# Consolidated Financial Statements

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2001

(Financial figures are expressed in Hong Kong dollars)

| | Note | 2001 $'000 | As restated 2000 $'000 |
|---|---|---|---|
| **INCOME** | | | |
| Transaction levy, trading tariff and trading fees | 3 | 351,408 | 548,472 |
| Stock Exchange listing fees | | 275,266 | 269,567 |
| Clearing and settlement fees | | 214,015 | 305,465 |
| Depository, custody and nominee services fees | | 227,970 | 257,490 |
| Income from sale of information | | 337,189 | 351,736 |
| Investment income | 4 | 414,304 | 414,327 |
| Other income | 5 | 178,661 | 165,146 |
| | 2 | 1,998,813 | 2,312,203 |
| **OPERATING EXPENSES** | | | |
| Staff costs and related expenses | | 527,994 | 598,675 |
| Information technology and computer maintenance expenses | | 231,064 | 216,665 |
| Premises expenses | | 100,452 | 109,112 |
| Product marketing and promotion expenses | | 15,516 | 31,076 |
| Legal and professional fees | | 61,800 | 32,134 |
| Depreciation and amortisation | | 152,669 | 177,450 |
| Other operating expenses | | 86,872 | 74,258 |
| Merger, listing and integration expenses | 6 | – | 93,385 |
| | | 1,176,367 | 1,332,755 |
| **PROFIT BEFORE TAXATION** | 2/7 | 822,446 | 979,448 |
| **TAXATION** | 11(a) | (82,020) | (105,801) |
| **PROFIT ATTRIBUTABLE TO SHAREHOLDERS** | 28 | 740,426 | 873,647 |
| **DIVIDENDS** | | 343,419 | 343,419 |
| | | $ | $ |
| Earnings per share | 12 | 0.71 | 0.84 |
| Dividends per share | | | |
| Interim dividend paid | | 0.08 | 0.08 |
| Final dividend declared | | 0.25 | 0.25 |
| | | 0.33 | 0.33 |

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
## FOR THE YEAR ENDED 31 DECEMBER 2001

(Financial figures are expressed in Hong Kong dollars)

| | Note | 2001<br>$'000 | As restated<br>2000<br>$'000 |
|---|---|---|---|
| Change in valuation of investment property | 25 | (4,200) | (800) |
| Change in valuation of other properties | 25 | (9,273) | (62,520) |
| Change in fair value of non-trading securities | 25 | 1,886 | 8,715 |
| Net deficits not recognised in the consolidated profit and loss account | | (11,587) | (54,605) |
| Profit attributable to shareholders | | 740,426 | 873,647 |
| Realisation on maturity and disposal of non-trading securities | 25 | (28,969) | 39,092 |
| TOTAL RECOGNISED GAINS | | 699,870 | 858,134 |
| Cumulative effect of change in accounting policies adopted from 1 January 2001: | | | |
| Designated reserves at 1 January: | | | |
| - effect of adopting SSAP 28 | 26(b) | 22,026 | 22,026 |
| Retained earnings at 1 January: | | | |
| - effect of adopting SSAP 28 | 28 | (15,012) | (15,012) |
| - effect of adopting SSAP 34 | 28 | (24,737) | (19,495) |
| | | (39,749) | (34,507) |

## CONSOLIDATED BALANCE SHEET
## AT 31 DECEMBER 2001

(Financial figures are expressed in Hong Kong dollars)

| | Note | 2001 $'000 | As restated 2000 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | 13(a) | 786,110 | 689,341 |
| Clearing House Funds | 14 | 944,154 | 889,895 |
| Compensation Fund Reserve Account | 15 | 35,146 | 31,107 |
| Cash and Derivatives Market Development Fund | 16 | 914 | 914 |
| Non-trading securities maturing over one year | 17 | 52,366 | 609,500 |
| | | 1,818,690 | 2,220,757 |
| **CURRENT ASSETS** | | | |
| Margin funds on derivatives contracts | 18 | 4,803,107 | 5,381,719 |
| Accounts receivable, prepayments and deposits | 19(a) | 2,334,767 | 2,673,486 |
| Taxation recoverable | | 5,857 | 2,686 |
| Non-trading securities maturing within one year | 17 | – | 255,166 |
| Trading securities | 20 | 3,182,527 | – |
| Bank balances and time deposits pledged | 35 | 10,000 | 10,000 |
| Bank balances and time deposits | | 1,590,062 | 3,625,186 |
| | | 11,926,320 | 11,948,243 |
| **CURRENT LIABILITIES** | | | |
| Bank loans | 32b(ii) | 46,453 | – |
| Margin deposits and securities received from Participants on derivatives contracts | 18 | 4,803,107 | 5,381,719 |
| Accounts payable, accruals and other liabilities | 19(b) | 2,733,306 | 2,965,974 |
| Participants' admission fees received | 21 | 14,550 | – |
| Deferred revenue | | 246,827 | 233,036 |
| Taxation payable | | 19,556 | 58,333 |
| Provisions | 22(a) | 25,927 | 33,097 |
| | | 7,889,726 | 8,672,159 |
| **NET CURRENT ASSETS** | | 4,036,594 | 3,276,084 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 5,855,284 | 5,496,841 |

## CONSOLIDATED BALANCE SHEET (continued)
## AT 31 DECEMBER 2001

(Financial figures are expressed in Hong Kong dollars)

| | Note | 2001<br>$'000 | As restated<br>2000<br>$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Participants' admission fees received | 21 | 91,500 | 110,250 |
| Participants' contributions to Clearing House Funds | 14 | 423,960 | 415,740 |
| Deferred taxation | 11(b) | 75,275 | 65,738 |
| Provisions | 22(a) | 29,142 | 26,157 |
| | | 619,877 | 617,885 |
| **NET ASSETS** | | 5,235,407 | 4,878,956 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 24 | 1,040,665 | 1,040,665 |
| Revaluation reserves | 25 | 43,797 | 84,353 |
| Designated reserves | 26 | 692,016 | 641,938 |
| Retained earnings | 28 | 3,198,763 | 2,851,834 |
| Proposed and declared dividend | | 260,166 | 260,166 |
| **SHAREHOLDERS' FUNDS** | | 5,235,407 | 4,878,956 |

Approved by the Board of Directors on 13 March 2002

**LEE Yeh Kwong, Charles**
Director

**KWONG Ki Chi**
Director

## HONG KONG EXCHANGES AND CLEARING LIMITED (HKEx)
## BALANCE SHEET
## AT 31 DECEMBER 2001

(Financial figures are expressed in Hong Kong dollars)

| | Note | 2001<br>$'000 | As restated<br>2000<br>$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13(b) | 24,569 | 9,671 |
| Investments in subsidiaries | 23 | 4,227,801 | 4,209,584 |
| Other assets | | 3,089 | – |
| | | 4,255,459 | 4,219,255 |
| CURRENT ASSETS | | | |
| Accounts receivable, prepayments and deposits | 19(a) | 16,889 | 3,569 |
| Bank balances and time deposits | | 81,629 | 56 |
| | | 98,518 | 3,625 |
| CURRENT LIABILITIES | | | |
| Accounts payable, accruals and other liabilities | 19(b) | 22,650 | 12,846 |
| Provisions | 22(b) | 5,129 | 1,336 |
| | | 27,779 | 14,182 |
| NET CURRENT ASSETS/(LIABILITIES) | | 70,739 | (10,557) |
| NET ASSETS | | 4,326,198 | 4,208,698 |
| CAPITAL AND RESERVES | | | |
| Share capital | 24 | 1,040,665 | 1,040,665 |
| Merger reserve | 27 | 2,997,115 | 2,997,115 |
| Retained earnings/(accumulated losses) | 28 | 28,252 | (89,248) |
| Proposed and declared dividend | | 260,166 | 260,166 |
| SHAREHOLDERS' FUNDS | | 4,326,198 | 4,208,698 |

