



INSIDE CLEAR TALK

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ClearTalk

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"Hit by the financial turmoil, Hong Kong's economy and the entire financial system faced unprecedented difficulties. However, we can take pride in that the clearing and settlement system of the securities market continues to function normally, greatly reducing the market's risk exposure and maintaining its stability," said Rafael Hui, Secretary for Financial Services. "These are all attributable to the hard work of Hongkong Clearing over the years, which deserves our recognition."

Over 700 guests from the financial services industry, regulatory bodies and other private sectors joined the staff of Hongkong Clearing to celebrate the Company's ninth anniversary.

Mr Hui was speaking as the Guest of Honour at the reception marking Hongkong Clearing's ninth anniversary. He continued: "The overall operations of CCASS functioned smoothly, without any systemic problems. We should compliment Hongkong Clearing for this.

"The staff and management of Hongkong Clearing were under substantial pressure from public opinion during the discussions on settlement rules. However, under the leadership of Mr John Chan, Hongkong Clearing responded promptly and positively to market demands, while taking due consideration for the whole market situation. I think their efforts should be highly commended by all."

In his speech, John Chan, Chairman of Hongkong Clearing, said: "No one, I think, would claim that these have been easy times. But, once again, the fortitude, ingenuity and resolve our financial institutions have shown in the face of first regional, and then global uncertainty

have maintained the confidence in our financial systems.

"In our own case, we have dealt with one challenge after another, including the extreme market volatility, liquidations of four brokerages and a thirty-fold increase in share withdrawals. Most recently, speculative attacks against both the Hong Kong Dollar and our financial markets have led to Government intervention. In response to requests made by the Government, Hongkong Clearing has tightened the T+2 settlement period.

"With the strict enforcement of T+2, Hongkong Clearing will continue to enhance its services, including the introduction of stock borrowing and lending, to further facilitate CCASS Participants in the T+2 settlement process; and will maintain CCASS as an effective and efficient infrastructure for the securities market."

Compliments to Hongkong Clearing at its Ninth Anniversary

Mr Chan noted that the electronic IPO service would be launched next year, making it easier for investors to subscribe to new shares.

He also mentioned about the two substantial fee discounts introduced to CCASS Participants in January and November this year which have cut settlement fees to just one fifth of that levied when CCASS was launched in 1992.

Finally, Mr Chan thanked the Company's Board Directors and staff for their efforts and commitment which had made these achievements possible.



From right: Rafael Hui, Secretary for Financial Services; John Chan, Chairman; and Stewart Shing, Chief Executive at Hongkong Clearing's ninth anniversary reception.

Hongkong Clearing Celebrates Ninth Anniversary



Seventh Fee Reduction introduced

Hongkong Clearing has introduced a 20 per cent discount in the CCASS stock settlement fee. Effective 1 November 1998, the fee was reduced from 0.0025 per cent to 0.002 per cent, per side, per trade/instruction, for Stock Exchange non-cross trades, Settlement Instructions and Investor Settlement Instructions. The maximum fee of \$125 was also reduced to \$100, and the \$2 minimum fee remained unchanged.

John Chan, Chairman, noted this was the seventh fee reduction since CCASS was implemented in 1992. "One of our corporate objectives is to minimise the cost of clearing and settlement transactions. In January this year, we have already reduced the stock settlement fee from 0.004 per cent to 0.0025 per cent. With this latest reduction, our stock settlement fee is just one-fifth of its 1992 level," he said.

From 1 November 1998, the Company also reduced the CCASS registration and transfer fee, which is charged for registering and transferring share certificates, from \$2 to \$1.5 per board lot. In addition, the CCASS corporate action fee charged for stock splittings and consolidations was waived.*

Mr Chan said: "These discounts reduce Broker/Custodian Participants' operating costs and enhance the competitiveness of the Hong Kong securities

market. As we charge Investor Participants the same fees as we charge our Broker/Custodian Participants, Investor Participants also benefit directly from these fee discounts. It reflects Hongkong Clearing's commitment to providing high-quality services at the lowest possible cost."

As of 30 June 1998, the cumulative discounts provided to participants since the implementation of CCASS amounted to \$1,301 million. The Company estimates that, between 1 November 1998 and 30 June 1999, the end of the current financial year, the latest fee reduction will save participants \$41 million.



***At present, corporate action fee is not charged for the following corporate activities:**

- Collection of scrip dividends or bonus shares
- Interest payment for bonds
- Corporate voting
- Stock splittings
- Stock consolidations
- Excess applications for rights issue and open offer
- Shareholding removal of expired warrants and lapsed rights

Settlement Efficiency over 99% on T+2

In the first month of the implementation of compulsory T+3 buy-in, average daily settlement efficiency of CNS trades executed on the Exchange rose to over 99 per cent on T+2. The highest settlement efficiency of 99.45 per cent was recorded on 9 October 1998. On average, Hongkong Clearing executed compulsory buy-in for 17 brokers on T+3, involving \$10.6 million worth of shares. No major problems were encountered on the strict enforcement of T+2 settlement rule.

CCASS Hotline has been receiving from Participants enquiries on the calculation of fines, procedures of compulsory buy-in, circumstances that warrant exemptions, application procedures for exemptions and the availability of buy-in notification reports, etc.

