
SUMMARY OF THIS DOCUMENT

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you.

BUSINESS

HKEx owns and operates the only stock exchange and futures exchange in Hong Kong, and their related clearing houses. Together these provide the trading platforms for a range of cash and derivatives products, and the facilities for efficiently processing trades in an environment that continuously seeks ways to reduce risk and cost.

The current structure of the Group has been in existence since 6th March, 2000 and results from the merger of the Exchanges and Clearing Houses under HKEx as part of a comprehensive reform of the securities and futures markets in Hong Kong, initiated by the Financial Secretary in his budget speech of 3rd March, 1999, to enhance Hong Kong's competitiveness in an increasingly globalised market place. As a result of the merger the former shareholders of the Exchanges effectively exchanged their ownership rights in the Exchanges for economic interests in HKEx and the conventional right to receive dividends, while retaining their existing rights to trade on the Exchanges. At the same time, certain of the regulatory functions performed by the Exchanges were passed over to the SFC.

The Group is currently implementing a proposal for the structuring of its business organisation around three dimensions: strong, integrated and balanced leadership; focused and commercially driven business units directly supervised and controlled by the Group's management and the Board; and effective centralised staff and administrative functions. As part of this structure the Group's activities are being organised within five distinct business units covering its cash markets, derivatives markets, clearing, IT/Systems and e-business and information systems. It is expected that implementation of the proposed new structure will be completed before mid-2002. The process of integration will though require organisational and operational changes to be made to the businesses and the Group is assessing the extent to which these changes will impact on the Group's human resources requirements and arrangements as a matter of priority.

Through the merger and the Introduction Hong Kong will have taken a decisive step in reforming a central part of its financial infrastructure. In particular the Board believes that these will bring the following benefits:

- consolidation of the Exchanges and Clearing Houses within a single group should bring synergies and economies of scale in terms of operational efficiency, savings in infrastructure investment and financial strength to meet external competition. It will also facilitate the integration of the trading and clearing systems of the Group, bringing both competitive advantages and risk management benefits which would have been unobtainable before the merger;
- an integrated structure should be able to develop the critical mass to create new services and opportunities to compete in the new global environment;

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- the separation of the ownership of the Exchanges from the right to trade on them enables the interests of market participants such as issuers, investors and other financial services providers, as well as those of brokers, to be more properly reflected in the ownership and management of the Exchanges and the manner in which the Exchanges respond to market forces;
- HKEx will have greater flexibility to raise capital since it can use the capital markets. This is essential in light of the increasing financial burden facing exchanges arising from the need to provide users with state-of-the-art trading and settlement systems;
- public listing will promote public ownership and subject HKEx to transparency, accountability and market discipline; and
- the listing of HKEx on the Stock Exchange will add to the market a new world-class, professionally-run financial institution that will broaden the investment base of quality companies in Hong Kong. Through the listing and the creation of a public market in the Shares, the investing public will be able to participate directly in a flagship institution of Hong Kong.

STRENGTHS

The Directors believe that the Group has a number of strengths upon which it can draw, including:

- *the standing of the Stock Exchange* — the Stock Exchange is the largest stock exchange in non-Japan Asia in terms of market capitalisation. The size of the market facilitates its depth and liquidity, and efficient price discovery;
- *ability to adapt to the changing environment* — as a result of the merger under HKEx of the Stock Exchange Group, the Futures Exchange Group and the HKSCC Group, the separation of the ownership of the Exchanges from the right to trade on them and the operation and governance structures being adopted for the Group, the Group is well positioned as a client-focused and profit-driven business organisation to meet the challenges of the rapidly evolving securities and futures industry; and
- *integrity of the markets* — the Group operates numerous procedures to ensure the integrity of the exchange-based securities and futures markets in Hong Kong and promote the high degree of confidence in regard to such matters that persons trading on, and settling trades through, the facilities of the Group demand.

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FUTURE PLANS AND PROSPECTS

HKEx's strategy and vision are focused on several key directions:

- it will proactively seek opportunities for alliances with other major international exchanges;
- it will focus on continuing to serve as mainland China's primary venue for capital raising;
- it will continue to pursue business growth opportunities offered by Hong Kong's domestic capital requirements through *(i)* providing services that add real value for investors, market intermediaries and listed companies, *(ii)* continuing to introduce innovative products and services, and *(iii)* capitalising on the benefits offered by the merger of the Exchanges and Clearing Houses under HKEx; and
- in order to both increase competitiveness and enhance the integrity and stability of the stock and futures markets, it will continue with its commitment to invest in technology to increase the speed and efficiency of transactions, and expand the compatibility and linkage of its trading and settlement systems to enable the early realisation of straight through processing.