Approved by the Board of Directors on 13 March 2002

**LEE Yeh Kwong, Charles**
Director

**KWONG Ki Chi**
Director

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2001

(Financial figures are expressed in Hong Kong dollars)

| | Note | 2001 $'000 | 2000 $'000 |
|---|---|---|---|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 29(a) | 603,263 | 444,878 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 474,866 | 642,982 |
| Interest paid | | (69,788) | (194,844) |
| Dividends received | | 2,629 | – |
| Dividends paid | | (343,419) | (83,253) |
| Net cash inflow from returns on investments and servicing of finance | | 64,288 | 364,885 |
| TAXATION | | | |
| Hong Kong Profits Tax paid | | (114,473) | (69,160) |
| Refund of Hong Kong Profits Tax | | 42 | 15,364 |
| Net cash outflow from taxation | | (114,431) | (53,796) |
| INVESTING ACTIVITIES | | | |
| Payments for purchase of fixed assets | | (263,139) | (309,265) |
| Proceeds from sales of fixed assets | | 227 | 401 |
| Decrease/(increase) in non-trading securities | | 785,217 | (6,316) |
| Increase in trading securities | | (3,152,802) | – |
| Decrease in time deposits with original maturity more than three months | | 336,441 | 1,392,158 |
| Cash paid as part of the consideration in exchange for the equity interests in subsidiaries | | – | (107,418) |
| Net cash (outflow)/inflow from investing activities | | (2,294,056) | 969,560 |
| Net cash (outflow)/inflow before financing | | (1,740,936) | 1,725,527 |

## CONSOLIDATED CASH FLOW STATEMENT (continued)
## FOR THE YEAR ENDED 31 DECEMBER 2001

(Financial figures are expressed in Hong Kong dollars)

| | Note | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|---|
| **FINANCING** | | | |
| New bank loans | | 46,453 | – |
| Admission fees received less refunds to Participants | | (4,200) | 1,950 |
| Redemption of non-voting redeemable share by a subsidiary | | – | (10) |
| Net cash inflow from financing | | 42,253 | 1,940 |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (1,698,683) | 1,727,467 |
| Cash and cash equivalents at the beginning of the year | | 3,050,647 | 1,323,180 |
| Cash and cash equivalents at the end of the year | 29(b) | 1,351,964 | 3,050,647 |

## NOTES TO THE ACCOUNTS

(Financial figures are expressed in Hong Kong dollars)

### 1. PRINCIPAL ACCOUNTING POLICIES

#### (a) Statement of compliance

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (HKSA) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules).

#### (b) Basis of preparation

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

During the year, Hong Kong Exchanges and Clearing Limited (HKEx) and its subsidiaries (the Group) adopted the following Statements of Standard Accounting Practice (SSAPs) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

– SSAP 9 (revised): Events after the balance sheet date
– SSAP 26: Segment reporting
– SSAP 28: Provisions, contingent liabilities and contingent assets

In addition, the Group has opted to adopt SSAP 34: Employee benefits in advance of its effective date of 1 January 2002.

Following the adoption of these new standards, certain comparatives previously reported have been restated to conform to the new policies. The effects of adopting these new standards are set out in the accounting policies below.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Basis of consolidation

(i) The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December. All material intra-group transactions and balances have been eliminated on consolidation.

(ii) The Group has adopted merger accounting in the preparation of the consolidated accounts. The consolidated accounts have been prepared as if the current group structure of HKEx and its subsidiaries at the time of the merger had been in existence throughout the current and prior periods, rather than from the effective date of the merger on 6 March 2000. The figures for the years ended 31 December 2000 and 31 December 2001 have been prepared on the same basis.

Except for the accounts of HKEC Nominees Limited, HKEx (Singapore) Limited and HKEx (China) Limited, which have been included in the consolidated accounts since their incorporation in 2000 and 2001, the consolidated accounts include the accounts of all subsidiaries for each of the whole year ended 31 December 2000 and 2001.

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

### (d) Turnover

Turnover comprises transaction levy (replaced by a trading fee at the same level on 1 September 2001), trading tariff and trading fees from securities and options traded on The Stock Exchange of Hong Kong Limited (the Stock Exchange) and derivatives contracts traded on Hong Kong Futures Exchange Limited (the Futures Exchange); Stock Exchange listing fees; clearing and settlement fees; depository, custody and nominee services fees; income from sale of information; investment income and other income, which are **disclosed as Income** in the consolidated profit and loss account.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Revenue recognition

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

(i) Transaction levy, trading tariff and trading fees on securities and options traded on the Stock Exchange are recognised on a trade date basis.

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

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

(iv) Fees for clearing and settlement of broker-to-broker trades in eligible securities transacted on the Stock Exchange are recognised in full on T + 1, i.e., on the day following the trade day, upon acceptance of the trades. Fees for settlement of other trades and transactions are recognised upon completion of the settlement.

(v) Custody fees for securities held in the Central Clearing and Settlement System (CCASS) depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

(vi) Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.

(vii) Income from sale of information and other fees are recognised when the related services are rendered.

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

(ix) Dividend income is recognised when the right to receive payment is established.

(x) Rental income is recognised on an accrual basis.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (f) Investment income

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

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

### (g) Employee benefit costs

In accordance with SSAP 34, cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

The early adoption of SSAP 34 constitutes a change in accounting policy which has been applied retrospectively and the comparatives presented have been restated to conform to the new policy.

As detailed in note 28, opening retained earnings of the Group at 1 January 2000 have decreased by $19,495,000, which represents the accumulated compensated absences in prior years. Comparative staff costs and related expenses of the Group for the year ended 31 December 2000 have increased by $5,242,000, the additional amount of compensated absences of the Group in 2000. Consequently, a corresponding increase in provisions under current liabilities by $24,737,000 (note 22(a)) has been reflected in the comparative 31 December 2000 balance sheet of the Group.

Likewise, as at 31 December 2000, retained earnings of HKEx (note 28) have decreased and its provisions under current liabilities (note 22(b)) increased by $1,336,000, the amount of compensated absences of HKEx in 2000.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (h) Investment properties

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

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

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

### (i) Fixed assets

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

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Fixed assets (continued)

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

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

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

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

Qualifying software system development expenditures are capitalised and recognised as a fixed asset in the balance sheet as the software forms an integral part of the hardware on which it operates. The expenditures comprise all qualifying direct and allocated expenses attributable to the development of distinct major trading or clearing software systems.

Qualifying development expenditures incurred after the roll-out of a trading or clearing system are added to the carrying amount of the related assets when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditures are recognised as non-qualifying expenditures.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Fixed assets (continued)

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the profit and loss account in the period in which such expenses are incurred.

Amortisation of the cost of capitalised software system development expenditures is provided from the dates when the systems become operational.

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

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

### (j) Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and, where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decline in revaluation.

