

The following is the text of a report, prepared for the purpose of incorporation in this document, from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



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22nd June, 2000

The Directors
Hong Kong Exchanges and Clearing Limited
HSBC Investment Bank Asia Limited
Merrill Lynch Far East Limited
Morgan Stanley Dean Witter Asia Limited

Dear Sirs

We set out below our report on the financial information for Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 1999 (the "Relevant Periods") for inclusion in the document for introduction of the entire issued share capital of the Company dated 22nd June, 2000 (the "Document").

The Company was incorporated in Hong Kong on 8th July, 1999. Pursuant to two schemes of arrangement (the "Schemes") each dated 3rd September, 1999, as detailed in Appendix IV of the Document, which became effective on 6th March, 2000, the Company became the holding company of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its subsidiaries (the "Stock Exchange Group") and Hong Kong Futures Exchange Limited (the "Futures Exchange") and its subsidiaries (the "Futures Exchange Group").

Pursuant to section 21 of the Exchanges and Clearing Houses (Merger) Ordinance, Hong Kong Securities Clearing Company Limited ("HKSCC") was converted from a company limited by guarantee to a company limited by shares on 6th March, 2000 after the amendment of its constitution and the Company also became the holding company of HKSCC and its subsidiaries (the "HKSCC Group"). Further details are set out in Appendix IV of the document.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 5 below, all of which are private companies incorporated in Hong Kong.

The Company adopted 30th June as its year end date on 27th July, 1999. Subsequently, the Company changed its year end date to 31st December and prepared its first set of audited accounts as at 31st December, 1999. We have prepared our report on the financial information set out below using 31st December as the financial year end date for the Relevant Periods.

Previously the Stock Exchange Group and the HKSCC Group adopted 30th June as their financial year end date. They have changed their year end date to 31st December so as to be coterminous with the Company. The effect of this has been disclosed in the Statement of Adjustments submitted to the Securities and Futures Commission ("SFC").

The accounts of the Stock Exchange Group for the years ended 30th June, 1997 and 30th June, 1998 were audited by Arthur Andersen & Co. and for the year ended 30th June, 1999 and for the six month period ended 31st December, 1999 by Ernst & Young. The accounts of the HKSCC Group for the three years ended 30th June, 1999 and for the six month period ended 31st December, 1999 were audited by KPMG (known as KPMG Peat Marwick before 19th November, 1998).

The accounts of the Futures Exchange Group for the year ended 31st December, 1997 were audited by Coopers & Lybrand and for the two years ended 31st December, 1998 and 1999 were audited by PricewaterhouseCoopers. On 1st October, 1998, Coopers & Lybrand merged their practice with Price Waterhouse and now practise in the name of PricewaterhouseCoopers.

We have audited the first set of accounts of the Company from its date of incorporation to 31st December, 1999.

We have examined the audited accounts or, where appropriate, the management accounts of all companies now comprising the Group for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the Relevant Periods and of the combined net assets of the Group as at 31st December, 1999 (the "Summaries"), have been prepared based on the audited accounts or, where appropriate, management accounts of all companies now comprising the Group, on the basis set out in Note 1 below, after making all adjustments that we considered necessary.

Regarding the audited accounts of the companies comprising the Group, the directors of the respective companies are responsible for preparing their companies' accounts which give a true and fair view during the Relevant Periods. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the financial information in Notes 1 to 7 below. It is our responsibility to form an independent opinion on the combined results of the Group for the Relevant Periods and the combined net assets of the Group as at 31st December, 1999.

In our opinion, the Summaries set out below together with the Notes thereto, for the purpose of this report and prepared on the basis set out in Note 1 below, give a true and fair view of the combined results of the Group for the Relevant Periods and of the combined net assets of the Group as at 31st December, 1999.

1. BASIS OF PREPARATION

The summary of combined results of the Group for the Relevant Periods includes the results of the companies comprising the Group as if the current group structure had been in existence throughout the Relevant Periods.

The summary of combined net assets of the Group as at 31st December, 1999 has been prepared to present the assets and liabilities of the Group as at that date as if the current group structure had been in existence at that date.

All significant intra-group transactions and balances have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants, are as follows:

(a) Revenue recognition

The Group recognises income on the following basis:

Transaction levies and trading tariffs for securities traded on the Stock Exchange are recognised on a trade date basis.

Trading fees on derivatives contracts traded on the Futures Exchange are recognised on the day when the derivatives contracts are entered into.

Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on outstanding contracts at the official final settlement day.

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.

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.

Interest income is recognised on a time apportionment basis, taking into account the principal outstanding and applicable interest rates.

Income from providing information and from annual listing fees is recognised on a straight line basis over the period covered by the respective fees received in advance.

Other fees are recognised when the related services are rendered.

Rental income is recognised on an accrual basis.

(b) Clearing House Funds

Clearing Houses refer to HKSCC, HKFE Clearing Corporation Limited ("HKCC") and The SEHK Options Clearing House Limited ("SECH"). Clearing Participants are those persons who are authorised by the Clearing Houses to clear trades through systems and facilities provided by them.

The net assets of the Clearing House Funds are included on the balance sheet as non-current assets which are derived from contributions from Clearing Participants, contributions from the respective Clearing Houses and the accumulated income of the investments comprising these funds. The contributions from Clearing Participants are included in the balance sheet as long-term liabilities to the Clearing Participants. The contributions from the respective Clearing Houses and the accumulated income of these funds are included in the balance sheet as non-distributable reserves.