A lot of Participants called the CCASS Hotline explaining that they failed to settle their stock positions because they

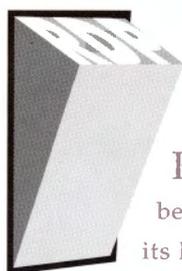
forgot to transfer shares from their segregated accounts to the clearing accounts. To avoid making the same mistakes again, it is suggested that Participants check the details of their stock positions using the 'Enquire Due / Overdue Positions' function and transfer shares to the clearing accounts, especially after the second batch settlements, for the final batch settlement run on every settlement day when necessary.

To fulfill the settlement obligations of Broker Participants with long positions, Hongkong Clearing is planning to implement a compulsory stock borrowing mechanism in 1999. The Company will also continue to monitor and review market situations and introduce new measures to further facilitate CCASS Participants in the T+2 settlement process.

Settlement efficiency of Exchange trades concluded from 24/9/1998 to 23/10/1998

Trade Day (T)	Settlement Due Day (T+2)	T+3	Settlement Efficiency * on T+2	Number of Overdue Short Brokers on T+2	Amount Involved	Number of Brokers for Whom Buy-in was Effectuated on T+3	Amount Involved
24/9/98	28/9/98	29/9/98	99.06%	40	\$40,800,000	25	\$38,200,000
25/9/98	29/9/98	30/9/98	98.64%	28	\$10,700,000	16	\$7,400,000
28/9/98	30/9/98	5/10/98	99.10%	22	\$2,600,000	10	\$1,400,000
29/9/98	5/10/98	7/10/98	98.91%	26	\$21,200,000	18	\$1,800,000
30/9/98	7/10/98	8/10/98	99.21%	19	\$9,200,000	7	\$500,000
5/10/98	8/10/98	9/10/98	99.42%	13	\$3,600,000	8	\$2,500,000
7/10/98	9/10/98	12/10/98	99.45%	14	\$6,700,000	8	\$5,300,000
8/10/98	12/10/98	13/10/98	99.08%	40	\$5,300,000	17	\$3,200,000
9/10/98	13/10/98	14/10/98	98.85%	45	\$36,200,000	28	\$29,200,000
12/10/98	14/10/98	15/10/98	98.85%	50	\$18,600,000	29	\$15,500,000
13/10/98	15/10/98	16/10/98	98.56%	37	\$21,200,000	19	\$13,400,000
14/10/98	16/10/98	19/10/98	98.82%	22	\$4,000,000	10	\$3,000,000
15/10/98	19/10/98	20/10/98	98.86%	23	\$5,500,000	15	\$5,200,000
16/10/98	20/10/98	21/10/98	99.12%	50	\$21,400,000	27	\$15,600,000
19/10/98	21/10/98	22/10/98	99.04%	34	\$24,700,000	21	\$21,200,000
20/10/98	22/10/98	23/10/98	99.42%	20	\$4,500,000	13	\$3,300,000
21/10/98	23/10/98	26/10/98	99.33%	24	\$5,800,000	17	\$5,400,000
22/10/98	26/10/98	27/10/98	99.12%	25	\$23,900,000	17	\$23,200,000
23/10/98	27/10/98	29/10/98	99.02%	17	\$6,300,000	14	\$6,000,000

*Settlement efficiency in terms of stock positions



RDP grows in popularity

Realtime Delivery versus Payment (RDP) has been introduced for more than six months since its launch in May 1998. The service means that shares are delivered to paying Participants' stock accounts upon receipt of payment confirmation from The Hong Kong Interbank Clearing Limited. RDP eliminates credit risk involved in the settlement of Settlement Instructions (SIs) and Investor Settlement Instructions (ISIs).

The Chase Manhattan Bank (Chase) is one of the CCASS Designated Banks making use of the RDP service. Mr Simon Chong, Vice President and Hong Kong Custody Operations Manager of Chase, said: "RDP is a key component in reducing the risk exposure on trade settlements and is a factor which institutional investors look for in international financial markets. Hong Kong is maintaining pace with the world leaders in transaction settlements through offering RDP.

"RDP is gradually growing in popularity as clients realise its potential in risk reduction on trade settlement and that it

is a service brokers are capable of offering. To fully appreciate the idea of RDP and realise its full potential in risk management, market security and liquidity flows, the product (RDP) should be offered not as an alternative but as the standard settlement practice."

Daily average value of SIs and ISIs settled by RDP

	Value of settled ISIs	Value of settled SIs
May 98	\$150,000	\$33,253,000
June 98	\$142,000	\$11,808,000
July 98	\$249,000	\$13,357,000
August 98	\$54,000	\$7,014,000
September 98	\$160,000	\$21,849,000
October 98	\$306,000	\$334,257,000



Y2K Test Kit

Hongkong Clearing has prepared a Y2K Test Kit to help CCASS Participants ensure their back office systems function properly beyond year 2000.

The Y2K Test Kit can be used to perform Y2K compliance tests in-house. The kit contains instruction guidelines, two conversion programs, and CCASS report/data files. The report/data files simulate the output of a CCASS Participant's daily operation using a CCASS Terminal for Participants to perform verification and reconciliation testing.

Both Custodian and Pledge Participants have been notified to collect the Y2K Test Kit at Hongkong Clearing's Depository Service Counters Hall on the 2nd floor of Vicwood Plaza. For Broker Participants, the Test Kit can be obtained via the E-mail Terminal and website (www.sehk.com) of the Stock Exchange of Hong Kong (SEHK) or at the SEHK's Member Service Counter.