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

Income arising from bank deposits and investments comprising these funds and expenses incurred for these funds are dealt with in the profit and loss account. Annual investment income net of expenses of the Clearing House Funds is appropriated from retained earnings to the respective designated reserves of these funds. Investment income net of expenses of the CDMD Fund may be appropriated to the designated reserve of this fund at the discretion of the Board of Directors of HKFE Clearing Corporation Limited (HKCC).

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

### (m) Non-trading securities

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

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) Trading securities

Trading securities are investments of the Group's corporate funds and are marked to market (i.e., carried at fair value). At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

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

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

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

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

### (p) 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.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (q) 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.

### (r) 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 trading facilities located at brokers' offices.

### (s) Operating leases

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

### (t) Retirement benefit costs

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (u) Events after the balance sheet date

Under SSAP 9 (revised), dividends proposed or declared after the balance sheet date are no longer recognised as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively and the comparatives presented have been restated accordingly.

As detailed in note 28, opening retained earnings of the Group at 1 January 2001 have increased by $260,166,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability of the Group as at 31 December 2000. A corresponding decrease in current liabilities of the Group by $260,166,000 has been reflected in the comparative 31 December 2000 balance sheet.

As also detailed in note 28, profit for the year of HKEx in 2000 has decreased by $350,708,000, which represents dividend income previously recognised by HKEx. A corresponding decrease in amounts due from subsidiaries (note 23) by $350,708,000 has been reflected in the comparative 31 December 2000 balance sheet of HKEx.

Changes to headings used in the previously reported 31 December 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

### (v) Segment reporting

In note 2 to these consolidated accounts, the segment income, results, assets, liabilities and capital expenditure and the 2000 comparative information have been presented in accordance with SSAP 26. Segment assets consist primarily of fixed assets, Clearing House Funds/Compensation Fund Reserve Account/CDMD Fund, margin funds' assets and receivables, and exclude investments in securities, corporate bank balances and time deposits, land and buildings and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 13). Business segments have been used as the primary reporting format as all business activities are conducted in Hong Kong.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (w) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (w) Provisions, contingent liabilities and contingent assets (continued)

Under SSAP 28, estimated costs of reinstating leased premises to their original conditions have to be recognised as a provision. The corresponding amounts are capitalised as leasehold improvements and amortised to the profit and loss account over the remaining life of the leases. This change in accounting policy has been applied retrospectively and the comparatives presented have been restated to conform to the changed policy. Consequently, as detailed in note 28, opening retained earnings at 1 January 2000 have decreased by $15,012,000 which represents the accumulated amortisation of reinstatement costs in prior years, and the comparative 31 December 2000 balance sheet has been restated by the following amounts:

- cost of fixed assets increased by $34,517,000 (note 13(a));
- accumulated amortisation increased by $18,991,000 (note 13(a));
- provision under current liabilities increased by $8,360,000 (note 22(a));
- provision under non-current liabilities increased by $26,157,000 (note 22(a)); and
- retained earnings decreased by $15,012,000 (note 28).

Following the adoption of SSAP 28, as detailed in note 15, $22,026,000 of amounts reserved for successful claims in the Compensation Fund Reserve Account have been reversed and transferred to the Compensation Fund Reserve Account reserve (note 26(b)) at 1 January 2000 as they did not meet the recognition and measurement criteria for a liability prescribed in the new standard since neither a legal nor a constructive obligation existed and the amount payable to the Compensation Fund, if any, could not be reliably quantified.

### (x) Translation of foreign currencies

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (y) Forward foreign exchange contracts

Forward foreign exchange contracts used to hedge the currency exposures of the Group's investments are marked to market (i.e., carried at fair value). The net unrealised gains or losses arising from the changes in fair value of the contracts (i.e., estimated amounts the Group would expect to receive or pay on the termination of the contracts) are recognised in the profit and loss account.

### (z) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balances and time deposits within three months of maturity when acquired.

## 2. SEGMENT INFORMATION

The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income, results, assets, liabilities and capital expenditure for the year by business segments is as follows:

| | Cash Market 2001 $'000 | Derivatives Market 2001 $'000 | Clearing Business 2001 $'000 | Others 2001 $'000 | Elimination 2001 $'000 | Group 2001 $'000 |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| External | 927,601 | 147,620 | 469,397 | – | – | 1,544,618 |
| Inter-segment | 8,287 | – | 228 | – | (8,515) | – |
| Investment and other income | | | | | | |
| – segment | 7,786 | 123,227 | 50,678 | – | – | 181,691 |
| – unallocated | – | – | – | 272,504 | – | 272,504 |
| | 943,674 | 270,847 | 520,303 | 272,504 | (8,515) | 1,998,813 |
| **Costs** | 380,344 | 155,186 | 235,661 | – | (2,410) | 768,781 |
| **Segment results** | 563,330 | 115,661 | 284,642 | 272,504 | (6,105) | 1,230,032 |
| Unallocated costs | | | | | | 407,586 |
| Profit before taxation | | | | | | 822,446 |
| Taxation | | | | | | (82,020) |
| Profit attributable to shareholders | | | | | | 740,426 |
| Segment assets | 592,492 | 4,846,842 | 2,976,637 | – | | 8,415,971 |
| Unallocated assets | – | – | – | 5,329,039 | | 5,329,039 |
| Total assets | | | | | | 13,745,010 |
| Segment liabilities | 409,813 | 4,826,622 | 2,855,981 | – | | 8,092,416 |
| Unallocated liabilities | – | – | – | 417,187 | | 417,187 |
| Total liabilities | | | | | | 8,509,603 |
| Capital expenditure | 29,196 | 21,054 | 183,098 | 29,791 | | 263,139 |
| Depreciation and amortisation | 73,882 | 12,238 | 12,666 | 53,883 | | 152,669 |
| Other non-cash expenses | 2,830 | 15 | 2,321 | – | | 5,166 |

## 2. SEGMENT INFORMATION (continued)

| | Cash Market 2000 $'000 | Derivatives Market 2000 $'000 | Clearing Business 2000 $'000 | Others 2000 $'000 | Elimination 2000 $'000 | Group 2000 $'000 |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| External | 1,128,235 | 135,703 | 597,340 | – | – | 1,861,278 |
| Inter-segment | – | – | – | – | – | – |
| Investment and other income | | | | | | |
| – segment | 27,656 | 123,557 | 44,989 | – | – | 196,202 |
| – unallocated | – | – | – | 254,723 | – | 254,723 |
| | 1,155,891 | 259,260 | 642,329 | 254,723 | – | 2,312,203 |
| **Costs** | 349,737 | 214,391 | 263,166 | – | – | 827,294 |
| **Segment results** | 806,154 | 44,869 | 379,163 | 254,723 | – | 1,484,909 |
| Unallocated costs | | | | | | 505,461 |
| Profit before taxation | | | | | | 979,448 |
| Taxation | | | | | | (105,801) |
| Profit attributable to shareholders | | | | | | 873,647 |
| Segment assets | 639,652 | 5,410,590 | 3,294,736 | – | | 9,344,978 |
| Unallocated assets | – | – | – | 4,824,022 | | 4,824,022 |
| Total assets | | | | | | 14,169,000 |
| Segment liabilities | 564,001 | 5,406,752 | 3,018,854 | – | | 8,989,607 |
| Unallocated liabilities | – | – | – | 300,437 | | 300,437 |
| Total liabilities | | | | | | 9,290,044 |
| Capital expenditure | 197,776 | 14,775 | 56,863 | 52,913 | | 322,327 |
| Depreciation and amortisation | 49,289 | 59,695 | 34,583 | 33,883 | | 177,450 |
| Other non-cash expenses | 334 | 64 | 302 | – | | 700 |

## 2. SEGMENT INFORMATION (continued)

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

The **Derivatives Market** business mainly refers to the derivatives products traded on the Futures Exchange and the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as equity, currency and interest rate futures and options. Its income mainly comes from the trading fees imposed and the interest income on the margin funds received.