The accumulated income (arising from bank deposits and investments comprising these funds) and the expenses incurred for these funds are dealt with in the profit and loss account. Annual operating income of these funds for the Relevant Periods and prior years were appropriated from retained earnings to the designated non-distributable reserves for the purposes of these funds. Future contributions to and appropriations from any future operating income of the Clearing House Funds will be at the discretion of the Board of directors.

(c) Compensation Fund Reserve Account

The Unified Exchange Compensation Fund ("Compensation Fund") is a fund set up under the Securities Ordinance for the purpose of compensating any person dealing with a Stock Exchange Participant (other than another Stock Exchange Participant or a recognised clearing house within the meaning of the Clearing Houses Ordinance) for any pecuniary loss suffered as a result of failure of the Stock Exchange Participant to perform

a legal obligation in connection with its stockbroking business. A Stock Exchange Participant is a person who is authorised by the Stock Exchange under its rules to trade on or through its facilities. The Stock Exchange is required by the Securities Ordinance to deposit with the SFC and keep deposited HK\$50,000 in respect of each Stock Exchange Trading Right in the Compensation Fund. The SFC is responsible for maintaining the Compensation Fund.

The Stock Exchange maintains an account known as the Compensation Fund Reserve Account for all receipts and payments in relation to the Compensation Fund under the Rules of the Stock Exchange.

The income arising from bank deposits and investments comprising this account and the expenses incurred for this account are dealt with in the profit and loss account. The annual operating income of this account is appropriated from retained earnings to a designated non-distributable reserve for the purpose of the Compensation Fund Reserve Account.

(d) Cash and Derivatives Market Development Fund

This fund was established by the cash received from The Hong Kong Futures Guarantee Corporation Limited, the former clearing house of the Futures Exchange.

The cash received from the former clearing house is booked as income in the profit and loss account in the year when the Group becomes entitled to the income and an equivalent amount is appropriated from retained earnings to a non-distributable reserve set aside for the purpose of this fund.

The income arising from the bank deposits and investments comprising this fund and the expenses incurred for this fund are dealt with in the profit and loss account. The annual operating income of this fund for the Relevant Periods was appropriated from retained earnings to the designated non-distributable reserve for the purpose of this fund. Appropriations of the future operating income of this fund will be at the discretion of the Board of directors.

(e) Margin funds on derivatives contracts / Margin deposits received on derivatives contracts

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

The margin funds are refundable to the Clearing Participants when they close their positions on derivatives contracts. As a result, the margin deposits 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.

The interest income arising from bank deposits and investments comprising these margin funds and the expenses incurred for these funds are dealt with in the profit and loss account. The gain or loss arising from revaluation of the securities comprising these margin funds is dealt with in the investment revaluation reserve. The detailed accounting

policy regarding these securities is detailed in Note 2(i). 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. The corresponding interest paid is charged as interest expense in the profit and loss account.

(f) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the Continuous Net Settlement ("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 such 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 is merely providing a facility for their settlement within CCASS, which do not constitute money obligations and are therefore excluded from the financial statements of the Group.

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development has 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 accounts at valuations determined annually by independent valuers. The valuations are on an open market value basis. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment property 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 revaluation reserve.

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

(h) Fixed assets

Land and buildings consist of two properties which were revalued on 30th June, 1993 and 30th June, 1995 respectively. The Group places reliance on paragraph 72 of SSAP 17 which provides exemption from the need to make regular revaluations for such assets since then.

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

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 to the Group.

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 have not discounted the expected future cash flows in determining the recoverable amount.

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

(i) Non-trading securities

Investments, which are held for non-trading purposes, are stated at fair value for the Relevant Periods. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus or deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Fair values of listed and unlisted securities are based on market quotes and quotations from independent financial institutions respectively.

Individual investments are reviewed at each balance sheet date to determine whether they are impaired. When an investment 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 impairments are written back to the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(j) 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, namely "Bank borrowings in respect of repurchase agreements".

(k) 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.

(l) 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 are charged to the profit and loss account on a straight-line basis over the lease term.

(m) 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.

(n) Retirement benefit costs

The contributions to the respective defined contribution provident funds operated by the Group are expensed as incurred. The contributions to one of the two provident funds in the Group are offset by contributions forfeited by those 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. The assets of the provident funds are held separately from those of the Group and are independently administered.

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Note 1 above, after making all adjustments that we considered necessary:

	Note	Year ended 31st December		
		1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	(a)	1,963,464	2,444,667	2,709,438
Other revenue	(a)	35,678	35,046	115,540
Total revenue		1,999,142	2,479,713	2,824,978
Operating expenses	(b)	(1,441,983)	(1,807,552)	(1,280,198)
Profit before taxation		557,159	672,161	1,544,780
Taxation	(c)	(36,493)	(47,049)	(192,739)
Profit for the year		<u>520,666</u>	<u>625,112</u>	<u>1,352,041</u>

Notes:

(a) Turnover and other revenue

	Year ended 31st December		
	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover			
Transaction levy, trading tariff and fees from:			
- securities and options traded on the Stock Exchange	314,449	262,787	590,681
- derivatives contracts traded on the Futures Exchange	113,086	142,970	142,590
Clearing and settlement fees from:			
- securities traded on the Stock Exchange	191,759	191,171	554,845
- derivatives contracts traded on the Futures Exchange	4,501	5,446	5,944
Interest income (Note 3(e))	657,732	1,051,844	653,771
Income on providing information	229,074	246,492	191,033
Listing fees	205,594	196,635	219,728
Depository, custody and nominee services fees	143,702	247,159	260,525
Stock Exchange terminal user fees	45,467	43,995	27,613
Other fees	58,100	56,168	62,708
	<u>1,963,464</u>	<u>2,444,667</u>	<u>2,709,438</u>
Other revenue			
Gross rental income	1,236	2,026	2,462
Income received from former clearing house (Note 3(f))	7,024	675	75,583
Other income	27,418	32,345	37,495
Total revenue	<u>1,999,142</u>	<u>2,479,713</u>	<u>2,824,978</u>

