

# C ONDENSED CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

	Note	<b>Unaudited</b> <b>Six months ended</b> <b>30 Jun 2000</b> <b>\$'000</b>	Unaudited Six months ended 30 Jun 1999 \$'000
<b>TURNOVER</b>			
Transaction levy, trading tariff and trading fees	4	<b>326,000</b>	187,592
Stock Exchange listing fees		<b>125,668</b>	96,938
Clearing and settlement fees		<b>175,848</b>	80,893
Depository, custody and nominee service fees		<b>118,565</b>	54,587
Income on providing information		<b>171,470</b>	111,629
Net interest income	5	<b>228,780</b>	230,836
Other income		<b>80,363</b>	57,832
	3	<b>1,226,694</b>	820,307
<b>OPERATING EXPENSES</b>			
Staff costs and related expenses		<b>262,497</b>	266,964
Information technology and computer maintenance expenses		<b>96,770</b>	102,466
Premises expenses		<b>47,661</b>	56,248
Product marketing and promotion expenses		<b>19,112</b>	17,970
Legal and professional fees		<b>16,705</b>	21,012
Depreciation and amortisation		<b>100,264</b>	74,307
Other operating expenses		<b>35,124</b>	40,025
Merger, listing and integration expenses	6	<b>21,735</b>	26,990
		<b>599,868</b>	605,982
<b>PROFIT BEFORE TAXATION</b>	3	<b>626,826</b>	214,325
<b>TAXATION</b>	7	<b>(72,428)</b>	(1,033)
<b>PROFIT AFTER TAXATION AND ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>554,398</b>	213,292
		<b>\$</b>	<b>\$</b>
<b>Basic earnings per share</b>	8	<b>0.53</b>	0.20
		<b>\$</b>	<b>\$</b>
<b>Interim dividend per share</b>	9	<b>0.08</b>	–

# CONDENSED CONSOLIDATED BALANCE SHEET

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(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2000 \$'000	Unaudited At 31 Dec 1999 \$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	10	670,343	620,171
Clearing House Funds	11	887,123	887,935
Compensation Fund Reserve Account	12	66,735	72,141
Cash and Derivatives Market Development Fund	13	101,307	100,914
Non-trading securities held for investment maturing over one year		473,217	516,587
		<b>2,198,725</b>	<b>2,197,748</b>
<b>CURRENT ASSETS</b>			
Margin funds on derivatives contracts	14	5,256,428	5,860,064
Accounts receivable, prepayments and deposits	15	2,916,927	2,831,026
Taxation recoverable		-	11,823
Non-trading securities held for investment maturing within one year		298,478	293,541
Bank balances and time deposits		3,419,257	3,296,804
		<b>11,891,090</b>	<b>12,293,258</b>
<b>CURRENT LIABILITIES</b>			
Bank borrowings under repurchase agreements for margin funds	14	305,100	204,433
Margin deposits received from participants on derivatives contracts	14	4,951,328	5,655,631
Accounts payable, accruals and other liabilities	15	3,161,957	3,456,295
Deferred revenue		123,981	191,748
Taxation payable		98,731	28,343
Payable to the Unified Exchange Compensation Fund		150,000	200,000
		<b>8,791,097</b>	<b>9,736,450</b>
<b>NET CURRENT ASSETS</b>		<b>3,099,993</b>	<b>2,556,808</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,298,718</b>	<b>4,754,556</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation		56,444	52,860
Participants' admission fees received		111,050	108,300
Participants' contributions to Clearing House Funds	11	409,390	413,780
Amount reserved for successful claims in Compensation Fund Reserve Account	12	55,060	63,060
		<b>631,944</b>	<b>638,000</b>
<b>NET ASSETS</b>		<b>4,666,774</b>	<b>4,116,556</b>
<b>CAPITAL AND RESERVES</b>			
Issued share capital	16	1,040,665	1,040,665
Revaluation reserves	17	89,131	99,866
Non-distributable reserves and other capital	18	718,569	670,392
Retained earnings	19	2,818,409	2,305,633
		<b>4,666,774</b>	<b>4,116,556</b>