The **Clearing Business** refers mainly to the operations of HKSCC, which is responsible for clearing, settlement and custodian activities and the related risk management of cash market activities. Its income is derived primarily from the fees charged on providing clearing, settlement, depository and nominee services.

Investment and other income under the **Others Segment** represents mainly investment income derived from corporate funds, which is not directly attributable to any of the three business segments and is therefore not allocated to the business segments. Unallocated costs represent overheads which are not directly attributable to the above-mentioned business segments.

Inter-segment transactions are conducted at arm's length.

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

| | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|
| Transaction levy, trading tariff and trading fees are derived from: | | |
| Securities and options traded on the Stock Exchange | 250,306 | 459,028 |
| Derivatives contracts traded on the Futures Exchange | 101,102 | 89,444 |
| | 351,408 | 548,472 |

## 4. INVESTMENT INCOME

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| **Interest income** | | |
| Interest income from | | |
| – bank deposits | 189,073 | 312,607 |
| – listed securities | 52,725 | – |
| – unlisted securities | 209,597 | 297,148 |
| | 451,395 | 609,755 |
| Interest expenses payable to Clearing Participants on margin funds and cash collateral received | (69,445) | (195,428) |
| | 381,950 | 414,327 |
| **Non-interest income** | | |
| Dividend income from | | |
| – listed securities | 2,516 | – |
| – unlisted securities | 113 | – |
| Net realised gain on disposal/maturity of trading securities | | |
| – listed securities | 6,677 | – |
| – unlisted securities | 9,503 | – |
| Net unrealised holding gain on trading securities | | |
| – listed securities | 9,268 | – |
| – unlisted securities | 9,052 | – |
| Exchange difference on investments | (4,775) | – |
| | 32,354 | – |
| Total investment income | 414,304 | 414,327 |

## 5. OTHER INCOME

| | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|
| Stock Exchange terminal user fees | 59,681 | 47,759 |
| Participants' subscription and application fees | 42,436 | 38,011 |
| Share registration services fees | 25,155 | 32,325 |
| Income received from former clearing house | 15,960 | 263 |
| Gross rental income | 459 | 364 |
| Miscellaneous income | 34,970 | 46,424 |
| | 178,661 | 165,146 |

## 6. MERGER, LISTING AND INTEGRATION EXPENSES

| | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|
| Merger expenses | – | 10,001 |
| Listing expenses | – | 11,520 |
| Integration expenses | – | 71,864 |
| | – | 93,385 |

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

## 7. PROFIT BEFORE TAXATION

| | 2001 $'000 | As restated 2000 $'000 |
|---|---|---|
| Profit before taxation is stated after charging: | | |
| Staff costs, excluding Directors' emoluments | **468,160** | 546,827 |
| Retirement benefit costs, excluding Directors' emoluments | **51,357** | 44,372 |
| Auditors' remuneration | **1,914** | 2,597 |
| Operating lease rentals | | |
| – land and buildings | **66,347** | 70,370 |
| – computer hardware and software | **76,900** | 61,200 |
| Interest on bank loans and overdrafts repayable within five years | **812** | – |
| Loss on disposal of fixed assets | **1** | 14,450 |

## 8. DIRECTORS' EMOLUMENTS

None of the Directors, except the Executive Director, received any emoluments during the year (2000: $Nil). Total emoluments of the only Executive Director, excluding share option benefits, for the year amounted to $8,477,000 (2000: $7,476,000) of which $7,075,000 (2000: $5,863,000) was attributable to salaries, other allowances and benefits in kind. Annual discretionary bonus and employer's contribution to retirement scheme for the year amounted to $527,000 and $875,000 (2000: $957,000 and $656,000) respectively. The total emoluments for that Executive Director in 2000 represent emoluments since his appointment on 6 March 2000. No fees were paid to any of the Directors (2000:$Nil).

The emoluments of fourteen (2000: sixteen) Directors fell within the $0 - $1,000,000 band. The emoluments of the remaining one Director were within the $8,000,001 - $8,500,000 (2000: $7,000,001 - $7,500,000) band.

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

## 9. FIVE TOP-PAID EMPLOYEES

One (2000: one) of the five top-paid employees was a Director, whose emoluments are disclosed in note 8. Details of the emoluments of the other four (2000: four) top-paid employees are as follows:

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Salaries, other allowances and benefits in kind | **16,702** | 18,627 |
| Performance award | **843** | 1,460 |
| Retirement scheme contributions by employer | **1,816** | 1,778 |
| Compensation for loss of office | **3,727** | – |
| | **23,088** | 21,865 |

The emoluments of these employees are within the following bands:

| | 2001 Number of employees | 2000 Number of employees |
|---|---|---|
| $4,500,001 - $5,000,000 | **2** | – |
| $5,000,001 - $5,500,000 | **–** | 3 |
| $5,500,001 - $6,000,000 | **1** | 1 |
| $7,500,001 - $8,000,000 | **1** | – |
| | **4** | 4 |

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

## 10. RETIREMENT BENEFIT COSTS

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

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

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

| | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|
| Forfeited contributions retained in the Plan | 2,154 | 2,687 |

Contributions to the HKFE Scheme during the year were offset by contributions forfeited in respect of employees who left the HKFE Scheme prior to vesting fully in the contributions. Forfeited contributions totalling $161,100 were utilised during 2001 (2000: $541,285), leaving $40,880 (2000: $189,259) to reduce future contributions to the HKFE Scheme.

## 11. TAXATION

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

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Provision for Hong Kong Profits Tax for the year | 73,614 | 95,824 |
| Overprovision in respect of prior years | (1,131) | (2,901) |
| | 72,483 | 92,923 |
| Deferred taxation (note 11(b)) | 9,537 | 12,878 |
| | 82,020 | 105,801 |

Hong Kong Profits Tax has been provided for at 16 per cent (2000: 16 per cent) on the estimated assessable profit for the year.

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

| | Group | |
|---|---|---|
| | 2001 $'000 | 2000 $'000 |
| At 1 January | 65,738 | 52,860 |
| Transfer from the consolidated profit and loss account (note 11(a)) | 9,537 | 12,878 |
| At 31 December | 75,275 | 65,738 |

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

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

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

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of $740,426,000 (as restated 2000: $873,647,000) and on the assumption that the 1,040,664,846 shares were in issue as set out in note 24 throughout the years ended 31 December 2001 and 2000.

The share options outstanding as set out in note 24 did not have a material dilutive effect on the basic earnings per share.