(b) Operating expenses

	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Staff costs and related expenses	528,466	521,564	476,282
Retirement benefit costs (Note 3(i))	46,018	49,234	36,336
Maintenance and network expenses	134,672	121,327	92,604
Operating lease rentals			
- land and buildings	81,597	82,669	78,246
- equipment	52,927	55,271	27,671
Legal and professional fees	39,553	48,048	20,784
Auditors' remuneration	2,086	1,573	1,470
Interest expense (Note 3(g))	174,863	364,454	228,989
Depreciation	150,197	168,260	188,424
Loss on disposal of fixed assets	2,118	12,463	182
Loss on sale and maturity of securities	9,302	—	—
Exchange (gain)/loss	(870)	(1,242)	83
Special contribution to the Compensation Fund (Note 4(k))	13,103	236,897	—
Other operating expenses	134,757	134,065	120,562
Expenses on Clearing House Funds, Compensation Fund Reserve Account and Cash and Derivatives Market Development Fund	12,359	12,969	8,565
Re-organisation costs (see note below)	60,835	—	—
	<u>1,441,983</u>	<u>1,807,552</u>	<u>1,280,198</u>

Note: This mainly consists of costs incurred for the reorganisation of the Group pursuant to the Schemes. The details are as follows:

	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Legal and professional fees	54,807	—	—
Sundry expenses	6,028	—	—
	<u>60,835</u>	<u>—</u>	<u>—</u>

(c) Taxation

The taxation charge represents:

	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Hong Kong profits tax for the year	44,612	51,679	199,096
Overprovision of Hong Kong profits tax in prior years	(5,348)	(5,969)	(72)
Transfer to/(from) deferred taxation	9,966	1,282	(6,301)
10% Hong Kong profits tax rebate	(12,785)	—	—
Others	48	57	16
	<u>36,493</u>	<u>47,049</u>	<u>192,739</u>

Hong Kong profits tax for 1999, 1998 and 1997 has been provided at the rate of 16%, 16% and 16.5% respectively on the estimated assessable profit for the Relevant Periods.

(d) **Basic earnings per share**

No earnings per share information is presented as this would be hypothetical due to the reorganisation and preparation of the results on a combined basis, as disclosed in Note 1.

(e) **Interest income**

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Interest income from			
- Bank deposits	306,140	940,936	606,542
- Debt securities	282,906	34,951	—
- HKCC Clearing Participants	6,736	4,923	284
- Bank deposits and investments comprising Clearing House Funds, Compensation Fund Reserve Account and Cash and Derivatives Market Development Fund	<u>61,950</u>	<u>71,034</u>	<u>46,945</u>
	<u>657,732</u>	<u>1,051,844</u>	<u>653,771</u>

(f) **Income received from former clearing house**

During the 1987 stock market crash, certain Futures Exchange Participants could not meet their liabilities in respect of unsettled open positions and outstanding settlement monies and these liabilities were finally settled by the Lifeboat Fund formed by the Government. Futures Exchange Participants are persons who are authorised by the Futures Exchange under its rules to trade on or through its facilities. The Lifeboat Fund was subsequently recovered from the defaulters and the introduction of a special levy on transactions on the Exchanges.

In accordance with the agreements which established the Lifeboat Fund, any surplus remaining after the full repayment to the Lifeboat Fund shall be assigned to HKCC. A total of HK\$75,583,000 received from The Hong Kong Futures Guarantee Corporation Limited, which maintains the Lifeboat Fund and is the former clearing house of the Futures Exchange, during 1996 and 1997 was assigned to HKCC in June 1997. In 1998 and 1999, amounts of HK\$675,000 and HK\$7,024,000 respectively were received and assigned to HKCC.

There were also accumulated income of HK\$18,024,000 and a revaluation deficit of HK\$392,000 arising from the bank deposits and investments comprising the funds received from the former clearing house as mentioned above. The income has been incorporated in the respective items in the profit and loss account and the relevant deficit of the investments has been directly dealt with in the reserve.

The funds, totalling HK\$100,914,000, mentioned above were set aside and included in HKCC's Reserve Fund. After the year end date, the Group has decided to withdraw these funds from HKCC's Reserve Fund and set up a new fund, namely the Cash and Derivatives Market Development Fund, as mentioned in Note 4(d).

(g) Interest expense

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Interest expense on			
- HKSCC Clearing Participants' cash collateral	2,326	6,138	7,057
- Margin deposits received by the Group on derivatives contracts	170,389	353,575	217,257
- Others	<u>2,148</u>	<u>4,741</u>	<u>4,675</u>
	<u>174,863</u>	<u>364,454</u>	<u>228,989</u>

(h) Directors' and Senior Management's emoluments

None of the directors of the Company received any fees or emoluments in respect of their services for the Relevant Periods. After the Relevant Periods, there is a newly appointed director of the Company entitled to receive emoluments.