# C ONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in Hong Kong dollars)

		<b>Unaudited</b>	Unaudited
		<b>Six months ended</b>	Six months ended
		<b>30 Jun 2000</b>	30 Jun 1999
	Note	<b>\$'000</b>	\$'000
<b>NET CASH INFLOW/(OUTFLOW)</b>			
<b>FROM OPERATING ACTIVITIES</b>	20(a)	<b>56,595</b>	(100,727)
<b>RETURNS ON INVESTMENTS AND</b>			
<b>SERVICING OF FINANCE</b>			
Interest received less interest paid		<b>264,632</b>	175,993
Net cash inflow from returns on investments and servicing of finance		<b>264,632</b>	175,993
<b>TAXATION</b>			
Hong Kong profits tax paid		<b>(1,997)</b>	(6,869)
Refund on profits tax		<b>15,364</b>	12,785
Net cash inflow from taxation		<b>13,367</b>	5,916
<b>INVESTING ACTIVITIES</b>			
Payments for purchase of fixed assets		<b>(153,609)</b>	(94,579)
Cash paid as part of the consideration in exchange for the equity interests in the subsidiaries		<b>(107,418)</b>	–
Decrease/(increase) in non-trading securities held for investment maturing over 1 year		<b>42,365</b>	(412,906)
Decrease/(increase) in time deposits maturing in 3 months or more when acquired		<b>811,857</b>	(540,076)
Net cash inflow/(outflow) from investing activities		<b>593,195</b>	(1,047,561)
Net cash inflow/(outflow) before financing		<b>927,789</b>	(966,379)

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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(Expressed in Hong Kong dollars)

	<b>Unaudited</b>	Unaudited
	<b>Six months ended</b>	Six months ended
	<b>30 Jun 2000</b>	30 Jun 1999
Note	<b>\$'000</b>	\$'000
<b>FINANCING</b>		
Admission fees received less refunds to participants	<b>2,750</b>	(2,050)
Redemption of non-voting redeemable share by a subsidiary	<b>(10)</b>	–
Net cash inflow/(outflow) from financing	<u><b>2,740</b></u>	<u>(2,050)</u>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	<b>930,529</b>	(968,429)
Cash and Cash Equivalents at the beginning of the period	<u><b>1,016,764</b></u>	<u>1,371,367</u>
Cash and Cash Equivalents at the end of the period	<u><b>1,947,293</b></u>	<u>402,938</u>
	20(b)	

# C ONDENSED CONSOLIDATED RECOGNISED GAINS AND LOSSES STATEMENT

(Expressed in Hong Kong dollars)	<b>Unaudited</b> <b>Six months ended</b> <b>30 Jun 2000</b> <b>\$'000</b>	Unaudited Six months ended 30 Jun 1999 \$'000
Unrealised deficit on revaluation of investment properties	–	(8,600)
Unrealised deficit on change in fair value of non-trading securities	<b>(20,992)</b>	(3,050)
Write back of over provision for claims of prior years in Compensation Fund Reserve Account	<b>2,594</b>	–
Net losses not recognised in the Condensed Consolidated Income Statement	<b>(18,398)</b>	(11,650)
Profit after taxation and attributable to shareholders	<b>554,398</b>	213,292
Investment revaluation reserve realised on disposal of non-trading securities debited to Condensed Consolidated Income Statement	<b>14,218</b>	–
Total recognised gains	<b>550,218</b>	201,642

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



(Amounts expressed in Hong Kong dollars)

## 1. Status of the Organisation

Hong Kong Exchanges and Clearing Limited (“HKEx”) was incorporated on 8 July 1999 in Hong Kong under the Companies Ordinance and is a recognised exchange controller under the Exchanges and Clearing Houses (Merger) Ordinance (the “Merger Ordinance”). Pursuant to two schemes of arrangement each dated 3 September 1999 (“Schemes of Arrangement”), HKEx became the holding company of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), Hong Kong Futures Exchange Limited (“the Futures Exchange”), and the indirect holding company of The SEHK Options Clearing House Limited (“SEOCH”) and HKFE Clearing Corporation Limited (“HKCC”). Hong Kong Securities Clearing Company Limited (“HKSCC”) became a wholly-owned subsidiary of HKEx as provided under the Merger Ordinance. The aforesaid five direct and indirect wholly-owned subsidiaries together with their wholly-owned subsidiaries are hereinafter referred to as the “Merged Subsidiaries”. HKEx and its Merged Subsidiaries are collectively named as “the Group”. The Stock Exchange has the exclusive right under the Stock Exchanges Unification Ordinance to operate and maintain a stock market in Hong Kong and the Futures Exchange is licensed under the Commodities Trading Ordinance to establish and operate a commodity exchange. HKSCC, SEOCH and HKCC are recognised under the Securities and Futures (Clearing Houses) Ordinance.

HKEx was listed on the Stock Exchange on 27 June 2000 by way of introduction.