## 13. FIXED ASSETS

### (a) Group

| | Investment property under long-term lease in Hong Kong $'000 | Land and buildings under long-term lease in Hong Kong $'000 | Computer trading and clearing systems $'000 | Other computer hardware and software $'000 | Leasehold improvements, furniture, equipment and motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2001, as previously reported | 15,700 | 149,000 | 1,220,018 | 304,040 | 179,549 | 1,868,307 |
| Effect of adopting SSAP 28, (note 1(w)) | – | – | – | – | 34,517 | 34,517 |
| At 1 January 2001, as restated | 15,700 | 149,000 | 1,220,018 | 304,040 | 214,066 | 1,902,824 |
| Additions | – | – | 204,307 | 31,847 | 26,985 | 263,139 |
| Revaluation | (4,200) | (12,300) | – | – | – | (16,500) |
| Disposals | – | – | – | (2,061) | (4,131) | (6,192) |
| At 31 December 2001 | 11,500 | 136,700 | 1,424,325 | 333,826 | 236,920 | 2,143,271 |
| Representing | | | | | | |
| At cost | – | – | 1,424,325 | 333,826 | 236,920 | 1,995,071 |
| At valuation | | | | | | |
| - 31 December 2001 | 11,500 | 136,700 | – | – | – | 148,200 |
| | 11,500 | 136,700 | 1,424,325 | 333,826 | 236,920 | 2,143,271 |

## 13. FIXED ASSETS (continued)

### (a) Group (continued)

| | Investment property under long-term lease in Hong Kong $'000 | Land and buildings under long-term lease in Hong Kong $'000 | Computer trading and clearing systems $'000 | Other computer hardware and software $'000 | Leasehold improvements, furniture, equipment and motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | |
| At 1 January 2001, as previously reported | – | – | 856,979 | 221,535 | 115,978 | 1,194,492 |
| Effect of adopting SSAP 28, (note 1(w)) | – | – | – | – | 18,991 | 18,991 |
| At 1 January 2001, as restated | – | – | 856,979 | 221,535 | 134,969 | 1,213,483 |
| Charge for the year | – | 3,027 | 92,283 | 34,241 | 23,118 | 152,669 |
| Revaluation | – | (3,027) | – | – | – | (3,027) |
| Disposals | – | – | – | (1,845) | (4,119) | (5,964) |
| At 31 December 2001 | – | – | 949,262 | 253,931 | 153,968 | 1,357,161 |
| **Net Book Value** | | | | | | |
| At 31 December 2001 | 11,500 | 136,700 | 475,063 | 79,895 | 82,952 | 786,110 |
| At 31 December 2000 | 15,700 | 149,000 | 363,039 | 82,505 | 79,097 | 689,341 |

The cost of investment property was $8,229,000 (2000: $8,229,000). The investment property was revalued as at 31 December 2001 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. A deficit of $4,200,000 was charged to the investment properties revaluation reserve during 2001 (2000: deficit of $800,000) (note 25).

Land and buildings were revalued as at 31 December 2001 on the basis of their open market value in existing use carried out by Jones Lang LaSalle, an independent firm of qualified property valuers. A deficit of $9,273,000 was charged to other properties revaluation reserve during 2001 (2000: deficit of $62,520,000) (note 25).

## 13. FIXED ASSETS (continued)

### (a) Group (continued)

The total cost of land and buildings of the Group was $101,087,000 (2000: $101,087,000). The carrying value of these land and buildings as at 31 December 2001 would have been $82,650,194 (2000: $84,313,000) had they been carried at cost less accumulated depreciation.

### (b) HKEx

| | Other computer hardware and software $'000 | Leasehold improvements, furniture, equipment and motor vehicles $'000 | Total $'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2001 | 5,918 | 4,266 | 10,184 |
| Additions | 12,172 | 6,932 | 19,104 |
| Disposal | (70) | (9) | (79) |
| At 31 December 2001 | 18,020 | 11,189 | 29,209 |
| **Accumulated depreciation** | | | |
| At 1 January 2001 | 105 | 408 | 513 |
| Charge for the year | 2,533 | 1,616 | 4,149 |
| Disposal | (22) | – | (22) |
| At 31 December 2001 | 2,616 | 2,024 | 4,640 |
| **Net Book Value** | | | |
| At 31 December 2001 | 15,404 | 9,165 | 24,569 |
| At 31 December 2000 | 5,813 | 3,858 | 9,671 |

## 14. CLEARING HOUSE FUNDS

| | Group 2001 $'000 | Group 2000 $'000 |
|---|---|---|
| Net asset values of the Clearing House Funds are as follows: | | |
| HKSCC Guarantee Fund | **367,888** | 353,601 |
| SEOCH Reserve Fund | **128,837** | 117,132 |
| HKCC Reserve Fund | **447,429** | 419,162 |
| | **944,154** | 889,895 |
| Net assets of the Clearing House Funds are composed of: | | |
| Unlisted non-trading securities, at fair value | | |
| – debt securities | **340,821** | 431,551 |
| Contributions receivable from HKSCC Clearing Participants | **28,390** | 30,450 |
| Other receivables | **–** | 7,938 |
| Bank balances and time deposits | **590,304** | 436,822 |
| | **959,515** | 906,761 |
| Less: Accounts payable | **(15,361)** | (16,866) |
| | **944,154** | 889,895 |
| The Clearing House Funds are funded by: | | |
| Clearing Participants' contributions | **423,960** | 415,740 |
| Clearing house contributions and accumulated investment income net of expenses appropriated from retained earnings (note 26(a)) | **520,194** | 474,155 |
| | **944,154** | 889,895 |

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

Contributions receivable from HKSCC Clearing Participants are payable within one month unless a valid bank guarantee is provided by them to HKSCC.

## 15. COMPENSATION FUND RESERVE ACCOUNT

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

(a) The interest received from the SFC on the statutory deposits paid in respect of each Stock Exchange Trading Right into the Compensation Fund maintained by the SFC;

(b) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively; and

(c) Amounts reserved for successful claims to the Compensation Fund.

The Compensation Fund is further explained in notes 32(a)(i).

Following the adoption of SSAP 28, as detailed in note 1(w), $22,026,000 of the general provision for successful claims in the Compensation Fund previously included as non-current liabilities has been reversed as no obligation existed as at 1 January 2000, and 31 December 2000 and 2001.

## 16. CASH AND DERIVATIVES MARKET DEVELOPMENT FUND

| | Group | |
|---|---|---|
| | 2001<br>$'000 | 2000<br>$'000 |
| Net asset value of HKCC's CDMD Fund | 914 | 914 |
| The Fund is composed of: | | |
| Unlisted non-trading securities, at fair value | | |
| – debt securities | 914 | – |
| Others | – | 914 |
| | 914 | 914 |
| The Fund represents: | | |
| Accumulated investment income net of expenses appropriated from retained earnings (note 26(c)) | 914 | 914 |

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

## 17. NON-TRADING SECURITIES

| | Group 2001 $'000 | Group 2000 $'000 |
|---|---|---|
| Analysis of non-trading securities: | | |
| Current | – | 255,166 |
| Non-current | 52,366 | 609,500 |
| | 52,366 | 864,666 |
| Non-trading securities, at fair value: | | |
| Listed outside Hong Kong | | |
| – equity securities | 52,366 | 58,497 |
| Unlisted | | |
| – debt securities | – | 7,456 |
| – professionally managed debt securities portfolio | – | 798,713 |
| | – | 806,169 |
| | 52,366 | 864,666 |

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

| | Group 2001 $'000 | Group 2000 $'000 |
|---|---|---|
| Five years or less, but over one year | – | 551,003 |
| Within one year | – | 255,166 |
| | – | 806,169 |