The five senior executives, whose emoluments were the highest in the Group during the Relevant Periods, are as follows:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Salaries, bonuses and other allowances and benefits in kind	23,981	26,856	25,698
Inducement fees	—	150	—
Compensation for loss of office	4,239	—	—
Retirement scheme contributions from employers	<u>2,018</u>	<u>1,842</u>	<u>1,494</u>
	<u>30,238</u>	<u>28,848</u>	<u>27,192</u>

The emoluments of the five senior executives fall within the following bands:

	1999	1998	1997
Emolument band			
HK\$4,000,001 - HK\$4,500,000	—	—	1
HK\$4,500,001 - HK\$5,000,000	2	2	2
HK\$5,000,001 - HK\$5,500,000	—	1	—
HK\$5,500,001 - HK\$6,000,000	1	—	—
HK\$6,000,001 - HK\$6,500,000	—	—	1
HK\$6,500,001 - HK\$7,000,000	1	1	—
HK\$7,000,001 - HK\$7,500,000	—	—	1
HK\$7,500,001 - HK\$8,000,000	—	1	—
HK\$8,000,001 - HK\$8,500,000	<u>1</u>	<u>—</u>	<u>—</u>
	<u>5</u>	<u>5</u>	<u>5</u>

The emoluments disclosed above include the senior executives who were also directors of the subsidiaries for the Relevant Periods. No directors of the Company's subsidiaries waived any emoluments.

(i) Retirement benefit costs

The Group contributes to defined contribution provident funds for all eligible permanent staff. Contributions to the provident funds by the Group and the employees are calculated as a percentage of the employees' emoluments.

The retirement benefit costs charged to the profit and loss account represent contributions paid and payable by the Group to the provident funds.

For the Stock Exchange Group and the HKSCC Group, their contributions during the Relevant Periods were not offset by contributions forfeited by those employees who left the provident fund prior to vesting fully in the contributions. Instead, forfeited contributions are credited to a reserve account of the provident fund for the benefit of members of the fund. Forfeited contributions retained in the reserve account of the provident fund during the Relevant Periods are as follows:

	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Forfeited contributions retained in the provident fund of the Stock Exchange Group and the HKSCC Group	<u>38,674</u>	<u>35,980</u>	<u>31,229</u>

Contributions to the defined contribution provident fund set up by the members of the Futures Exchange Group for their employees during the Relevant Periods were offset by contributions forfeited by those employees who left the fund prior to vesting fully in the contributions. Forfeited contributions totalling HK\$853,206 (1998: HK\$904,347; 1997: HK\$ 931,075) were utilised during 1999 leaving HK\$263,448 available as at 31st December, 1999 to reduce future contributions.

Contributions totalling HK\$621,941 were payable to the provident funds as at 31st December, 1999 and are included in accounts payable of the Group.

(j) Related party transactions

Certain directors of the Company 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 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.

4. COMBINED NET ASSETS

The following is a summary of the combined net assets of the Group as at 31st December, 1999 prepared on the basis set out in Note 1 above, after making all adjustments that we considered necessary:

	<i>Note</i>	<i>HK\$'000</i>
Fixed assets	(a)	620,171
Clearing House Funds	(b)	887,935
Compensation Fund Reserve Account	(c)	72,141
Cash and Derivatives Market Development Fund		
— Amount set aside for payment to the Compensation Fund		100,000
— Others		914
	(d)	100,914
Non-trading securities maturing over one year	(e)	516,587
Current assets		
Non-trading securities maturing within one year	(e)	293,541
Accounts receivable, prepayments and deposits	(f)	2,831,026
Taxation recoverable		11,823
Margin funds on derivatives contracts	(g)	5,860,064
Bank balances and time deposits		3,296,804
		12,293,258
Current liabilities		
Bank borrowings in respect of repurchase agreements for financing margin funds	(h)	(204,433)
Margin deposits received on derivatives contracts	(i)	(5,655,631)
Accounts payable, accruals and deposits received	(j)	(3,348,877)
Deferred revenue		(191,748)
Taxation payable		(28,343)
Payable to the Compensation Fund	(k)	(200,000)
		(9,629,032)
Net current assets		2,664,226
Long-term liabilities		
Deferred taxation	(l)	(52,860)
HKSCC Participants' admission fees received	(m)	(108,300)
Clearing Participants' contributions to Clearing House Funds	(b)	(413,780)
Amounts reserved for successful claims in Compensation Fund Reserve Account	(c)(iii)	(63,060)
		(638,000)
Net assets		4,223,974

Notes:

(a) **Fixed assets**

	Valuation	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment properties - long term lease in Hong Kong	16,500	—	—	16,500
Land and buildings - long term lease in Hong Kong	235,096	—	(20,112)	214,984
Leasehold improvements, furniture and equipment and motor vehicles	—	219,533	(170,241)	49,292
Computer trading and clearing systems				
- software	—	659,722	(523,154)	136,568
- hardware	—	344,323	(217,701)	126,622
Other computer hardware and software	—	278,312	(202,107)	76,205
	<u>251,596</u>	<u>1,501,890</u>	<u>(1,133,315)</u>	<u>620,171</u>

The investment properties were revalued as at 31st December, 1999 on the basis of their open market value by Jones Lang LaSalle, an independent firm of chartered surveyors. A deficit of HK\$8,500,000 was charged to the investment properties revaluation reserve during 1999 (1998: deficit HK\$8,000,000; 1997: surplus HK\$100,000) (*Note 4(q)*).

The carrying amount of the land and buildings of the Group as at 31st December, 1999 would have been HK\$88,695,500 had the land and buildings been carried at cost less accumulated depreciation.

(b) **Clearing House Funds**

Clearing House Funds comprise the SEOCH Reserve Fund, HKCC Reserve Fund and the HKSCC Guarantee Fund.

The SEOCH Reserve Fund and 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.