# **N**OTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## **2. Principal Accounting Policies**

These unaudited interim accounts have been prepared according to the same accounting policies and methods of computation as set out in the Accountants' Report of HKEx's listing document issued on 22 June 2000 ("Accountants' Report") except for the basis of consolidation and reclassification of turnover as stated in note 2(b) and note 2(c) below. Other principal accounting policies which have been adopted by HKEx in the preparation of these unaudited interim accounts are stated below.

### **(a) Statement of compliance**

These unaudited interim accounts have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

### **(b) Basis of consolidation**

- (i) The consolidated accounts included the accounts of the Group made up to 30 June 2000. All material intra-group transactions and balances are eliminated on consolidation.
- (ii) The Group has adopted merger accounting in preparing the condensed consolidated accounts. The condensed 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 period ended 30 June 1999 have been prepared on the same basis.

The financial information of the Group presented in the Accountants' Report was prepared on a combined basis. This change in the basis of preparation resulted in reduction of \$107,418,000 in net assets as at 31 December 1999 presented in this interim report. Such amount represented the total cash consideration payable to holders of Stock Exchange Scheme Shares and holders

## NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



of the Futures Exchange Scheme Shares on 6 March 2000 in accordance with the terms of the Schemes of Arrangement.

Except for HKEx's own accounts which were included in the condensed consolidated accounts since its date of incorporation on 8 July 1999, the condensed consolidated accounts included all the subsidiaries accounts for each of the six months ended 30 June 1999 and 30 June 2000.

### **(c) Reclassification of turnover**

Gross interest income was included as turnover in the Accountants' Report whereas net interest income was adopted in this interim report. Net interest income included in the turnover represents gross interest income from bank deposits and non-trading securities, realised gains and losses on non-trading securities, offset against interest expenses payable to participants on margin funds received and other collaterals.

Since the majority of interest income is composed of the interest income earned from the margin funds and interest expenses mainly represent the interest paid to participants who contribute to the margin funds, the Directors are of the opinion that the net interest income can present a fairer picture of the turnover of the Group.

In addition, included in other income in the Accountants' Report of unclaimed brokerage in the Stock Exchange, amount received from former clearing house, rental income and miscellaneous income have also been reclassified as the turnover of the Group in this report.

If the turnover had been stated on the same basis as that adopted in the Accountants' Report, the turnover for the six months ended 30 June 2000 and 30 June 1999 would be \$1,330 million and \$903 million respectively.



# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 3. Principal Activities of Operations

All the Group's revenue is derived from business activities in Hong Kong. An analysis of the Group's turnover and contribution to operating profit for the period by line of business is as follows:

	Turnover		Operating profit before tax	
	Six months ended 30 Jun (unaudited)			
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Cash market	<b>691,726</b>	433,255	<b>359,220</b>	128,537
Derivatives market	<b>171,584</b>	200,108	<b>66,992</b>	74,933
Clearing business	<b>363,258</b>	186,944	<b>222,383</b>	37,845
Others	<b>126</b>	–	<b>(21,769)</b>	(26,990)
	<b>1,226,694</b>	820,307	<b>626,826</b>	214,325

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

The **derivatives market** business refers to the operations of the Futures Exchange which includes 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 fee imposed and the net interest income earned 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. Its income primarily comes from the fees charged on providing the clearing, settlement, depository and nominee services.

**Others** refer to miscellaneous items which are mainly merger and integration expenses.

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



## 4. Transaction Levy, Trading Tariff and Trading Fees

	<b>Unaudited</b>	
	<b>Six months ended 30 Jun</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Transaction levy, trading tariff and trading fees are derived from:		
Securities and options traded on the Stock Exchange	<b>284,072</b>	122,968
Derivatives contracts traded on the Futures Exchange	<b>41,928</b>	64,624
	<b>326,000</b>	187,592

## 5. Net Interest Income

	<b>Unaudited</b>	
	<b>Six months ended 30 Jun</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Interest income from bank deposits and non-trading securities	<b>349,367</b>	322,060
Realisation of (premiums)/discounts on non-trading securities upon disposal	<b>(19,224)</b>	2,267
	<b>330,143</b>	324,327
Interest expenses payable to participants on margin funds received and other collaterals	<b>(101,363)</b>	(93,491)
	<b>228,780</b>	230,836

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 6. Merger, Listing and Integration Expenses

	<b>Unaudited</b>	
	<b>Six months ended 30 Jun</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Merger expenses	<b>6,443</b>	26,990
Listing expenses	<b>12,052</b>	–
Integration expenses	<b>3,240</b>	–
	<b>21,735</b>	26,990