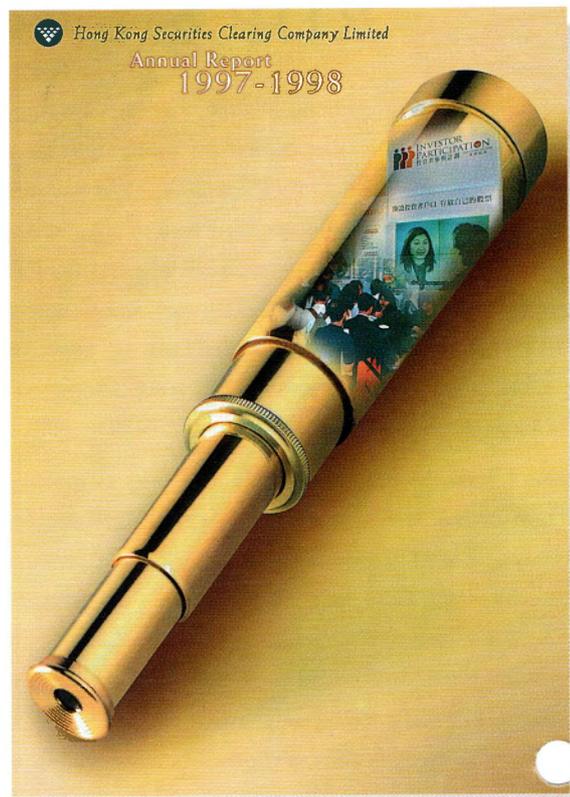
Participants must keep all test results for subsequent inspection by

relevant regulatory bodies. The Y2K Test Kit Result Summary contained in the Y2K Test Kit must also be completed and returned to the Compliance Department of Hongkong Clearing before 28 December 1998. Successful execution of the Y2K Test Kit is a prerequisite for participation in the Y2K Street-wide Test.

Y2K Street-wide Test

To ensure the Y2K readiness of the overall securities industry, the Securities & Futures Commission has initiated a Y2K Street-wide Test to be conducted in 1999. The first round of the Y2K Street-wide Test has been scheduled for 16-17 and 23-24 January 1999. All CCASS Participants and Designated Banks are required to participate in the Street-wide Test. Details of the Test will be released in November 1998. Briefing sessions, jointly organised by the SEHK and Hongkong Clearing, will be conducted in December 1998 to answer any queries relating to the Street-wide Test. Broker Participants should refer to the circulars issued by the SEHK for information on the briefing sessions. Hongkong Clearing will also conduct separate briefing sessions for Custodian Participants, Pledge Participants and Designated Banks, who will be informed of the details via separate circulars.

Keeping Ahead of Market Challenges While Serving a Wider Range of Participants



Hongkong Clearing, in its recently published annual report, announced that the net surplus for the financial year ended 30 June 1998 amounted to \$369 million, representing an increase of 28 per cent over the previous year.

John Chan, Chairman, said: "For the first time in its history, Hongkong Clearing introduced two fee discounts in a single financial year. By 30 June 1998, the cumulative discounts provided to Participants since the introduction of CCASS had reached \$1,301 million.

"The year under review was a difficult one for the securities industry due to the impact of the Asian financial crisis, the unprecedented volatility of Hong Kong's stock market and the liquidation of four securities firms. In this challenging environment, the Company demonstrated its financial and operational strengths while maintaining its reputation for security and efficiency.

"In January 1998, the Company experienced a 30-fold increase in share withdrawals following the suspension of Peregrine Brokerage Limited's Stock Exchange membership and collapse of C.A. Pacific Securities Limited. Another period of high withdrawals followed the failure of Forlux Securities Ltd. and Chark Fung Securities Co. Ltd. in May 1998," Mr Chan continued.

Hongkong Clearing introduced the Investor Account Service to serve retail investors in addition to market intermediaries in

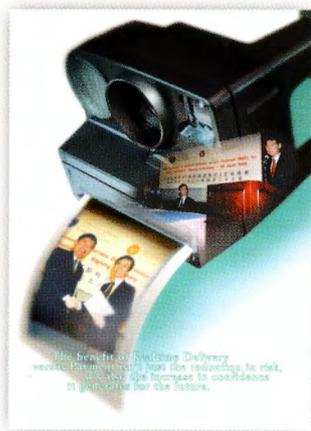
May 1998. "The introduction of the Investor Account Service is also a significant step towards the integration of CCASS with the Stock Exchange's proposed AMS/3 order routing system, which will enable investors to input trade orders through the Internet or an interactive voice response system," Mr Chan said.

"The successful integration of CCASS and AMS/3 will further enhance trade execution for both Investor Participants and Intermediary Participants, leading to the introduction of Straight-Through-Processing of securities transactions."

Straight-Through-Processing is based on the integration of the Stock Exchange's trading system with systems in broker offices, and the clearing, settlement, share registration and cash settlement functions. It will reduce risk and enhance the efficiency of Hong Kong's financial markets.

During the year under review, apart from the Investor Account Service, Hongkong Clearing continued to expand its range of services. In December 1997, the Company issued a consultation paper on a proposal to offer stock borrowing and lending services within CCASS. Fourteen submissions were received and feedback from CCASS Participants was positive. The Company received a number of suggestions about risk management and logistics for the new service, and a revised business model has been prepared.