The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the obligations and liabilities of defaulting Clearing Participants arising from their Stock Exchange trades accepted for settlement on the CNS basis and defective securities deposited into CCASS.

Net asset value of Clearing House Funds as at 31st December, 1999 broken down by individual Clearing Houses are as follows:

	<i>HK\$'000</i>
SEOCH Reserve Fund	114,132
HKCC Reserve Fund	417,662
HKSCC Guarantee Fund	<u>356,141</u>
	<u>887,935</u>

The Clearing House Funds are composed of the following as at 31st December, 1999:

	<i>HK\$'000</i>
Debt securities	75,198
Fixed rate instruments denominated in Hong Kong dollars	218,991
Professionally managed debt securities portfolio	100,000
Contribution receivable from Participants	31,050
Other receivables	9,307
Bank balances and time deposits	460,356
Less: Accounts payable in relation to operating expenses of these funds	<u>(6,967)</u>
	<u>887,935</u>

The independent professionally managed debt securities portfolio contains Hong Kong dollar debt securities with a Moody's credit rating of single A or higher.

The Clearing House Funds shown above are funded by Clearing Participants' contributions, the Clearing Houses' contributions and the accumulated income of the funds. The Clearing Participants' contributions of HK\$413,780,000 are included in the long-term liabilities of the Group. The Clearing Houses' contributions and accumulated income of HK\$474,155,000 are included in the reserves of the Group (*Note 4(q)(i)*).

(c) **Compensation Fund Reserve Account**

The statutory deposit of HK\$50,000 for each Stock Exchange Trading Right (totalling HK\$46,450,000) has been paid by the Stock Exchange to the SFC and is not reflected in these accounts.

The major transactions relating to the Compensation Fund Reserve Account include the following:

- (i) 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;
- (ii) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively; and
- (iii) Amounts reserved for successful claims to the Compensation Fund

For those claims determined as successful, the SFC settles the compensation to the claimants out of the Compensation Fund. The Stock Exchange provides for, as far as possible, the same amount as liabilities for replenishment to the Compensation Fund. These liabilities will not become due and payable until the SFC has exhausted all subrogated rights of recovery and calls upon the Stock Exchange to replenish the Compensation Fund. As a result, it is separately disclosed as long-term liabilities of the Group.

The assets and liabilities comprising the Compensation Fund Reserve Account as at 31st December, 1999 are as follows:

	<i>HK\$'000</i>
Receivables from Stock Exchange Participants (<i>Note below</i>)	31,393
Bank balances and time deposits	42,798
Less: Compensation Fund statutory deposits refundable to Stock Exchange Participants	<u>(2,050)</u>
	<u>72,141</u>

Note: According to the Rules of the Stock Exchange, if there are insufficient funds in this account to settle the liabilities in respect of the successful claims against defaulting Stock Exchange Participants as mentioned above, the Stock Exchange has the right to request additional contributions from all the Stock Exchange Participants. This receivable represents the amount due to the Stock Exchange from all Stock Exchange Participants for this purpose.

(d) **Cash and Derivatives Market Development Fund**

This fund is established by the income received from the former clearing house of the Futures Exchange, i.e. the surplus of the Lifeboat Fund, as described in Note 3(f). This income was originally included in the Reserve Fund of HKCC. After the balance sheet date, the Group has set aside HK\$100 million, out of the following total assets of the fund, for the commitment of the Group to the Compensation Fund. This HK\$100 million commitment is in addition to the HK\$150 million committed by the Stock Exchange in 1998 as described in Note 4(k). The remaining balance of the fund is for the development of the cash and derivatives markets. The assets of the fund are as follows:

	<i>HK\$'000</i>
Debt securities	39,451
Fixed rate instruments denominated in Hong Kong dollars	60,619
Bank balances and time deposits	<u>844</u>
	<u>100,914</u>

(e) **Non-trading securities**

The maturity profile of non-trading securities analysed by the remaining period as at 31st December, 1999 to the contractual maturity dates is as follows:

	<i>HK\$'000</i>
Five years or less, but over one year	516,587
One year or less	<u>293,541</u>
	<u>810,128</u>
Non-trading securities comprise:	<i>HK\$'000</i>
Unlisted non-trading securities, at fair value	
Fixed rate instruments denominated in Hong Kong dollars	19,906
Professionally managed debt securities portfolio	<u>790,222</u>
	<u>810,128</u>

The independent professionally managed debt securities portfolio contains Hong Kong dollar debt securities with a Moody's credit rating of single A or higher.

(f) **Accounts receivable, prepayments and deposits**

HK\$'000

Receivables from Exchange and Clearing Participants:	
CNS money obligations	2,327,161
Transaction levy, stamp duty and fees receivable	156,876
Other fees receivable	150,884
Interest receivable	104,855
Other receivables, deposits and prepayments	91,250
	<u>2,831,026</u>

(g) **Margin funds on derivatives contracts**

HK\$'000

The margin funds comprise:

SEOCH Clearing Participants' margin fund	1,001,961
HKCC Clearing Participants' margin fund	4,858,103
	<u>5,860,064</u>

The assets of the margin funds comprise:

Bank balances and time deposits	2,124,733
Listed equity securities, at market value (<i>Note (i)</i>)	329,848
Receivables arising on exercise of stock options	2,406
Unlisted securities, at fair value	
Money market fund (<i>Note (ii)</i>)	801,832
Debt securities (<i>Note (iii)</i>)	430,622
Fixed rate instruments denominated in Hong Kong dollars (<i>Note (iii) & (iv)</i>)	2,170,623
	<u>5,860,064</u>

Notes:

- (i) Listed equity securities are deposited by the SEOCH Clearing Participants as an alternative to cash deposits.
- (ii) The money market fund is an independent professionally managed mutual fund which invests in certificates of deposit, floating rate notes and commercial papers. The fund has a Moody's credit rating of Aaa.
- (iii) The debt securities and fixed rate instrument portfolio comprise investment grade paper with a Moody's credit rating of single A or higher.
- (iv) Included within fixed rate instruments were securities pledged for bank borrowings (*Note 4(h)*) under a repurchase agreement with a bank. The fair value of the securities pledged as at 31st December, 1999 was HK\$205,680,000.