## 18. MARGIN FUNDS ON DERIVATIVES CONTRACTS

| | Group 2001 $'000 | Group 2000 $'000 |
|---|---|---|
| The margin funds comprise: | | |
| SEOCH Clearing Participants' margin funds | 740,934 | 740,191 |
| HKCC Clearing Participants' margin funds | 4,062,173 | 4,641,528 |
| | 4,803,107 | 5,381,719 |
| The assets of the margin funds comprise: | | |
| Bank balances and time deposits | 2,339,051 | 1,749,867 |
| Listed securities deposited as alternatives to cash deposits, at market value | 1,312,995 | 572,300 |
| Margin receivable from Clearing Participants | – | 9,752 |
| Listed non-trading securities, at fair value | | |
| – debt securities | 68,208 | – |
| Unlisted non-trading securities, at fair value | | |
| – money market fund | 229,127 | 592,890 |
| – debt securities | 853,726 | 2,456,910 |
| | 4,803,107 | 5,381,719 |
| The Group's liabilities in respect of the margin funds are as follows: | | |
| Margin deposits and securities received from SEOCH and HKCC Participants on derivatives contracts | 4,803,107 | 5,381,719 |

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

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

| | Group | | HKEx | |
|---|---|---|---|---|
| | 2001 $'000 | 2000 $'000 | 2001 $'000 | 2000 $'000 |
| Receivable from Exchange and Clearing Participants: | | | | |
| – CNS money obligations | 1,727,190 | 2,271,803 | – | – |
| – transaction levy, stamp duty and fees receivable | 101,440 | 100,320 | – | – |
| Other fees receivable | 210,282 | 151,296 | – | – |
| Interest receivable | 48,157 | 71,628 | – | – |
| Other receivables, deposits and prepayments | 247,698 | 78,439 | 16,889 | 3,569 |
| | 2,334,767 | 2,673,486 | 16,889 | 3,569 |

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

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

| | Group | | HKEx | |
|---|---|---|---|---|
| | | As restated | | |
| | 2001 | 2000 | 2001 | 2000 |
| | $'000 | $'000 | $'000 | $'000 |
| Payable to Exchange and Clearing Participants: | | | | |
| – CNS money obligations | 1,669,621 | 2,193,606 | – | – |
| – cash collateral and others | 27,872 | 87,811 | – | – |
| – arising from exercise of stock options | 57,868 | 75,501 | – | – |
| Transaction levy payable to the SFC | 19,420 | 18,000 | – | – |
| Unclaimed dividends (note c) | 94,880 | 83,136 | – | – |
| Stamp duty payable | 30,119 | 40,940 | – | – |
| Deposits received | 96,210 | 155,649 | – | – |
| Other payables and accruals | 737,316 | 311,331 | 22,650 | 12,846 |
| | 2,733,306 | 2,965,974 | 22,650 | 12,846 |

(c) Unclaimed dividends represent dividends declared by listed companies which are held by HKSCC but not yet claimed by shareholders of the companies concerned.

(d) CNS money obligations receivable represents 74 per cent (2000: 85 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represents 61 per cent (2000: 74 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts receivable, prepayments, deposits, accounts payable, accruals and other liabilities will mature within three months.

## 20. TRADING SECURITIES

| | Group 2001 $'000 | Group 2000 $'000 |
|---|---|---|
| Equity securities, at fair value | | |
| – listed in Hong Kong | 11,547 | – |
| – listed outside Hong Kong | 94,688 | – |
| | 106,235 | – |
| Debt securities, at fair value | | |
| – listed in Hong Kong | 103,419 | – |
| – listed outside Hong Kong | 695,491 | – |
| | 798,910 | – |
| Unlisted debt securities, at fair value | 2,277,382 | – |
| | 3,182,527 | – |

## 21. PARTICIPANTS' ADMISSION FEES RECEIVED

The admission fees are non-interest bearing and may be repayable upon the expiry of seven years from the date of admission of a Participant or upon the termination of a Participant's participation in CCASS, whichever is later. HKSCC may, at its discretion, grant early refunds of admission fees to terminated Participants after six months from the date of termination of their participation in CCASS and to Broker Participants after six months from the date of sale of their Stock Exchange Trading Right (before 6 March 2000, from the date of sale of their Stock Exchange 'A' shares).

## 22. PROVISIONS

### (a) Group

| | Reinstatement costs $'000 | Employee benefit costs $'000 | Total $'000 |
|---|---|---|---|
| At 1 January 2001 | – | – | – |
| Adjustment on adoption of | | | |
| – SSAP 28 (note 1(w)) | 34,517 | – | 34,517 |
| – SSAP 34 (note 1(g)) | – | 24,737 | 24,737 |
| At 1 January 2001, as restated | 34,517 | 24,737 | 59,254 |
| Provision for the year | 771 | 30,971 | 31,742 |
| Amount used during the year | – | (30,413) | (30,413) |
| Amount paid during the year | (4,045) | (1,469) | (5,514) |
| At 31 December 2001 | 31,243 | 23,826 | 55,069 |

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Analysis of provisions: | | |
| Current | **25,927** | 33,097 |
| Non-current | **29,142** | 26,157 |
| | **55,069** | 59,254 |

## 22. PROVISIONS (continued)

### (b) HKEx

| | Employee benefit costs $'000 |
|---|---|
| At 1 January 2001 | – |
| Adjustment on adoption of SSAP 34 (note 1(g)) | 1,336 |
| At 1 January 2001, as restated | 1,336 |
| Provision for the year | 8,397 |
| Amount used during the year | (4,586) |
| Amount paid during the year | (18) |
| At 31 December 2001 | 5,129 |

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Analysis of provisions: | | |
| Current | **5,129** | 1,336 |
| Non-current | **–** | – |
| | **5,129** | 1,336 |

## 23. INVESTMENTS IN SUBSIDIARIES

| | HKEx 2001 $'000 | As restated 2000 $'000 |
|---|---|---|
| Investments in unlisted shares, at cost | 4,145,198 | 4,145,198 |
| Amounts due from subsidiaries | 82,603 | 64,386 |
| | 4,227,801 | 4,209,584 |

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

### Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2001, all of which are wholly-owned private companies incorporated and operating in Hong Kong except for HKEx (China) Limited, which will operate mainly in the PRC. Details of these companies are as follows:

| Company | Issued and fully paid up share capital | Principal activities | Interest held |
|---|---|---|---|
| **Direct subsidiaries:** | | | |
| The Stock Exchange of Hong Kong Limited | A shares $929 | Operates the single, unified stock exchange in Hong Kong for the purposes of the Stock Exchanges Unification Ordinance | 100% |
| Hong Kong Futures Exchange Limited | Ordinary $19,600,000 Standard $850,000 | Operates a futures and options exchange | 100% |
| Hong Kong Securities Clearing Company Limited | Ordinary $2 | Operates CCASS and the central securities depository, custody and nominee services for eligible securities listed in Hong Kong | 100% |