Mr Chan said: "Scheduled to be introduced in 1999, this service is an important component of a mature financial centre. It will



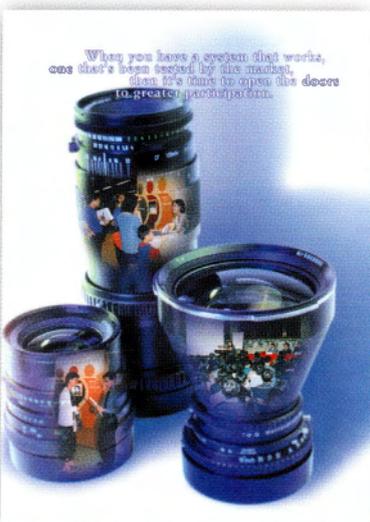
help avoid stock settlement failures, provide brokers and traders with a means of hedging investment portfolios, and generate a stable fee income for the immobilised securities portfolios of the stockholders."

In February 1998, the Company launched the Corporate Communications Project, an initiative designed to improve

the dissemination of information from listed issuers to non-registered holders of shares deposited in CCASS.

In May 1998, the Company launched Realtime Delivery versus Payment (RDP), a settlement mode that eliminates credit risk by delivering stock to paying participants' stock accounts upon receipt of payment confirmation from Hong Kong Interbank Clearing Limited. "The introduction of RDP also enhances Hong Kong's status as a leading international financial centre," Mr Chan noted.

The Company was also active at the regional level, playing a leading role in the formation of the Asia-Pacific Central Securities Depository Group (ACG). Hosting the ACG's first conference in November 1997, the Company was elected ACG's first secretariat for a one-year term. Comprising 18 member organisations, the ACG was established to encourage cooperation, development and communications among central securities depositories throughout the Asia-Pacific region.



In his administration report, Stewart Shing, Chief Executive, said the year under review was one of the most turbulent periods. "On 29 August 1997, turnover on the Stock Exchange of Hong Kong reached a record \$46 billion, or more than eight times the daily average during 1996. Less than two months later, on 28 October, the Hang Seng Index plunged 1,438 points and then rebounded 1,705 points the following day. The Hang Seng Index peaked at 16,673 on 7 August 1997 and closed at 8,543 on 30 June 1998," Mr Shing said.

"During the year under review, CCASS processed an average of 115,493 Stock Exchange trades daily involving 5.8 billion shares valued at \$12.9 billion. The corresponding figures for

the previous year were 82,544 trades involving 4.5 billion shares valued at \$9.4 billion," Mr Shing said. "The Depository handled a daily average of 3,354 deposit and withdrawal transactions involving 50,295 share certificates during the year, compared with 1,763 transactions involving 48,622 certificates during the previous year."

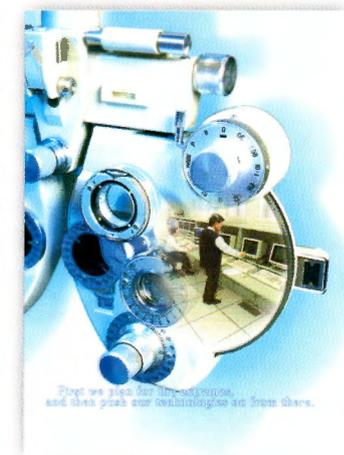
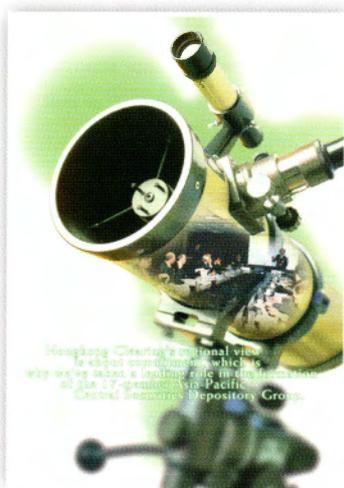
The Company continued to bolster its information technology capability. In October 1997, the Company upgraded the processing speed of its mainframe computers to 140 million instructions per second. The upgrade allows CCASS to handle up to 550,000 trades per day. A new disaster-recovery system, known as Peer-to-Peer Remote Copy, was installed in December 1997 to shorten the time needed to recover from a system failure from four hours to less than two hours.

On Year 2000 compliance, Hongkong Clearing is working closely with CCASS Participants to ensure their

systems are Y2K compliant. Mr Shing also reported that Hongkong Clearing had joined The Financial Services Bureau's Y2K Compliance Steering Committee and, in cooperation with the Stock Exchange, the Company is now developing detailed standards for an industry-wide Y2K test.

New risk management measures were introduced. To increase funding flexibility for CCASS Broker Participants and reduce pressure on money market liquidity, Hongkong Clearing began accepting stocks as collateral in lieu of cash marks in December 1997. "This programme also increased the pace of immobilisation because only stocks held in CCASS can be used as collateral," Mr Shing added.

During the year, Hongkong Clearing also increased the insurance coverage of the Guarantee Fund from \$158 million



to \$500 million and transfer from Hongkong Clearing's reserves to the Guarantee Fund from \$100 million to \$200 million. "As at 30 June 1998, the Guarantee Fund stood at approximately \$800 million, which also includes about \$100 million from Broker Participants' contributions," Mr Shing reported.

Hongkong Clearing participates in the Custody & Settlement Asia / Pacific '98 Conference

With the launch of Investor Account Service in CCASS, Hongkong Clearing introduced the settlement mode of Realtime Delivery versus Payment in May 1998. To enhance the service, Electronic Initial Public Offering (IPO) is now being planned for 1999, with the ultimate goal of achieving Straight-Through-Processing of securities transactions.