(h) Bank borrowings in respect of repurchase agreements for financing margin funds

This represents short term bank borrowings under a securities repurchase agreement for financing the margin funds of HKCC. Securities with an aggregate fair value of HK\$205,680,000 were pledged to the bank for this purpose (*Note 4(g)(iv)*).

(i) Margin deposits received on derivatives contracts

	<i>HK\$'000</i>
Cash deposits received from SEOC and HKCC Clearing Participants	5,325,783
Listed equity securities at market value as alternative to cash deposits	<u>329,848</u>
	<u>5,655,631</u>

(j) Accounts payable, accruals and deposits received

	<i>HK\$'000</i>
Payables to Exchange and Clearing Participants:	
CNS money obligations	2,163,990
Cash collateral and others	445,864
Arising on exercise of stock options	170,742
Transaction levy payable to the SFC	21,922
Stamp duty payable	168,497
Deposits received	90,912
Other payables and accruals	<u>286,950</u>
	<u>3,348,877</u>

(k) Payable to the Compensation Fund

As a result of the turmoil in the Asian financial markets in late 1997, and the subsequent failure of certain local institutions connected with the securities markets, the Government, the SFC and the Stock Exchange announced on 25th January, 1998 that they would review the statutory limit of the Compensation Fund (HK\$8 million for all claims in relation to each defaulting participant) and that the SFC and the Stock Exchange would make additional contributions for compensating certain public investors. In this connection, the SFC requested the Stock Exchange to contribute HK\$300 million. The Stock Exchange resolved to contribute HK\$150 million to the Compensation Fund in 1998 which was recognised as an expense in profit and loss account.

The Group subsequently agreed with the Government to commit an additional HK\$150 million to the Compensation Fund. HK\$100 million of this commitment (*Note 4(d)*) is to be allocated from the Cash and Derivatives Market Development Fund, which is composed of part of the surplus from the Lifeboat Fund. Since the balance of the Cash and Derivatives Market Development Fund was HK\$86,897,000 as at 31st December, 1998, the additional commitment of HK\$100 million has been split into HK\$86,897,000 and HK\$13,103,000 and charged to the profit and loss account for the years ended 31st December, 1998 and 1999, respectively. The Group's remaining commitment of HK\$50 million will be satisfied by a transfer of funds that will be available on the winding up of the former clearing house of the Futures Exchange i.e. further surplus from the Lifeboat Fund. Nothing has been recognised in the balance sheet or the profit and loss account in relation to this until the Group is formally entitled to the funds on the winding up of the former clearing house.

The actual cash payment to the Compensation Fund by the Group during the Relevant Periods is HK\$50 million and the remaining outstanding balance payable by the Group is HK\$200 million as at 31st December, 1999.

(l) Deferred taxation

Provided for in respect of:

HK\$'000

Accelerated depreciation allowances

(52,860)

The revaluation of the investment property and other properties does not constitute a timing difference for deferred taxation purposes as realisation of the revaluation surplus would not result in a taxation liability.

There was no other material unprovided deferred taxation as at the year end date.

(m) HKSCC 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 the CCASS operated by HKSCC, whichever is later.

(n) Commitments

(i) Commitments in respect of capital expenditure as at 31st December, 1999:

HK\$'000

Contracted but not provided for

89,257

Authorised but not contracted for

152,725

241,982

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

(ii) Commitments under operating leases

As at 31st December, 1999, the Group had commitments to make payments in the next twelve months under operating leases which will expire as follows:

	Land and buildings	Equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	9,048	63,775	72,823
In the second to fifth years inclusive	40,389	34,897	75,286
After the fifth year	<u>31,124</u>	<u>744</u>	<u>31,868</u>
	<u>80,561</u>	<u>99,416</u>	<u>179,977</u>

(o) **Contingent liabilities**

- (i) The Compensation Fund, as discussed in note 4(k), is a fund set up under the Securities Ordinance ("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 HK\$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.
- (ii) 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 HK\$200,000 in respect of defaults of any one Participant. In the unlikely event that all of its 491 trading Participants as at 31st December, 1999 default, the maximum contingent liability of the Stock Exchange under the indemnity will amount to HK\$98.2 million.

(p) **Banking facilities with assets pledged**

- (i) As at 31st December, 1999, the Group had a HK\$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 31st December, 1999, none of this overdraft facility was utilised.
- (ii) Banking facilities on a committed basis of an aggregate amount of HK\$1 billion were granted to HKSCC by ten banks, i.e. each of them granted HK\$100 million banking facilities to HKSCC. The banking facilities are to provide stand-by liquidity to meet HKSCC's obligations in CCASS in circumstances where the CCASS Participants default on their payment obligations. These banking facilities are secured by a debenture creating a floating charge over the assets of HKSCC. These banking facilities were not utilised as at 31st December, 1999.