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

## 7. Taxation

The amount of taxation charge in the Condensed Consolidated Income Statement represents:

	<b>Unaudited</b>	
	<b>Six months ended 30 Jun</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Hong Kong profits tax for the period	<b>73,091</b>	6,773
(Over)/under provision of Hong Kong profits tax in prior years	<b>(4,247)</b>	5,115
Transfer to deferred taxation	<b>3,584</b>	1,930
	<b>72,428</b>	13,818
10% Hong Kong profits tax rebate	–	(12,785)
	<b>72,428</b>	1,033

Hong Kong profits tax has been provided for at 16% (1999: 16%) on the estimated assessable profits for the period.

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



## 8. Earnings Per Share

The calculation of basic earnings per share is based on profit after taxation and attributable to shareholders for the period of \$554,398,000 (1999: \$213,292,000) and on the assumption that the 1,040,664,846 shares were in issue as set out in note 16 throughout the six-month periods ended 30 June 2000 and 30 June 1999.

The share options granted during the period as set out in note 16 to the accounts did not have material dilutive effect on the basic earnings per share.

## 9. Interim Dividend

Interim dividend declared for the year ending 31 December 2000 and payable on 12 October 2000 has not been incorporated in these interim accounts and amounts to about \$83 million (1999: nil).

## 10. Fixed Assets

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the six months to 30 June 2000 was \$154 million of which \$117 million or 76% was on computer systems, hardwares and softwares.

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 11. Clearing House Funds

	<b>Unaudited At 30 Jun 2000 \$'000</b>	Unaudited At 31 Dec 1999 \$'000
Net asset values of Clearing House Funds are as follows:		
HKSCC Guarantee Fund	<b>353,251</b>	356,141
SEOCH Reserve Fund	<b>114,132</b>	114,132
HKCC Reserve Fund	<b>419,740</b>	417,662
	<b>887,123</b>	887,935
The Clearing House Funds are composed of:		
Unlisted non-trading securities with a Moody's credit rating of single A or higher, at fair value		
- Debt securities	<b>113,292</b>	75,198
- Fixed rate Hong Kong dollar instruments	<b>165,798</b>	218,991
- Professionally managed debt securities portfolio	<b>100,000</b>	100,000
Contributions receivable from participants	<b>29,560</b>	31,050
Other receivables	<b>6,133</b>	9,307
Bank balances and time deposits	<b>498,492</b>	460,356
	<b>913,275</b>	894,902
Less: Accounts payable	<b>(26,152)</b>	(6,967)
	<b>887,123</b>	887,935
The Clearing House Funds are funded by:		
Participants' contributions	<b>409,390</b>	413,780
Clearing house contributions and accumulated income	<b>477,733</b>	474,155
	<b>887,123</b>	887,935

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



## 12. Compensation Fund Reserve Account

	<b>Unaudited</b>	Unaudited
	<b>At</b>	At
	<b>30 Jun 2000</b>	31 Dec 1999
	<b>\$'000</b>	\$'000
Net asset value of the Stock Exchange's Compensation Fund Reserve Account	<b>66,735</b>	72,141
The Account is composed of:		
Additional contributions receivable from the Stock Exchange participants	<b>29,460</b>	30,108
Other receivables	<b>197</b>	1,285
Bank balances and time deposits	<b>40,546</b>	42,798
	<b>70,203</b>	74,191
Less: Accounts payable	<b>(3,468)</b>	(2,050)
	<b>66,735</b>	72,141
It represents:		
Amount reserved for successful claims	<b>55,060</b>	63,060
Accumulated income	<b>11,675</b>	9,081
	<b>66,735</b>	72,141

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 13. Cash and Derivatives Market Development Fund

	<b>Unaudited</b>	Unaudited
	<b>At</b>	At
	<b>30 Jun 2000</b>	31 Dec 1999
	<b>\$'000</b>	\$'000
Net asset value of HKCC's Cash and Derivatives Market Development Fund	<b>101,307</b>	100,914
The Fund is composed of:		
Unlisted non-trading securities with a Moody's credit rating of single A or higher, at fair value		
- Debt securities	-	39,451
- Fixed rate Hong Kong dollar instruments	<b>97,626</b>	60,619
Bank balances and time deposits	<b>4,124</b>	844
	<b>101,750</b>	100,914
Less: Accounts payable	<b>(443)</b>	-
	<b>101,307</b>	100,914
It represents:		
Payable to the Unified Exchange Compensation Fund	<b>100,000</b>	100,000
Accumulated income	<b>1,307</b>	914
	<b>101,307</b>	100,914

