitments in respect of capital expenditure were mainly for the development and purchase of computer systems.



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(Expressed in Hong Kong dollars)

## 28. COMMITMENTS (continued)

### (b) Commitments for the total future minimum lease payments under operating leases in respect of:

|   | Group                 |                       | HKEx            |                 |
|---|-----------------------|-----------------------|-----------------|-----------------|
|   | 2000<br>\$'000        | 1999<br>\$'000        | 2000<br>\$'000  | 1999<br>\$'000  |
| Land and buildings, payable             |                       |                       |                 |                 |
| – within one year                       | 63,304                | 84,772                | –               | –               |
| – in the second to fifth years          | 197,919               | 207,526               | –               | –               |
| – after five years                      | 2,909                 | 52,307                | –               | –               |
|   | <u>264,132</u>        | <u>344,605</u>        | <u>–</u>        | <u>–</u>        |
| Computer systems and equipment, payable |                       |                       |                 |                 |
| – within one year                       | 55,189                | 66,381                | –               | –               |
| – in the second to fifth years          | 41,636                | 87,443                | –               | –               |
| – after five years                      | –                     | 23,625                | –               | –               |
|   | <u>96,825</u>         | <u>177,449</u>        | <u>–</u>        | <u>–</u>        |
|   | <u><u>360,957</u></u> | <u><u>522,054</u></u> | <u><u>–</u></u> | <u><u>–</u></u> |

(Expressed in Hong Kong dollars)

## 29. CONTINGENT LIABILITIES

### (a) Group

- (i) The Compensation Fund is a fund set up under the SO for the purpose of compensating any person dealing with a Stock Exchange Participant (other than another Stock Exchange Participant) for any pecuniary losses suffered as a result of defaults of the Stock Exchange Participant. According to Section 109(3) of the SO, the maximum compensation amount is \$8 million for each Stock Exchange Participant's default. Under the SO section 107(1), the Stock Exchange has contingent liabilities to the Compensation Fund as it shall replenish the Compensation Fund upon the SFC's request to do so. The amounts replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims. As at 31 December 2000, there were outstanding claims received in respect of 18 defaulted Stock Exchange Participants (1999: 9).

The SFC has recently published a paper entitled "Proposed New Investor Compensation Arrangements". If the proposals as set out in the paper are implemented, there would be a new single Investor Compensation Fund that would replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. The new arrangements would eliminate the existing requirements for exchange participant dealers to make deposits to the Dealers' Deposit Schemes. Existing deposits would be returned to the Exchanges and to non-exchange participant dealers. The arrangements would also remove the existing requirement for the Stock Exchange to replenish amounts paid from the Compensation Fund.

- (ii) In addition to the above, the Group has a contingent liability of up to \$50 million to the Compensation Fund. The Group agreed to commit an additional \$150 million to the Compensation Fund of which a total of \$100 million was paid out of the CDMD Fund in 1998 and 1999. The remaining \$50 million of the commitment will be satisfied by a transfer of funds that will be available on the winding up of the Hong Kong Futures Guarantee Corporation Limited. Should the funds expected to be received from the Hong Kong Futures Guarantee Corporation Limited not be sufficient to satisfy the payment of the said \$50 million, the Group would have to pay for the shortfall to the Compensation Fund.
- (iii) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of defaults of any one Participant. In the unlikely event that all of its 500 trading Participants as at 31 December 2000 (1999: 491) default, the maximum contingent liability of the Stock Exchange under the indemnity will amount to \$100 million (1999: \$98.2 million).
- (iv) Pursuant to Section 21 of the Exchanges and Clearing Houses (Merger) Ordinance, HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding \$50 million in the event of HKSCC being wound up while it is a wholly owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

# CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 29. CONTINGENT LIABILITIES (continued)

### (b) HKEx

Apart from the matter mentioned in (a)(iv) above, HKEx has given a guarantee to secure banking facilities granted to HKSCC since 13 December 2000. These facilities, on a committed basis of an aggregate amount of \$1.1 billion, were granted to HKSCC by five banks to provide stand-by liquidity to meet the obligations of HKSCC in CCASS in circumstances where CCASS Participants default on their payment obligations. As at 31 December 2000, none of these banking facilities was utilised.

## 30. MATERIAL RELATED PARTY TRANSACTIONS

Certain directors of HKEx are directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (Exchange Participants) and Clearing Participants; (ii) companies listed on the Stock Exchange; and (iii) buy-in brokers. Securities and derivatives contracts traded by, and fees levied on these Exchange Participants and Clearing Participants, fees levied on these listed companies and fees paid to these buy-in brokers are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants and Clearing Participants, listed companies and buy-in brokers.

## 31. OFF BALANCE SHEET RISKS

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the cash and derivatives markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

The Group mitigates its exposure to risks by requiring the Participants to meet the Group's established financial requirements and criteria for admission as participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. HKSCC also retains recourse against the depositing Participants. Moreover, insurance has been taken out by the Group to cover the risks described above.

(Expressed in Hong Kong dollars)

### **32. BANKING FACILITIES WITH ASSETS PLEDGED**

- (a) The Group had a \$10 million overdraft facility with a bank in Hong Kong, which was secured by a pledge of the Group's time deposits of an equivalent amount at that bank. As at 31 December 2000 and 31 December 1999, this overdraft was not utilised.
- (b) In 1999, \$1 billion of banking facilities granted by ten banks on a committed basis to HKSCC were secured by a debenture creating a floating charge over its assets. Such banking facilities were to provide stand-by liquidity to meet the obligations of HKSCC in CCASS in circumstances where CCASS Participants default on their payment obligations. These banking facilities were not utilised as at 31 December 1999 and were terminated on 12 December 2000 and replaced by the banking facilities mentioned in note 29(b).