(q) **Movements in reserves**

	Investment properties revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Other reserves (Note (i)) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1st January, 1997	130,097	—	528,020	1,087,887	1,746,004
Change in fair value of non-trading securities	—	(2,859)	—	—	(2,859)
Surplus on revaluation	100	—	—	—	100
Transfer from retained earnings	—	—	489,514	(489,514)	—
Profit for the year retained	—	—	—	1,352,041	1,352,041
Net income of Clearing House Funds and Compensation Fund Reserve Account	—	—	38,380	(38,380)	—
Income from former clearing house transferred from retained earnings	—	—	75,583	(75,583)	—
Other movements	—	—	(6,318)	—	(6,318)
As at 31st December, 1997	130,197	(2,859)	1,125,179	1,836,451	3,088,968
Change in fair value of non-trading securities	—	(1,422)	—	—	(1,422)
Deficit on revaluation	(8,000)	—	—	—	(8,000)
Transfer from retained earnings	—	—	690,537	(690,537)	—
Profit for the year retained	—	—	—	625,112	625,112
Net income of Clearing House Funds, Compensation Fund Reserve Account and Cash and Derivatives Market Development Fund	—	—	58,065	(58,065)	—
Income from former clearing house transferred from retained earnings	—	—	675	(675)	—
Transfer to retained earnings from reserve of Cash and Derivatives Market Development Fund for commitment to the Compensation Fund (Note 4(k))	—	—	(86,897)	86,897	—
Other movements	—	—	(8,092)	—	(8,092)
As at 31st December, 1998	122,197	(4,281)	1,779,467	1,799,183	3,696,566
Change in fair value of non-trading securities	—	(13,831)	—	—	(13,831)
Deficit on revaluation	(8,500)	—	(3,969)	—	(12,469)
Disposal of non-trading securities	—	4,281	—	—	4,281
Transfer from retained earnings	—	—	193,103	(193,103)	—
Transfer to retained earnings	—	—	(61,720)	61,720	—
Profit for the year retained	—	—	—	520,666	520,666
Net income of Clearing House Funds, Compensation Fund Reserve Account and Cash and Derivatives Market Development Fund	—	—	49,590	(49,590)	—
Income from former clearing house transferred from retained earnings	—	—	7,024	(7,024)	—
Transfer to retained earnings from reserve of Cash and Derivatives Market Development Fund for commitment to the Compensation Fund (Note 4(k))	—	—	(13,103)	13,103	—
Reserves transferred to retained earnings (Note (ii))	—	—	(1,280,000)	1,280,000	—
As at 31st December, 1999	113,697	(13,831)	670,392	3,424,955	4,195,213

Notes:

(i) **Other reserves**

As at 31st December, 1999, other reserves consisted of designated reserves for Clearing House Funds, Compensation Fund Reserve Account, Cash and Derivatives Market Development Fund and reserves set aside for systems development in the Stock Exchange and Futures Exchange. The directors of the Company have resolved that these reserves are segregated for their respective specific purposes and are not available for distribution to the shareholders until such time as the directors resolve to reverse this resolution. The details are as follows:

	<i>HK\$'000</i>
Reserve set aside for Clearing House Funds	
- SEOCH Reserve Fund	35,132
- HKCC Reserve Fund	197,162
- HKSCC Guarantee Fund	<u>241,861</u>
	474,155
Reserve set aside for Compensation Fund Reserve Account	9,081
Reserve set aside for Cash and Derivatives Market Development Fund	914
Development Reserve	<u>186,242</u>
	<u>670,392</u>

(ii) **Reserves transferred to retained earnings**

As at 31st December, 1999, the directors of the respective subsidiaries have resolved to transfer the following reserves to retained earnings.

	<i>HK\$'000</i>
Reserve for Capital Infrastructure	450,000
Reserve for Project and Development	100,000
Reserve for Guarantee Fund and Risk Management	100,000
General Reserve - Property	250,000
General Reserve	<u>380,000</u>
	<u>1,280,000</u>

(iii) **Non-distributable reserves**

Out of the total reserves of HK\$4,195,213,000 as at 31st December, 1999, the following reserves are not distributable to shareholders:

	<i>HK\$'000</i>
Investment properties revaluation reserve	113,697
Investment revaluation reserve	(13,831)
Other reserves (see Note (i) above)	670,392
Merger reserve (see Note below)	<u>1,119,321</u>
	<u>1,889,579</u>

Note: If the current group structure had been in existence and merger accounting had been applied, an amount of approximately HK\$1,119 million would also become not available for distribution to shareholders.

(r) Off balance sheet fund

Off balance sheet fund comprises the Fidelity Fund of the Stock Exchange. The Fidelity Fund was established using contributions from Stock Exchange Participants, for the purpose of compensating Stock Exchange Participants who suffered pecuniary losses as a result of, or in connection with, any default of a Stock Exchange Participant.

According to the Rules of the Stock Exchange, the Fidelity Fund is controlled by the Compensation Committee of the Stock Exchange and the majority of the members of this committee are Stock Exchange Participants. The Stock Exchange is only responsible for the administration of the Fidelity Fund and to enhance its role as the administrator, the assets and liabilities comprising the Fidelity Fund are held in designated accounts under the title of the Stock Exchange. In the case of liquidation of the Fidelity Fund, the net assets are refundable to Participants according to the Rules of the Stock Exchange and the Group does not have any further liability.

As at 31st December, 1999, the total balance of the Fidelity Fund's assets is HK\$84,356,000 comprising mainly bank deposits.