"This will help reduce the risk and cost involved and greatly improve the efficiency of the Hong Kong securities market," said Stewart Shing, Chief Executive, at the Custody & Settlement Asia / Pacific '98 Conference held in Hong Kong from 16 to 18 November 1998.

Joining senior executives from International Securities Services Association, CRESTCo., Cedel Bank, Deutsche Bank, Hongkong Bank, Citibank and other major financial institutions around the world, Mr Shing participated in the Conference as a speaker at the panel discussion on central securities depositories. The other panellist was Iain Saville, Chief Executive of CRESTCo., United Kingdom.

Speaking on "Investor Participation Project in CCASS", Mr Shing briefly introduced CCASS to the audience with an emphasis on the Investor

Account Service. Benefits of the service, such as the security and convenience of electronic stock transfer, money settlement and the Realtime Delivery versus Payment settlement mode, as well as the ease and efficiency of the planned Electronic IPO and Straight-Through-Processing were discussed.

Mr Shing also outlined other strategic initiatives of Hongkong Clearing, including centralised stock borrowing and lending, multiple currency system and cross-border clearing and settlement.



Picture shows Mr Shing delivering his address at the Custody & Settlement Asia / Pacific '98 Conference.

ACG Announces a Range of New Initiatives, Including a Feasibility Study on the Establishment of 'Asiaclear'

The Asia-Pacific Central Securities Depository Group (ACG) held its second annual meeting from 9 to 10 November 1998 in Mumbai, India. The ACG now comprises 18 central securities depositories from Australia, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, the Philippines, Shanghai, Shenzhen, Singapore, Sri Lanka, Taiwan and Thailand.

Stewart Shing, Chief Executive of Hongkong Clearing, a founding member and the first secretariat of the ACG, said: "Hongkong Clearing was honoured to have played a part in setting the ACG's direction and priorities. With its manageable size and committed membership, the ACG has made great strides over the last 12 months."

Among the ACG's achievements is the creation of four task forces, which are responsible for producing research, analysis and proposals on best practices, settlement risk management, the exchange of information and cross-border linkages. Established in 1997 at the ACG's first annual meeting in Hong Kong, the task forces have produced a body of information that will lay the groundwork for greater uniformity in operating standards among ACG members.

At the meeting, members presented progress reports and agreed to further expand the scopes of the four task forces. A number of new tasks were assigned to the task forces including feasibility study on introducing T+1 settlement, the development of contingency plans for crisis situations, and the commission of a study on the establishment of 'Asiaclear', a multi-lateral communications network for clearing and settlement systems in the region.

A Technical Task Force, charged with investigating global Straight-Through-Processing, Internet trading and E-commerce, was formed at the meeting. Hongkong Clearing was elected convenor of this new task force, which includes seven other member organisations.

Internationally, convenors of the ACG's best practices and cross-border linkages task forces have been invited to speak at CSD5, the fifth biannual global conference for central securities depositories. Best practices and cross-border linkages are the themes for this event, which will be held in Toronto in May 1999.

Hongkong Clearing will complete its term as the ACG's first secretariat by the end of this year. It will be succeeded by the National Securities Depository Limited of India which was elected secretariat for the next one-year term.

Visitors from Mainland, Taiwan and Hong Kong Gain Better Understanding of Hongkong Clearing

China Securities Regulatory Commission

Executives of the China Securities Regulatory Commission from different provinces and cities visited the Company in late October. They were received by executives of the Customer Services Department and were introduced to various CCASS services.



State Council's Office of Hong Kong and Macao Affairs

Polyana Hung (right) and Blanche Lui of the Customer Services Department introduced Hongkong Clearing's operations to visitors from the State Council's Office of Hong Kong and Macao Affairs and other mainland listed companies in late October.



Shenzhen Securities Association

A delegation from the Shenzhen Securities Association paid a visit to Hongkong Clearing in late October to learn about the operations of CCASS. Delegates were given an audio-visual presentation on CCASS with Hongkong Clearing's corporate CD-ROM. Picture shows delegates receiving their souvenirs — a writing pad made with a warrant certificate. As scripless trading and settlement system is adopted in the Chinese securities markets, the delegates were particularly interested in the warrant certificates.



Taiwan Securities & Futures Commission

Executives from the Customer Services Department met with delegates from the Taiwan Securities & Futures Commission at the Stock Exchange during the delegation's visit to Hong Kong's financial institutions in late October.



Securities & Futures Commission

Andrew Sheng (right), newly appointed Chairman of the Securities & Futures Commission (SFC), and Laura Cha (second from right), Deputy Chairman of SFC, paid a courtesy visit to Hongkong Clearing's Chairman, John Chan (first from left) and Chief Executive, Stewart Shing (second from left) in early November.



CCASS STATISTICS

The market picked up steadily during the months of September and October 1998. The Hang Seng Index increased by 2,879 points from the end of August to close at 10,154 on 30 October 1998.

Exchange Trades

In September, an average of 64,137 trades were processed daily in CCASS, involving 3.18 billion shares with a value of \$5.25 billion. In October, the daily average trades handled by CCASS increased to 84,411, involving 3.46 billion shares with a value of \$7.43 billion.

During the months of September and October, more than 99.99 per cent of Exchange trades were processed daily in CCASS.

Netting Efficiency of CNS Trades

In September, an average of 63,375 Exchange trades valued at \$4.95 billion went through CCASS daily for CNS. An average of 16.95 per cent of the novated contracts created were due for settlement daily.