## 23. INVESTMENTS IN SUBSIDIARIES (continued)

### Particulars of subsidiaries (continued)

| Company | Issued and fully paid up share capital | Principal activities | Interest held |
|---|---|---|---|
| **Direct subsidiaries: (continued)** | | | |
| HKEC Nominees Limited | Ordinary $2 | Nominee services | 100% |
| Hong Kong Financial Markets Development Limited | Ordinary $2 | Promotes the securities, futures and financial industry | 100% |
| HKEx (Singapore) Limited | Ordinary $2 | Investment holding | 100% |
| HKEx (China) Limited (acquired on 4 January 2001) | Ordinary $2 | Promotes HKEx products and services in the PRC | 100% |
| **Indirect subsidiaries:** | | | |
| The SEHK Options Clearing House Limited | Ordinary $1,000,000 | Operates a clearing house for option contracts traded on the Stock Exchange | 100% |
| HKEx Information Services Limited (formerly Stock Exchange Information Limited) | Ordinary $100 | Sale of stock market information | 100% |
| Prime View Company Limited | Ordinary $20 | Property holding | 100% |

## 23. INVESTMENTS IN SUBSIDIARIES (continued)

### Particulars of subsidiaries (continued)

| Company | Issued and fully paid up share capital | Principal activities | Interest held |
|---|---|---|---|
| **Indirect subsidiaries: (continued)** | | | |
| The Stock Exchange Club Limited | Ordinary $8 | Property holding | 100% |
| The Stock Exchange Nominee Limited | Ordinary $2 | Nominee services | 100% |
| HKFE Clearing Corporation Limited | Ordinary $1,000,000 | Operates a clearing house for derivatives contracts traded on the Futures Exchange | 100% |
| HKFE Clearing Linkage Limited | Ordinary $2 | Dormant | 100% |
| HKSCC Nominees Limited | Ordinary $20 | Acting as common nominee in respect of securities held in the CCASS depository | 100% |
| Hong Kong Registrars Limited | Ordinary $20 | Acting as share registrar of companies listed in Hong Kong | 100% |

## 24. SHARE CAPITAL

| | 2000 and 2001 $'000 |
|---|---|
| Authorised: | |
| 2,000,000,000 shares of $1 each | 2,000,000 |
| Issued and fully paid: | |
| 1,040,664,846 shares of $1 each | 1,040,665 |

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

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

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

The Group has adopted merger accounting as stated in note 1(c)(ii) in the preparation of the consolidated accounts. As a result, HKEx and its subsidiaries at the time of the merger were deemed to be in existence throughout the current and prior periods, instead of from the effective date of the merger on 6 March 2000.

## 24. SHARE CAPITAL (continued)

Under the Pre-Listing Share Option Scheme of HKEx, share options were granted to employees on 20 June 2000 which are exercisable between 6 March 2002 and 30 May 2010 at an exercise price of $7.52 per share. Movements of the options during the year were as follows:

| Number of shares issuable under the share options outstanding as at 1 January 2001 | Number of share options forfeited | Number of share options granted | Number of shares issuable under the share options outstanding as at 31 December 2001 | Number of share options vested as at 31 December 2001 |
|---|---|---|---|---|
| 30,589,240 | 3,321,856 | – | 27,267,384 | – |

New shares will be issued when the share options are exercised and the issued and fully paid share capital will be increased by the nominal value of the new shares issued.

## 25. REVALUATION RESERVES

| | Group | | | |
|---|---|---|---|---|
| | Investment properties revaluation reserve $'000 | Other properties revaluation reserve $'000 | Investment revaluation reserve $'000 | Total $'000 |
| At 1 January 2000 | 8,271 | 105,426 | (13,831) | 99,866 |
| Change in valuation of properties | (800) | (62,520) | – | (63,320) |
| Change in fair value of non-trading securities | – | – | 8,715 | 8,715 |
| Realisation on maturity and disposal of non-trading securities | – | – | 39,092 | 39,092 |
| At 31 December 2000 | 7,471 | 42,906 | 33,976 | 84,353 |
| Change in valuation of properties (note 13(a)) | (4,200) | (9,273) | – | (13,473) |
| Change in fair value of non-trading securities | – | – | 1,886 | 1,886 |
| Realisation on maturity and disposal of non-trading securities | – | – | (28,969) | (28,969) |
| At 31 December 2001 | 3,271 | 33,633 | 6,893 | 43,797 |

The revaluation reserves are segregated for their respective specific purposes.

## 26. DESIGNATED RESERVES

| | Group 2001 $'000 | As restated 2000 $'000 |
|---|---|---|
| Clearing House Funds reserves (note a) | | |
| – HKSCC Guarantee Fund reserve | 254,428 | 241,861 |
| – SEOCH Reserve Fund reserve | 44,837 | 35,132 |
| – HKCC Reserve Fund reserve | 220,929 | 197,162 |
| | 520,194 | 474,155 |
| Compensation Fund Reserve Account reserve (note b) | 35,146 | 31,107 |
| CDMD Fund reserve (note c) | 914 | 914 |
| Development reserves (note d) | | |
| – the Stock Exchange | 135,762 | 135,762 |
| | 692,016 | 641,938 |

These reserves are segregated for their respective purposes. Details of the movements on the reserves during the year are as follows:

### (a) Clearing House Funds reserves

| | HKSCC Guarantee Fund reserve $'000 | SEOCH Reserve Fund reserve $'000 | HKCC Reserve Fund reserve $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 January 2000 and 31 December 2000 | 241,861 | 35,132 | 197,162 | 474,155 |
| Investment income net of expenses of Clearing House Funds transferred from retained earnings | 12,567 | 9,705 | 23,767 | 46,039 |
| At 31 December 2001 | 254,428 | 44,837 | 220,929 | 520,194 |

## 26. DESIGNATED RESERVES (continued)

### (b) Compensation Fund Reserve Account reserve

| | $'000 |
|---|---|
| At 1 January 2000, as previously reported | 9,081 |
| Effect of adopting SSAP 28 (note 1(w)) | 22,026 |
| At 1 January 2000, as restated and 31 December 2000 | 31,107 |
| Investment income net of expenses of Compensation Fund Reserve Account transferred from retained earnings | 4,039 |
| At 31 December 2001 | 35,146 |

### (c) CDMD Fund reserve

| | $'000 |
|---|---|
| At 1 January 2000 | 914 |
| Movements | – |
| At 31 December 2000 and 31 December 2001 | 914 |

## 26. DESIGNATED RESERVES (continued)

### (d) Development reserves

| | The Stock Exchange Development reserve $'000 | The Futures Exchange Development reserve $'000 | Total $'000 |
|---|---|---|---|
| At 1 January 2000 | 180,007 | 6,235 | 186,242 |
| Transfer to retained earnings | (44,245) | (6,235) | (50,480) |
| At 31 December 2000 and 31 December 2001 | 135,762 | – | 135,762 |

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

## 27. MERGER RESERVE

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000 (note 24) as a merger reserve. In the consolidated balance sheet, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 28(c).