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



## 14. Margin Funds on Derivatives Contracts

	<b>Unaudited</b>	Unaudited
	<b>At</b>	At
	<b>30 Jun 2000</b>	31 Dec 1999
	<b>\$'000</b>	\$'000
The margin funds comprise:		
SEOCH clearing participants' margin fund	<b>526,301</b>	1,001,961
HKCC clearing participants' margin fund	<b>4,730,127</b>	4,858,103
	<b>5,256,428</b>	5,860,064
The assets of the margin funds comprise:		
Bank balances and time deposits	<b>1,797,236</b>	2,124,733
Listed securities at market value deposited as alternatives to cash deposits	<b>215,076</b>	329,848
Receivable arising on exercise of stock options	<b>743</b>	2,406
Unlisted non-trading securities, at fair value		
- Money market fund with a Moody's credit rating of Aaa	<b>821,521</b>	801,832
- Debt securities with a Moody's credit rating of single A or higher	-	430,622
- Fixed rate Hong Kong dollar instruments with a Moody's credit rating of single A or higher	<b>2,421,852</b>	2,170,623
	<b>5,256,428</b>	5,860,064
They represent:		
Bank borrowings under repurchase agreements for financing margin funds	<b>305,100</b>	204,433
Margin deposits received from clearing participants	<b>4,951,328</b>	5,655,631
	<b>5,256,428</b>	5,860,064



# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 15. Accounts Receivable, Prepayments and Deposits and Accounts Payable, Accruals and Other Liabilities

The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities amounted to \$2.9 billion (1999: \$2.8 billion) and \$3.2 billion (1999: \$3.5 billion) respectively. These are mainly represented by the Group's continuous net settlement ("CNS") money positions under the T+2 settlement cycle. The Group's CNS money positions represented 89% (1999: 84%) of the total accounts receivable, prepayments and deposits and 82% (1999: 64%) of the total accounts payable, accruals and other liabilities.

## 16. Share Capital

The authorised share capital of HKEx is 2 billion shares of \$1 each.

	<b>HKEx and Group</b>	
	<b>Number of shares</b>	<b>Nominal value \$</b>
Issued and fully paid:		
At the date of incorporation on 8 July 1999	2	2
Shares issued in exchange for the 100% equity interests		
- in the Stock Exchange	731,262,096	731,262,096
- in the Futures Exchange	309,402,748	309,402,748
	<u>1,040,664,846</u>	<u>1,040,664,846</u>

Details of the changes in HKEx's share capital are set out in Appendix IV of HKEx's listing document issued on 22 June 2000.

At 30 June 2000, the outstanding options under executives share option scheme of HKEx were:

<u>Date share options granted</u>	<u>Exercisable period</u>	<u>Exercise price per share</u>	<u>Number of share options outstanding at period end</u>
20 June 2000	6 March 2002 - 30 May 2010	\$7.52	36,423,269

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



## 17. Revaluation Reserves

	<b>Unaudited</b>	Unaudited
	<b>At</b>	At
	<b>30 Jun 2000</b>	31 Dec 1999
	<b>\$'000</b>	\$'000
Revaluation surplus on investment property	<b>113,697</b>	113,697
Deficit on change in fair value of non-trading securities	<b>(24,566)</b>	(13,831)
	<b>89,131</b>	99,866

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

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 18. Non-distributable Reserves and Other Capital

	<b>Unaudited</b>	Unaudited
	<b>At</b>	At
	<b>30 Jun 2000</b>	31 Dec 1999
	<b>\$'000</b>	\$'000
Clearing House Funds reserves		
- HKSCC Guarantee Fund	<b>241,861</b>	241,861
- SEOCH Reserve Fund	<b>35,132</b>	35,132
- HKCC Reserve Fund	<b>200,740</b>	197,162
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	<b>477,733</b>	474,155
Compensation Fund Reserve Account reserve	<b>11,675</b>	9,081
Cash and Derivatives Market Development		
Fund reserve	<b>1,307</b>	914
Development Reserves		
- the Stock Exchange	<b>227,854</b>	180,007
- the Futures Exchange	<b>-</b>	6,235
	<hr/>	<hr/>
	<b>718,569</b>	670,392
	<hr/> <hr/>	<hr/> <hr/>

The Group's profit before taxation has included the operating surplus of HKSCC Guarantee Fund, SEOCH Reserve Fund, HKCC Reserve Fund, Compensation Fund Reserve Account and Cash and Derivatives Market Development Fund for an aggregate amount of \$25,751,000 (1999: \$23,765,000). No appropriation of the Funds' operating surplus for the interim period has been made by the Directors to non-distributable reserves. Appropriations of the operating surplus of the Funds will be at the discretion of the Board of Directors.