The daily average number of trades went through CCASS for CNS in October rose to 83,357 valued at \$6.98 billion. After novation and netting, 15.87 per cent of the novated contracts were due for settlement daily.

In September, novated contracts generated a daily average of \$9.91 billion in money obligations which were netted to \$3.28 billion. Daily average funds netting efficiency was 66.69 per cent. In October, novated contracts generated a daily average of \$13.95 billion in money obligations which were netted to \$4.04 billion. Daily average funds netting efficiency was 71.92 per cent.

Settlement Efficiency of CNS Stock Positions

The daily average settlement efficiency rate of CNS stock positions for September was 96.76 per cent on the due day and 99.89 per cent on the settlement day following the due day. The corresponding figures for

October were 99.11 per cent and 99.96 per cent.

Settlement Instructions (SIs)

In September, an average of 20,587 SIs were settled daily in CCASS, involving 5.58 billion shares with a market value of \$33.23 billion.

In October, the figures increased to 21,104 SIs, involving 4.12 billion shares with a value of \$20.33 billion.

Investor Settlement Instructions (ISIs)

In September, an average of 141 ISIs were settled daily in CCASS, involving 31.14 million shares with a market value of \$1,595.18 million.

In October, an average of 185 ISIs were settled daily in CCASS, involving 32.14 million shares with a market value of \$48.67 million.

Depository Transactions

In September, the CCASS Depository handled an average of 1,623 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 31,000. The corresponding figures for October were 1,700 transactions involving 24,000 share certificates per business day.

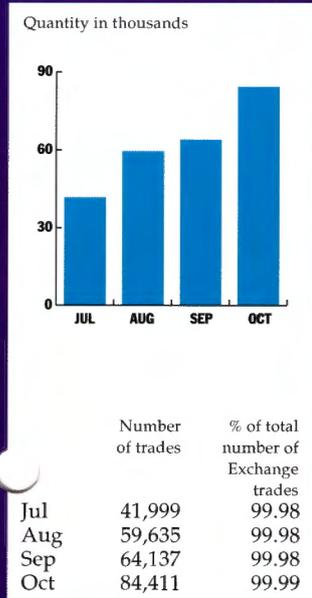
As at the end of October, 946 stocks had been admitted into CCASS for clearing and settlement. About 354.01 billion shares were under the custody of the CCASS Depository, representing 50.53 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$800.33 billion, representing 29.25 per cent of the total market capitalisation of the admitted stocks.

Participants

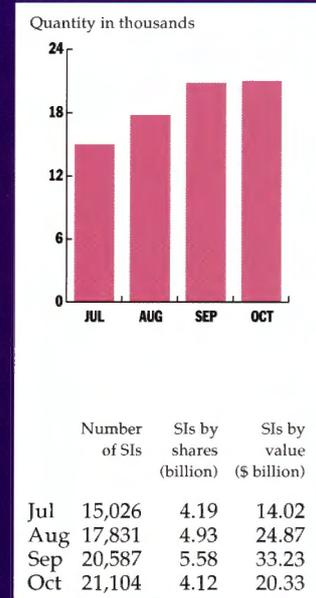
At the end of October, there were 2,167 CCASS Participants, comprising 494 Broker Participants, 61 Custodian Participants, eight Stock Pledgee Participants, one Clearing Agency Participant and 1,603 Investor Participants.

OPERATIONS HIGHLIGHTS (JUL-OCT 98)

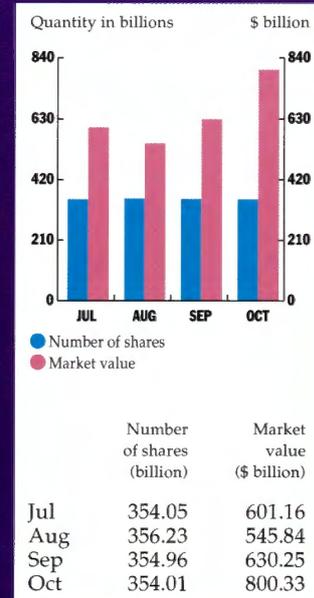
Average Daily Stock Exchange Trades Processed in CCASS
(including CNS trades, isolated trades and cross trades)



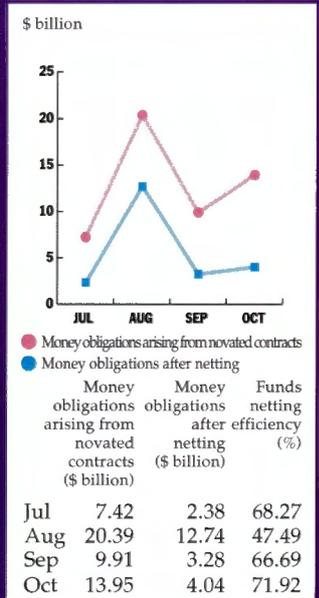
Average Daily Settlement Instructions (SIs) Settled in CCASS
(both receiving and delivering SIs are counted)



Securities under CCASS Custody
(balances at the end of each month)



Average Daily Funds Netting Efficiency under CNS



Quick Quiz

1. Is Christmas Eve this year a settlement day in CCASS?

2. Where is the backup service centre for the CCASS Depository in case of a contingency?

3. What is the maximum number of stock accounts that an Intermediary Participant can hold in CCASS?

Answers on page 12.