In May, 2000, the Stock Exchange and NASDAQ introduced a pilot program for the trading of selected NASDAQ stocks in Hong Kong. The Stock Exchange will look to expand this arrangement with other exchanges in order to enhance its ability to act as a platform for investors and institutions wishing to invest in the stocks of companies with global presence and high market capitalisations. HKEx is also currently participating in discussions with nine other exchanges to explore the feasibility of inter-connecting the participating exchanges' trading systems in a market structure based on the principles of transparency, self-regulation and agency auction price discovery. The proposed alliance would seek to provide investors around the world with a transparent, round-the-clock, trading mechanism for the world's global companies, increasing the global liquidity of their stocks and aiding global price discovery.

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INTRODUCTION STATISTICS

Combined profit after taxation for the financial year ended 31st December, 1999 (<i>Note 1</i>)	HK\$521 million
Historical earnings per Share (<i>Note 2</i>)	HK\$0.50
Adjusted net asset value per Share (<i>Note 3</i>)	HK\$3.99

Notes:

- (1) The bases upon which the combined profit after taxation of the Group for the year ended 31st December, 1999 has been prepared are set out in Appendix I to this document.
- (2) Based on the combined profit after taxation for the financial year ended 31st December, 1999 referred to above and on the 1,040,664,846 Shares that would have been in issue had the current Group structure been in existence on 31st December, 1999. However, the Accountants' Report set out in Appendix I to this document does not contain a calculation of earnings per Share as PricewaterhouseCoopers considers the earnings per Share information to be hypothetical due to the reorganisation and preparation of the results of the Group on a combined basis.
- (3) The adjusted net asset value per Share has been arrived at after making the adjustment referred to in the section of this document headed "Financial information — adjusted net assets" and on the basis of a total of 1,040,664,846 Shares in issue.

RISK FACTORS

The Directors consider that there are certain risks involved in the operations of the Group. These risk factors, set out in the section of this document headed "Risk factors", are as follows:

Risk relating to the industry:

- Changes in the global securities and futures industry

Risks relating to the Group:

- Economic and political considerations
- Impact of external factors on the Group's earnings
- Competition from other exchanges and trading systems
- Information technology
- Impact of digital technology on the value of information
- Exposure to litigation for the Group's actions
- Integration of the businesses of the Stock Exchange Group, the Futures Exchange Group and the HKSCC Group
- Regulation of fees
- Income earned by HKCC on margin deposits

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- Reliance on the Hang Seng Index futures product
- Settlement counterparty risks of the Clearing Houses
- Public duties of the Group

TRADING RECORD

The combined results of the Group for each of the three financial years ended 31st December, 1999 (the "Relevant Periods"), prepared on the basis that the existing Group structure had been in place throughout the Relevant Periods and based on the accountants' report (the text of which is set out in Appendix I to this document), are summarised below:

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

PROPERTY AND OTHER ASSETS

The property interests of the Group have been valued by Jones Lang LaSalle Limited, independent property valuers, at approximately HK\$159.5 million as at 31st March, 2000. The text of the letter and valuation certificates of Jones Lang LaSalle Limited are set out in Appendix II to this document.

DIVIDEND POLICY

HKEx is a newly formed company and has never paid any dividends. Prior to completion of their merger under HKEx, the main operating companies of the Group, namely the Exchanges and HKSCC, had never paid any dividends because they were prohibited by their respective constitutions (in the case of the Stock Exchange and HKSCC from their incorporation, and in the case of the Futures Exchange with effect from 9th May, 1989).

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The Directors have adopted a dividend policy of providing shareholders with regular dividends within the constraints of the Group's earnings having regard to:

- the future capital requirements of the Group and capital efficiency;
- the need to retain capital to support the Group's stability and growth, including reserves required to be retained for prudent risk management purposes in respect of the Clearing Houses;
- prevailing and projected profitability;
- prevailing market dividend yields; and
- projected operating cash flow and the extent to which this will be sufficient to meet projected capital expenditure. In particular, the Directors will place importance on the Group's ability to finance the maintenance and development of its information technology hardware and systems as these underpin the Group's businesses and competitive position.

The level of total reserves of the Group as at 31st December, 1999, and the portion of these which are non-distributable, are set out in note 4(q)(iii) to the Accountants' Report in Appendix I to this document. The non-distributable reserves are reviewed from time to time and may have to be increased because of, among other reasons, the need for the Group to maintain reserves for prudent risk management in respect of the businesses of the Clearing Houses. Accordingly the balance of the Group's reserves may not all be available for distribution.

SHAREHOLDING RESTRICTIONS

Pursuant to section 6 of the Merger Ordinance, no person, either alone or with any associate or associates, may hold 5 per cent. or more of the voting power at any general meeting of HKEx except with the approval of the SFC in consultation with the Financial Secretary. Such restrictions have been reflected in various provisions of HKEx's articles of association, a summary of which is set out in Appendix III to this document.

Save as set out above, transfers of Shares do not require the approval of the SFC and/or the Financial Secretary.

OTHER KEY INFORMATION

Dealings in the Shares on the Stock Exchange
are expected to commence on 27th June, 2000

Board lot 2,000 Shares