## 28. RETAINED EARNINGS/(ACCUMULATED LOSSES)

| | Group | | HKEx | |
|---|---|---|---|---|
| | 2001 $'000 | 2000 $'000 | 2001 $'000 | 2000 $'000 |
| At 1 January, as previously reported | 2,891,583 | 2,305,633 | 262,796 | (12,507) |
| Effect of adopting SSAP 9 (revised) (note 1(u)) | 260,166 | – | (90,542) | – |
| Proposed dividend separately disclosed on the face of balance sheet | (260,166) | – | (260,166) | – |
| Effect of adopting SSAP 28 (note 1(w)) | (15,012) | (15,012) | – | – |
| Effect of adopting SSAP 34 (note 1(g)) | (24,737) | (19,495) | (1,336) | – |
| At 1 January, as restated | 2,851,834 | 2,271,126 | (89,248) | (12,507) |
| Transfer from Development reserves | – | 50,480 | – | – |
| Profit for the year (note a) | 740,426 | 873,647 | 460,919 | 266,678 |
| Investment income net of expenses of Clearing House Funds transferred to Clearing House Funds reserves | (46,039) | – | – | – |
| Investment income net of expenses of Compensation Fund Reserve Account transferred to Compensation Fund Reserve Account reserve | (4,039) | – | – | – |
| 2000 interim dividend | – | (83,253) | – | (83,253) |
| 2000 final dividend | – | (260,166) | – | (260,166) |
| 2001 interim dividend | (83,253) | – | (83,253) | – |
| 2001 final dividend | (260,166) | – | (260,166) | – |
| At 31 December | 3,198,763 | 2,851,834 | 28,252 | (89,248) |

## 28. RETAINED EARNINGS/(ACCUMULATED LOSSES) (continued)

(a) Profit attributable to shareholders includes a profit of $460,919,000 (as restated 2000: $266,678,000) which has been dealt with in the accounts of HKEx, the holding company of the Group.

(b) The Group's profit after taxation includes the investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of $39,713,000 (2000: $35,671,000).

(c) The reserve arising on consolidation of $4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of $2,997,115,000 (note 27) and retained earnings of $1,119,321,000.

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2001<br>$'000 | As restated<br>2000<br>$'000 |
|---|---|---|
| Profit before taxation | 822,446 | 979,448 |
| Interest income | (451,395) | (609,755) |
| Interest expenses | 69,445 | 195,428 |
| Dividend income | (2,629) | – |
| Realised gain on trading securities | (16,180) | – |
| Unrealised gain on trading securities | (18,320) | – |
| Net exchange loss/(gain) | 4,775 | (415) |
| Depreciation and amortisation | 152,669 | 177,450 |
| Loss on disposal of fixed assets | 1 | 14,450 |
| Changes in provisions | (4,185) | 5,242 |
| Amount received from CDMD Fund for payment to Compensation Fund | – | 100,000 |
| Settlement of amounts transferred from retained earnings to Clearing House Funds | (46,039) | – |
| Settlement of amount transferred from retained earnings to Compensation Fund Reserve Account | (4,039) | – |
| Decrease in accounts receivable, prepayments and deposits | 315,248 | 121,240 |
| Decrease in accounts payable, accruals and other liabilities | (232,325) | (379,498) |
| Increase in deferred revenue | 13,791 | 41,288 |
| Decrease in payable to the Compensation Fund | – | (200,000) |
| Net cash inflow from operating activities | 603,263 | 444,878 |

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

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

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Time deposits with original maturity within three months | 918,620 | 2,728,866 |
| Cash at bank and in hand | 433,344 | 321,781 |
| Cash and cash equivalents at the end of the year | 1,351,964 | 3,050,647 |

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

## 30. COMMITMENTS

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

| | Group | | HKEx | |
|---|---|---|---|---|
| | 2001 $'000 | 2000 $'000 | 2001 $'000 | 2000 $'000 |
| Contracted but not provided for | 50,194 | 3,181 | 944 | – |
| Authorised but not contracted for | 267,199 | 378,191 | 83,873 | 86,444 |
| | 317,393 | 381,372 | 84,817 | 86,444 |

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

## 30. COMMITMENTS (continued)

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

| | Group | | HKEx | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | $'000 | $'000 | $'000 | $'000 |
| Land and buildings, payable | | | | |
| – within one year | 59,128 | 63,304 | – | – |
| – in the second to fifth years | 181,540 | 197,919 | – | – |
| – after five years | – | 2,909 | – | – |
| | 240,668 | 264,132 | – | – |
| Computer systems and equipment, payable | | | | |
| – within one year | 49,664 | 55,189 | – | – |
| – in the second to fifth years | 41,279 | 41,636 | – | – |
| – after five years | 10,072 | – | – | – |
| | 101,015 | 96,825 | – | – |
| | 341,683 | 360,957 | – | – |

In respect of computer systems and equipment, the majority of the leases mature within three years and the Group does not have any purchase options.

## 31. FINANCIAL RISK MANAGEMENT

When seeking to optimise returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts are used to hedge the currency exposures of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates. As at 31 December 2001, the total nominal value of outstanding forward foreign exchange contracts amounted to HK$120 million (2000: $Nil). All contracts will mature within one month.

## 32. CONTINGENT LIABILITIES

### (a) Group

(i) The Compensation Fund is a fund set up under the SO for the purpose of compensating any person dealing with a Stock Exchange Participant (other than another Stock Exchange Participant) for any pecuniary losses suffered as a result of defaults of the Stock Exchange Participant. According to section 109(3) of the SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the SO, the Stock Exchange may, upon satisfying certain conditions, with the approval of the SFC, allow an additional payment to the successful claimants before apportionment. Under section 107(1) of the SO, 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 to be 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 but capped at $8 million per default. As at 31 December 2001, there were outstanding claims received in respect of 15 defaulted Stock Exchange Participants (2000:18).

Under the new investor compensation arrangements proposed by the SFC in March 2001 to be implemented under the Securities and Futures Bill, a new single Investor Compensation Fund would replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. The new arrangements would eliminate the existing requirement for Exchange Participants and non-exchange participant dealers to make deposits to the Compensation Funds and Dealers' Deposit Schemes respectively. Existing deposits would be returned to the Exchange Participants and to non-exchange participant dealers. The arrangements would also remove the existing requirement for the Stock Exchange to replenish the Compensation Fund.

(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 $200,000 in respect of defaults of any one Participant. In the unlikely event that all of its 492 trading Participants as at 31 December 2001 (2000: 500) default, the maximum contingent liability of the Stock Exchange under the indemnity will amount to $98 million (2000: $100 million).

## 32. CONTINGENT LIABILITIES (continued)

### (a) Group (continued)

(iii) Pursuant to section 21 of the Exchanges and Clearing Houses (Merger) Ordinance, HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

### (b) HKEx

(i) Apart from the matter mentioned in (a)(iii) above, HKEx has given a guarantee to secure banking facilities granted to HKSCC since 13 December 2000. These facilities, on a committed basis of an aggregate amount of $1.1 billion, were granted to HKSCC by five banks to provide stand-by liquidity to meet the obligations of HKSCC in CCASS in circumstances where CCASS Participants default on their payment obligations. As at 31 December 2001 and 31 December 2000, none of these banking facilities was utilised.

(ii) HKEx has given a guarantee to secure banking facilities of SGD12 million to HKEx (Singapore) Limited for financing its investments since 16 April 2001. As at 31 December 2001, SGD11 million (equivalent to HK$46 million) of the facility was drawn down. The loan will mature within one year and has a fixed rate of interest.

## 33. MATERIAL RELATED PARTY TRANSACTIONS

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

## 34. OFF BALANCE SHEET RISKS

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

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

## 35. BANKING FACILITIES WITH ASSETS PLEDGED

The Group had a $10 million overdraft facility with a bank in Hong Kong, which was secured by a pledge of the Group's time deposits of an equivalent amount at that bank. As at 31 December 2001 and 31 December 2000, this overdraft was not utilised.