CCASS NOTICE BOARD

Commonly Asked Questions on Bonus Securities

Listed issuers may issue bonus securities, in the form of scrip entitlements, to their shareholders. Hongkong Clearing will allocate bonus securities to Participants in respect of their shareholdings held in CCASS. Following are some commonly asked questions raised by Participants on bonus securities.

Q: How do I know how many bonus securities I am entitled to receive?

A: The bonus entitlements of securities will be recorded as receivable items in the Entitlement Statement on the date the entitlement of HKSCC Nominees Limited is determined which is normally the last registration date, i.e. the day before the first date of the book-close period.

Q: When can I receive the bonus securities?

A: If Hongkong Clearing receives the bonus securities on or before 3:45 pm on a week day (or 10 am on a Saturday), the Company will credit them to the Participants' Entitlement Accounts on the day of receipt. Otherwise, Hongkong Clearing will credit the bonus securities on the next business day.

Q: What if the bonus securities are not eligible securities in CCASS?

A: Participants are required to withdraw such bonus securities from the CCASS Depository on or before the deadline specified by Hongkong Clearing.

DIRECT STOCK ADMISSIONS

During the two months of September and October 1998, a total of 37 eligible new issues were admitted to CCASS of which 3 issues adopted Jumbo Certificate arrangement.

	Ordinary Shares	Preference Shares	Registered Warrants	Debts	Rights	Total
Eligible new issues listed on the Stock Exchange and admitted to CCASS	3	0	32	0	2	37
Issues adopted Jumbo Certificate arrangement	3	0	0	0	N/A	3



Quick Quiz

1. No. This Christmas Eve is not a settlement day in CCASS. However, other regular CCASS services, such as clearing, nominee, depository and enquiry hotline services, will be provided on that day.

2. 8/F Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, Hong Kong.

3. 1,012 stock accounts which include one Stock Clearing Account (A/C 01), one Stock Entitlement Account (A/C 02), one General Stock Collateral Account (A/C 20), nine Stock Segregated Accounts without Statement Service (A/C 03 to 11), and 1,000 Stock Segregated Accounts with Statement Service.

FEE REDUCTION FOR INVESTOR PARTICIPANTS

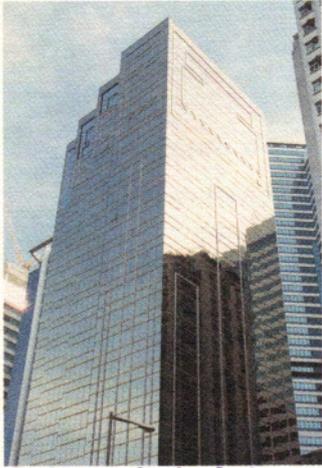
Effective 1 November 1998, the CCASS stock settlement fee for Investor Settlement Instructions was reduced from 0.0025 per cent to 0.002 per cent of the gross value for each transaction. The maximum fee of \$125 was also reduced to \$100, and the \$2 minimum fee remained unchanged. Hongkong Clearing also reduced the registration and transfer fee, which is charged for registering and transferring share certificates, from \$2 to \$1.5 per board lot. In addition, the CCASS corporate action fee charged for stock splittings and consolidations was waived.

Besides stock splittings and consolidations, you may be aware that many abbreviations of corporate actions appear in your Investor Account statements. Below are the explanations of these abbreviations:

Abbreviation	Long form	Explanation
B	Book Close	A listed issuer will set a "book close period" during which re-registration of shares will not be processed by share registrars. Shareholders will have to register the share certificates in their own names before book close for share registrars to update the register of members and determine who are entitled to the benefit entitlements.
B/S	Bonus Share	Shares distributed free to shareholders as dividends using un-issued capital.
CONSOLID	Consolidation	Wholesale changes in the number of shares. For example, a one for two consolidation halves the number of shares.
CONV	Conversion	To convert the convertible bonds or preference shares into ordinary shares according to pre-determined rules.
OO	Open Offer	A preferential offer to current shareholders which gives them the right to subscribe for spin-off shares at a pre-determined ratio against their existing shareholdings. Shareholders can also apply for additional spin-off shares which are un-subscribed.
RW	Rights Subscription	The right of shareholders to purchase additional shares which is sufficient to maintain the percentage of the corporation that they currently own. Within the exercise period, holders of the rights can buy additional new shares at a discount from the market price. Exercise of the rights leads to cash subscriptions, hence to an increase in corporate assets. Rights issues are usually fully underwritten.
SPLITTING	Stock Splitting	Wholesale changes in the number of shares. For example, a two for one split doubles the number of shares.

INVESTOR SERVICE CENTRE: COUNTER AND HOTLINE SERVICES

The Investor Service Centre was opened in March 1998 to provide counter and hotline services to



The Investor Service Centre was opened in March 1998 to serve Investor Participants and the general public.

Investor Participants and the general public. Located at Room 1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, the Centre is staffed with customer services representatives who assist Investor Participants on day-to-day operations of

Investor Accounts and answer enquiries from those who are interested in the service.

Customer services representatives of the Investor Service Centre engage in two operations - the front office and the back office. The front office provides counter services to both Investor Participants and the general public, answering their enquiries from 9 am to 5:30 pm on Monday to Friday, and 9 am to 1 pm on Saturday. Investor Participants can also perform the following operations at the counter from 10 am to 3:45 pm on Monday to Friday: affirm Investor Settlement Instructions (ISIs); input dividend election, subscription, voting and withdrawal instructions; update Investor Account information by completing and presenting the necessary instruction forms to the customer



The Investor Service Centre is located at Room 1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay.

services representatives. Counter service serves as an alternative to the interactive voice response CCASS Phone System.

The back office serves Investor Participants and the general public via the CCASS Phone Operations Hotline and the Investor Service Enquiry Hotline respectively. The CCASS Phone Operations Hotline, which is similar to a telephone banking system, is open only to Investor Participants for the day-to-day operations of their Investor Accounts while the Investor Service Enquiry Hotline is open to the general public for making enquiries on the Investor Account Service. Information about the service can also be obtained through the 24-hour fax-on-demand function of the Investor Service Enquiry Hotline. Both hotlines provide operator assistance upon request.

Apart from the above services, there is a bulletin board at the Investor Service Centre providing the latest news and notices to Investor Participants about the Investor Account Service, deadlines of corporate activities, and other relevant details. The General Rules of CCASS and the CCASS Operational Procedures are also available for inspection at the Investor Service Centre.



Hotline services at the back office.

Some practical tips on the day-to-day operations of Investor Accounts

A System Reference Number is generated by the CCASS Phone System upon successful input of each instruction. Investor Participants are advised to make note of the System Reference Number for future reference.

Investor Participants must ensure that they affirm ISIs on time. Once an ISI has been affirmed, it cannot be cancelled. Investor Participants must ensure that they have sufficient stocks in their Stock Accounts on settlement day and adequate funds in their Designated Bank accounts to effect settlement of the ISI transactions through Realtime Delivery versus Payment or Delivery versus Payment settlement method.

There are three payment methods available for settlement of ISIs, namely Realtime Delivery versus Payment, Delivery versus Payment and Free of Payment. Investor Participants must agree upon a payment method with their counterparty in advance, so that the counterparty can input the exact details of the ISI into CCASS for affirmation by the Investor Participants. Investor Participants, especially if they are the delivering party, must monitor their receipt of payment.

Investor Participants should note that the Depository Service Counter for share deposit and collection is located on the 2nd Floor of Vicwood Plaza in Central.

If Investor Participants wish to change their Designated Bank accounts, they must notify the Participant Admission Department of Hongkong Clearing by filling in the stipulated form in advance or else payment instructions will be rejected.

Latest figures on Investor Participation in CCASS

As at 14 November 1998, Hongkong Clearing has received a total of 1,755 applications, including 1,504 from Individual Investors, 168 from Joint Individual Investors and 83 from Corporate Investors.

NEW ADDITIONS OF DESIGNATED BANKS FOR INVESTOR ACCOUNT SERVICE

Six more banks have joined the existing 24 CCASS Designated Banks to provide money settlement service for Investor Participants. There are now 30 Designated Banks participating in the Investor Account Service, 20 of which support Realtime Delivery versus Payment (RDP) settlement.

Following is the latest list of Designated Banks. The banks in bold type are the new additions:

1. Asia Commercial Bank Ltd*
2. Bank of America (Asia) Ltd*
3. Bank of Communications*
4. Chekiang First Bank Ltd*
5. **Chiyu Banking Corporation Ltd**
6. CITIC Ka Wah Bank Ltd*
7. **D.A.H. Private Bank Ltd**
8. Dah Sing Bank Ltd
9. Dao Heng Bank Ltd
10. First Pacific Bank Ltd*

11. Generale Belgian Bank*
12. Hang Seng Bank Ltd
13. International Bank of Asia Ltd*
14. Jian Sing Bank Ltd
15. **Kwangtung Provincial Bank***
16. **Kwong On Bank Ltd***
17. Liu Chong Hing Bank Ltd*
18. Overseas Trust Bank Ltd
19. **Po Sang Bank Ltd**
20. Shanghai Commercial Bank Ltd*

21. Standard Chartered Bank*
22. The Bank of East Asia Ltd*
23. **The China State Bank Ltd**
24. The Development Bank of Singapore Ltd*
25. The Hongkong and Shanghai Banking Corporation Ltd
26. The Hongkong Chinese Bank Ltd*
27. Union Bank of Hong Kong Ltd*
28. United Chinese Bank Ltd*

29. Wing Hang Bank Ltd*
30. Wing Lung Bank Ltd*

Other banks may also provide the service later as Hongkong Clearing has not set a quota for the banks, or a deadline for participation in the service.

* These banks provide CHATS (Clearing House Automated Transfer System) payment service for RDP settlement, in addition to Direct Debit Instruction, Direct Credit Instruction and Electronic Payment Instruction services.

COMPUTERISED PRESENTATION ON INVESTOR ACCOUNT SERVICE AT NINTH ANNIVERSARY RECEPTION

Hongkong Clearing gave a computerised presentation on the Investor Account Service and other major projects at its ninth anniversary reception.

The presentation showed that the Company, while providing new services to Investor Participants, continued to strengthen the services provided to Intermediary (Broker / Custodian) Participants. Plans are being made for enhancements such as the multiple Designated Banks for Intermediary Participants and securities-on-hold for Delivery versus Payment.

For Investor Participants, the Electronic Initial Public Offering subscription will be introduced in 1999. Hongkong Clearing is also planning to make CCASS accounts accessible via the Internet. Admission of companies incorporated outside Hong Kong as Corporate Investor Participants and the Straight-Through-Processing for securities transactions are also being planned.

The presentation provided the assembled guests with an informative introduction to the latest developments of Hongkong Clearing's services.