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



## 19. Retained Earnings

Movements of retained earnings during the interim period are as follows:

	<b>Unaudited \$'000</b>
Balance at 31 December 1999 (note)	2,305,633
Profit for the period	554,398
Other reserves movements	<u>(41,622)</u>
Balance at 30 June 2000	<u><u>2,818,409</u></u>

*Note:* The Group has adopted merger accounting in the preparation of the condensed consolidated accounts as explained in note 2(b)(ii) to the accounts. As a result, the merger reserve arising on consolidation of \$1,119,321,000 was offset against retained earnings.

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## 20. Cash Flow Statement Analysis

	<b>Unaudited</b>	
	<b>Six months ended 30 Jun</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
(a) Reconciliation of Profit Before Taxation to Net Cash Inflow/(Outflow) from Operating Activities		
Profit before taxation for the period	<b>626,826</b>	214,325
Interest income	<b>(349,367)</b>	(322,060)
Interest expenses	<b>101,363</b>	93,491
Depreciation and amortisation	<b>100,264</b>	74,307
Loss on disposal of fixed assets	<b>3,846</b>	2,819
Increase in current assets	<b>(83,305)</b>	(1,616,867)
(Decrease)/increase in current liabilities	<b>(343,032)</b>	1,453,258
Net cash inflow/(outflow) from operating activities for the period	<b>56,595</b>	(100,727)
(b) Analysis of Cash and Cash Equivalents		
Time deposits maturing less than 3 months when acquired	<b>1,662,148</b>	171,697
Bank balances	<b>285,145</b>	231,241
Cash and cash equivalents at the end of the period	<b>1,947,293</b>	402,938
(c) Major non-cash transactions		

The net assets in Clearing House Funds, Compensation Fund Reserve Account, Cash and Derivatives Market Development Fund and margin funds are held in segregated accounts for their respective specific purposes. Movements of the individual items of the net assets of the funds during the period therefore does not constitute any cash and cash equivalent transactions to the Group.

The interest income arising from the investments held by these funds has been accounted for as the Group's assets and profit. Therefore, the corresponding cash transactions have been accounted for in the cash flow statement.

# NOTES TO THE CONDENSED CONSOLIDATED ACCOUNT



## 21. Commitments

	<b>Unaudited</b>	Unaudited
	<b>At</b>	At
	<b>30 Jun 2000</b>	31 Dec 1999
	<b>\$'000</b>	\$'000
(a) Commitments in respect of capital expenditure	<b>154,811</b>	241,982

The capital expenditure is mainly for development and purchase of computer systems.

	<b>Unaudited</b>	Unaudited
	<b>At</b>	At
	<b>30 Jun 2000</b>	31 Dec 1999
	<b>\$'000</b>	\$'000
(b) Commitments for the total future minimum lease payments under operating leases in respect of:		
Land and buildings, payable		
- within one year	<b>85,339</b>	64,898
- in the second to fifth years	<b>200,142</b>	227,127
- after five years	<b>26,684</b>	52,307
	<b>312,165</b>	344,332
Computer systems and equipment, payable		
- within one year	<b>57,862</b>	66,381
- in the second to fifth years	<b>70,263</b>	87,443
- after five years	<b>20,143</b>	23,625
	<b>148,268</b>	177,449
	<b>460,433</b>	521,781

The above disclosure of the total future minimum lease payments under operating leases is in accordance with the revised SSAP No.14 issued in February 2000.

# **N**OTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

## **22. Contingent Liabilities**

- (a) The Group has committed to make a special contribution of \$50 million (1999: \$50 million) to the Unified Exchange Compensation Fund. Outstanding claims to the Fund amounted to \$112 million (1999: \$72 million).
  
- (b) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from underpayment or non-payment of stamp duty by the Stock Exchange trading participants for a maximum of \$100 million (1999: \$98 million).

## **23. Related Party Transactions**

The material transactions between the Group and related parties which were conducted on normal commercial terms in the ordinary and usual course of business of the Group include transactions with holders of Trading Rights, Exchange Participants and Clearing Participants, transactions with listing applicants, listed companies and buy-in brokers.