(s) Off balance sheet risks

The Rules of the Stock Exchange provide that all trading Stock Exchange Participants are required to participate in CCASS as Clearing Participants and cause all their Stock Exchange trades in eligible securities to be settled through CCASS. The CNS system interposes HKSCC between Clearing Participants in securities clearing and settlement. As a result, HKSCC provides a form of "guarantee" to Clearing Participants in respect of Stock Exchange trades accepted for settlement under CNS. If a Clearing Participant fails to fulfil its CNS settlement obligations, HKSCC could be exposed to potential market risk not otherwise included in the balance sheet. In the course of providing clearing and settlement services to Clearing Participants, HKSCC has a significant concentration of market risk since its Clearing Participants may be affected by economic conditions affecting the securities industry.

HKSCC mitigates its exposure to risks by requiring Clearing Participants to meet the established financial standards for membership required by the Stock Exchange and statutory regulations, monitoring compliance with risk management measures established by HKSCC and requiring Clearing Participants to contribute to the Guarantee Fund. Insurance has also been effected to cover the risks involved.

If a Clearing Participant fails to fulfil its CNS settlement obligations with HKSCC, HKSCC will liquidate that Participant's guaranteed securities delivery and receipt obligations and will apply its contribution to the Guarantee Fund to satisfy any net outstanding obligation and/or loss. If a deficiency still exists, HKSCC may apply contributions to the Guarantee Fund made by all other Clearing Participants on a pro-rata basis.

Under the General Rules of CCASS, CCASS Participants who are depositing securities into CCASS ("Depositing Participants") are responsible to HKSCC for any defects affecting securities deposited by them into CCASS. HKSCC is responsible to CCASS Participants who are withdrawing securities from CCASS for any such defect affecting securities withdrawn by them from CCASS. If a Depositing Participant fails to fulfill its obligations for defective securities, HKSCC could be exposed to a potential risk not otherwise accounted for in the balance sheet. The aforesaid mitigating measures and liquidating procedures are also applicable to the risk in respect of defective securities attributable to Clearing Participants. Other CCASS Participants are also required to meet established financial standards and criteria for admission into CCASS and compliance with risk management measures in respect of defective securities established and monitored by HKSCC. Insurance has also been effected to cover the risk of defective securities.

5. PARTICULARS OF SUBSIDIARIES

Immediately following the completion of the Schemes as described in Appendix IV of the Document and at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies. Details of these companies are as follows:

Company	Place and date of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities
Direct subsidiaries:				
The Stock Exchange of Hong Kong Limited	Hong Kong 7 July, 1980	"A" shares HK\$929	100%	Operates the single, unified stock exchange in Hong Kong for the purposes of the Stock Exchanges Unification Ordinance
Hong Kong Futures Exchange Limited	Hong Kong 17th December, 1976	Ordinary HK\$19,600,000 Standard HK\$850,000	100%	Operates a futures and options exchange
Hong Kong Securities Clearing Company Limited	Hong Kong 5th May, 1989	Ordinary HK\$2	100%	Operates CCASS and the central securities depository, custody and nominee services for eligible securities listed in Hong Kong
HKEC Nominees Limited	Hong Kong 28th January, 2000	Ordinary HK\$2	100%	Nominee services
Indirect subsidiaries:				
The SEHK Options Clearing House Limited	Hong Kong 25th May, 1995	Ordinary HK\$1,000,000	100%	Operates a Clearing House for option contracts traded on the Stock Exchange
Stock Exchange Information Services Limited	Hong Kong 15th April, 1986	Ordinary HK\$100	100%	Sale of stock market information
Prime View Company Limited	Hong Kong 2nd December, 1986	Ordinary HK\$20	100%	Property holding
The Stock Exchange Club Limited	Hong Kong 11th August, 1987	Ordinary HK\$8	100%	Property holding

Company	Place and date of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities
The Stock Exchange Nominee Limited	Hong Kong 20th October, 1989	Ordinary HK\$2	100%	Nominee services
HKFE Clearing Corporation Limited	Hong Kong 10th February, 1984	Ordinary HK\$1,000,000	100%	Operates a clearing house for derivatives contracts traded on the Futures Exchange
HKFE Clearing Linkage Limited	Hong Kong 26th March, 1996	Ordinary HK\$2	100%	Dormant
HKSCC Nominees Limited	Hong Kong 14th May, 1991	Ordinary HK\$20	100%	Acting as common nominee in respect of securities held in the CCASS Depository
HKSCC Registrars Limited	Hong Kong 13th April, 1993	Ordinary HK\$20	100%	Acting as share registrar of companies listed in Hong Kong

6. SUBSEQUENT EVENTS

Pursuant to the Schemes dated 3rd September, 1999 and section 21 of the Exchanges and Clearing Houses (Merger) Ordinance, the Stock Exchange, the Futures Exchange and HKSCC became wholly owned subsidiaries of the Company on 6th March, 2000. The shares held by former shareholders of the Stock Exchange and Futures Exchange were cancelled and new shares were issued to the Company and its nominee. HKSCC was converted from a company limited by guarantee to a company limited by shares and two new shares were issued to the Company and its nominee.

Those former Stock Exchange shareholders and Futures Exchange shareholders who selected cash options received in aggregate HK\$64.3 million and HK\$43.1 million respectively in settlement of the considerations due to them under the Schemes. The required funding was financed by loans from the Stock Exchange Group and Futures Exchange Group. In addition, 1,040.7 million shares were allotted to those former shareholders who selected to accept shares in the Company. As a result, the former Stock Exchange and Futures Exchange shareholders held 70.3% and 29.7% of the equity in the Company respectively.

7. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 31st December, 1999.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants