



INSIDE CLEAR TALK

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ClearTalk

Clear Talk is the information bulletin of Hong Kong Securities Clearing Company Limited. All contributions, enquiries, letters to the editor, and any other items of interest are most welcome and should be addressed to:

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"Hongkong Clearing entered its tenth year of operations in 1999. On the solid foundation built over the years, Hongkong Clearing will continue to introduce new services so as to move forward with market developments, and maintain the competitive advantage of the Hong Kong financial market," said John Chan, Chairman, at a press conference held on 6 January 1999, at which he outlined the Company's development plans for the year.

One of the latest market developments is a Stock Exchange plan to introduce a Growth Enterprise Market for listing of high growth companies from the mainland, Hong Kong and Taiwan. The Market is due to be launched in the second half of the year and Hongkong Clearing is now working closely with the Exchange to develop a settlement facility in accordance with its listing rules and trading mechanism.

Another market extension brings the Exchange and the Hong Kong Monetary Authority together in a plan to list Exchange Fund Notes (EFN). Hongkong Clearing has joined the two organisations to study the

Hongkong Clearing Moves On To 2000



John Chan (right) and Stewart Shing at the press conference.

admission of EFN into CCASS, thereby providing CCASS Participants, including Investor Participants, with the convenience of EFN tendering, clearing and settlement facilities.

"On the centralised stock borrowing and lending service, we will implement a compulsory stock

borrowing mechanism on T+2 in the first half of 1999 to fulfill the settlement obligations to Broker Participants on the receiving end. This is also one of the 30 measures proposed by the Government last September in relation to the securities and futures markets. As for the general stock



John Chan

borrowing and lending service, it will be introduced in the second half of the year," Mr Chan said.

To further strengthen the Investor Account Service and increase the overall efficiency of the flotation process, Hongkong Clearing will introduce an electronic IPO (Initial Public Offering) subscription service in April 1999. The service will let investors subscribe to initial public offerings using the CCASS Phone System. "Replacing the current paper-based system with an electronic system will make it easier for investors to subscribe to IPOs," Mr Chan said.

He added: "The Company will continue to strengthen its services provided to Broker Participants. Broker Participants will be allowed to have an additional Designated Bank to facilitate their management of clients' money settlement in the third

quarter of 1999. A new securities-on-hold mechanism will also be put in place to help reduce brokers' exposure to the risks involved in providing services to clients."

Further enhancements and extensions of the Investor Account Service currently under consideration include access to CCASS accounts through the Internet and the possibility of admitting companies incorporated outside Hong Kong.

Paralleling these service enhancements is a comprehensive programme of system developments and enhancements. These include work on a link between CCASS and the Exchange's proposed AMS/3 order routing system that will allow investors to input trade orders through the Internet or an interactive voice response system. The Board of Directors has also approved an architecture review of CCASS by a consultant firm with a view to identifying areas where the flexibility and technical sophistication of CCASS can be further enhanced to increase the competitiveness of Hong Kong's securities market well into the new millennium.

Looking back, Stewart Shing, Chief Executive, said: "During 1998, in addition to the successful handling of sudden market challenges, Hongkong Clearing launched its

development projects on schedule."

In 1998, it was volume, in the form of expanded business scope and market volatility, that tested the strength and preparedness of both staff and systems. Hongkong Clearing's ability to meet these challenges successfully, and do so at the very time when the Company was implementing an extensive range of new projects, was the testimony yet to the strength-in-depth that has been developed within Hongkong Clearing.



Stewart Shing

Major projects completed in 1998 included the Investor Account Service, Realtime Delivery ver Payment, two fee reductions in January and November, compulsory T+3 buy-ins, Corporate Communications Project and serving as the first secretariat to the Asia-Pacific Central Securities Depository Group.

CCASS Operating Hours Extended

Following the strict enforcement of the T+2 settlement in late September 1998, Hongkong Clearing has extended its CCASS operating hours to make it easier for Participants to meet the T+2 settlement deadline.

Starting from 28 December 1998, the CCASS operating hours for upload and maintenance functions of Settlement Instruction (SI), Investor Settlement Instruction (ISI), and Account Transfer Instruction (ATI) have been extended. The start-up time has been brought forward

from 10:00 a.m. to 9:00 a.m. and the closing time at 3:45 p.m. An additional online session for SI and ISI upload and maintenance functions is offered after the final batch settlement run at around 5:00 p.m. to 6:30 p.m.

In addition, one more validation and matching run is scheduled at 6:30 p.m. and the corresponding reports are immediately available. As a consequence, CCASS Participants now have more time to follow up with their counterparties in preparation for settlement on the following day.

9:00AM-3:45PM AND 5:00PM-6:30PM

Settlement Calendar 1999

JANUARY							FEBRUARY							MARCH							APRIL						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
					1	2		1	2	3	4	5	6		1	2	3	4	5	6					1	2	3
3	4	5	6	7	8	9	7	8	9	10	11	12	13	7	8	9	10	11	12	13	4	5	6	7	8	9	10
10	11	12	13	14	15	16	14	15	16	17	18	19	20	14	15	16	17	18	19	20	11	12	13	14	15	16	17
17	18	19	20	21	22	23	21	22	23	24	25	26	27	21	22	23	24	25	26	27	18	19	20	21	22	23	24
24	25	26	27	28	29	30	28							28	29	30	31				25	26	27	28	29	30	
31																											
MAY							JUNE							JULY							AUGUST						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
					1			1	2	3	4	5				1	2	3	1	2	3	4	5	6	7		
2	3	4	5	6	7	8	6	7	8	9	10	11	12	4	5	6	7	8	9	10	8	9	10	11	12	13	14
9	10	11	12	13	14	15	13	14	15	16	17	18	19	11	12	13	14	15	16	17	15	16	17	18	19	20	21
16	17	18	19	20	21	22	20	21	22	23	24	25	26	18	19	20	21	22	23	24	22	23	24	25	26	27	28
23	24	25	26	27	28	29	27	28	29	30				25	26	27	28	29	30	31	29	30	31				
30	31																										
SEPTEMBER							OCTOBER							NOVEMBER							DECEMBER						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
			1	2	3	4					1	2		1	2	3	4	5	6					1	2	3	4
5	6	7	8	9	10	11	3	4	5	6	7	8	9	7	8	9	10	11	12	13	5	6	7	8	9	10	11
12	13	14	15	16	17	18	10	11	12	13	14	15	16	14	15	16	17	18	19	20	12	13	14	15	16	17	18
19	20	21	22	23	24	25	17	18	19	20	21	22	23	21	22	23	24	25	26	27	19	20	21	22	23	24	25
26	27	28	29	30			24	25	26	27	28	29	30	28	29	30				26	27	28	29	30	31		
							31																				

 Non-settlement day

The settlement calendar is subject to change and advance notice will be given to CCASS Participants by circulars.

A Year 2000 (Y2K) pilot test was held in December 1998. Test participants included Hongkong Clearing, The Stock Exchange of Hong Kong Limited (SEHK), The Hongkong and Shanghai Banking Corporation (Hongkong Clearing's banker), Hong Kong Interbank Clearing Limited, 19 brokers, one custodian, one stock pledgee, and two Designated Banks.

The pilot test was successfully conducted and helped us prepare for the street-wide test to be held during the first half of this year.

Street-wide test

Three sessions of street-wide test have been scheduled in January, March and June 1999. The first session has begun on 16 January. Information Packages on the test have been distributed to CCASS Participants and Designated Banks. Briefings on the test have also been conducted recently.

All CCASS Participants (except Investor Participants) and Designated Banks must participate in the street-wide test.

Other participants of the test were Hongkong Clearing, SEHK, The SEHK Options Clearing House Limited, Hong Kong Futures Exchange and HKFE Clearing Corporation Limited.

CCASS Participants and Designated Banks who could not participate or failed in the first session of the street-wide test must participate in the second session. Those who fail in the second session must participate in the third session.



Street-Wide Test

Opening hours of CCASS online session

The opening hours of CCASS online session for the street-wide test has been extended from two hours to five hours, i.e. from 2:00 pm to 7:00 pm on Saturdays and 9:00 am to 2:00 pm on Sundays. Within the five-hour online session, Participants are able to access all CCASS functions during the first three and a half hours, and perform report download (ECQC) and enquiry in the last one and a half hour.

Testing dates

There are four logical testing dates for each street-wide test -- 30 December 1999, 31 December 1999, 4 January 2000 and 29 February 2000. The first three testing dates are consecutive where data will be rolled over from each date. However, the testing date of 29 February 2000 is an independent testing date where previous data will NOT be carried forward.

CCASS functions to be tested

Key CCASS functions such as clearing and settlement of Exchange and non-

Exchange trades, depository and nominee operations will be simulated during the street-wide test. However, two areas will not be covered in street-wide test. These are CHATS (Clearing House Automated Transfer System) payments and functions that only ECT (Enhanced CCASS Terminal) performs. CHATS payments were already tested during the interface test held in August 1998 and the test result was successful. Specific ECT functions were also tested by Hongkong Clearing and its Y2K compliant status was confirmed.

Testing environment

Hongkong Clearing recommends CCASS Participants and Designated Banks to use backup environment as testing environment. It is necessary to synchronize the backup environment with the production environment in terms of the configuration and applications. If the production environment is used as the testing environment, production data must be backed up and restored before and after the test.



Terminal backup facilities

The CCASS backup facilities will be available during the street-wide test online sessions, including the report retrieval sessions. If Participants' CCASS Terminals break down during the test, Participants and Designated Banks can use the terminal backup facilities of the Service Bureau at 2/F Vicwood Plaza, 199 Des Voeux Road Central.

After the street-wide test

Participants and Designated Banks must reset the date of their CCASS Terminal, ECT and / or BOS(Back-Office System) to the actual date after the test. CCASS and BOS reports and incident logs should also be kept for inspection by regulatory bodies. The

test result summary of Custodian Participants and Designated Banks must be certified by the Chief Executive Officer or Y2K program head and Internal Auditor. The test result summary of other Participants must be certified by Sole Proprietor, Dealing Director or Dealing Partner .

Participants and Designated Banks must submit the test result summary to Hongkong Clearing on or before the 15th of the month following the test.

The test result summary will be forwarded to appropriate regulatory bodies for follow-up.

Hongkong Clearing is actively working on the contingency plan for Y2K rollover. Possible risk scenarios are

being identified. The contingency plan and related drills are expected to be completed by mid 1999. Participants are advised to prepare their own contingency plans in case Y2K poses threat on their systems.

Hongkong Clearing welcomes comments and recommendations. Participants and Designated Banks who have suggestions on the street-wide test can call our Customer Service Hotline at 2852 8000.

For details of the street-wide test, please refer to the Information Package (distributed in November 1998) and the supplement to the Information Package (please refer to the circular 002/99 issued on 4 January 1999).

CCASS STATISTICS

The market remained steady during the month of November 1998, but market turnover in December 1998 decreased significantly. Hang Seng Index closed at 10,048 on 31 December 1998.

Exchange Trades

In November, an average of 95,358 trades were processed daily in CCASS, involving 4.58 billion shares with a value of \$7.87 billion. In December, the daily average trades handled by CCASS decreased to 43,698, involving 2.16 billion shares with a value of \$3.68 billion.

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

Netting Efficiency of CNS Trades

In November, an average of 94,232 Exchange trades valued at \$7.33 billion went through CCASS daily for CNS. An average of 15.94 per cent of the novated contracts created were due for settlement daily.

The daily average number of trades went through CCASS for CNS in December decreased to 43,060 valued at \$3.39 billion. After novation and netting, 21.18 per cent of the novated contracts were due for settlement daily.

In November, novated contracts generated a daily average of \$14.65 billion in money obligations which were netted to \$3.70 billion. Daily average funds netting efficiency was 74.33 per cent. In December, novated contracts generated a daily average of \$7.47 billion in money obligations which were netted to \$2.32 billion. Daily average funds netting efficiency was 68.73 per cent.

Settlement Efficiency of CNS Stock Positions

The daily average settlement efficiency rate of CNS stock positions for November was 99.28 per cent on the due day and 99.96 per cent on the settlement day

following the due day. The corresponding figures for December were 99.33 per cent and 99.95 per cent.

Settlement Instructions (SIs)

In November, an average of 23,051 SIs were settled daily in CCASS, involving 4.80 billion shares with a market value of \$20.51 billion.

In December, the figures decreased to 15,409 SIs, involving 3.43 billion shares with a value of \$12.30 billion.

Investor Settlement Instructions (ISIs)

In November, an average of 174 ISIs were settled daily in CCASS, involving 29.65 million shares with a market value of \$89.34 million.

In December, an average of 120 ISIs were settled daily in CCASS, involving 17.27 million shares with a market value of \$34.37 million.

Depository Transactions

In November, the CCASS Depository handled an average of 1,483 deposit and withdrawal transactions per business day. The number of share certificates processed daily amounted to 24,000. The corresponding figures for December were 795 transactions involving 16,000 share certificates per business day.

As at the end of December, 948 stocks had been admitted into CCASS for clearing and settlement. About 357.77 billion shares were under the custody of the CCASS Depository, representing 50.71 per cent of the total number of shares of the admitted stocks in issue. The total market value of the shares was \$805.24 billion, representing 29.57 per cent of the total market capitalisation of the admitted stocks.

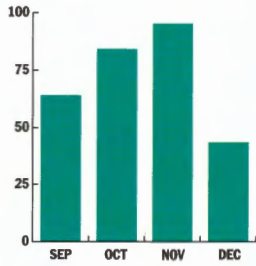
Participants

At the end of December, there were 2,343 CCASS Participants, comprising 494 Broker Participants, 61 Custodian Participants, eight Stock Pledgee Participants, one Clearing Agency Participant and 1,779 Investor Participants.

OPERATIONS HIGHLIGHTS (SEP-DEC 98)

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

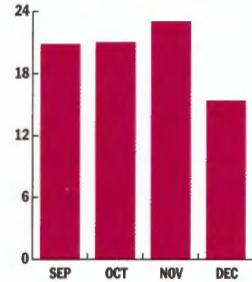
Quantity in thousands



	Number of trades	% of total number of Exchange trades
Sep	64,137	99.98
Oct	84,411	99.99
Nov	95,358	99.99
Dec	43,698	99.98

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

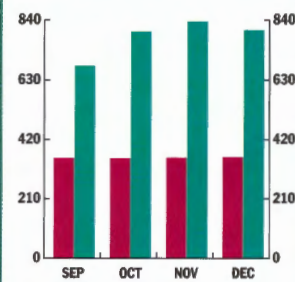
Quantity in thousands



	Number of SIs	SIs by shares (billion)	SIs by value (\$ billion)
Sep	20,587	5.58	33.23
Oct	21,104	4.12	20.33
Nov	23,051	4.80	20.51
Dec	15,409	3.43	12.30

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

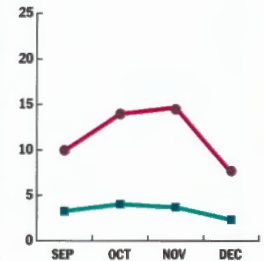
Quantity in billions



	Number of shares (billion)	Market value (\$ billion)
Sep	354.96	630.25
Oct	354.01	800.33
Nov	355.53	834.97
Dec	357.77	805.24

Average Daily Funds Netting Efficiency under CNS

\$ billion



	Money obligations arising from novated contracts (\$ billion)	Money obligations after netting (\$ billion)	Funds netting efficiency (%)
Sep	9.91	3.28	66.69
Oct	13.95	4.04	71.92
Nov	14.65	3.70	74.33
Dec	7.47	2.32	68.73

Quick Quiz

1. When is the CHATS(Clearing House Automated Transfer System) Payment Instructions facility available on each business day?

2. What are the reports available for tracking withdrawal orders?

3. What is the formula for calculating the Discounted Market Value of a stock collateral?

Answers on page 8.

Board Directors



John Chan, Chairman (right), with Professor Chan during the dinner function.



John Chan, Chairman (left), presents a souvenir to Mr Bokhary.

During the dinner held in November last year, John Chan, Chairman, thanked the outgoing Board Directors Professor Chan Yuk Shee, Mr Stuart Leckie and Mr Syed Bokhary for contributing

their time and professional advice to the Company. The outgoing Directors were presented with a souvenir as a token of appreciation.

CCASS NOTICE BOARD

Call warrants exercise operation

A new settlement method, in addition to the physical settlement of underlying securities for the exercise of call warrants, has been introduced for all call stock warrants ("call warrants") launched on or after 26 October 1998. Those "call warrants" must include provisions allowing warrant-holders to opt for electronic settlement upon exercise. Participants who exercise "call warrants" through CCASS can settle their underlying shares electronically.

CCASS Participants can easily identify those "call warrants" with electronic settlement by means of the "Enquire Announcement Information" through the function ID 'NBRE' where Covered Warrants (CW) Subscription Announcement will display a symbol (E) at the start of the first line and a description of (Elec Sett : E+5) on the second line of the announcement summary.

CCASS Participants who input their exercise instructions on those "call warrants" with electronic settlement through their CCASS Terminals will receive their underlying shares no later than five business days following the exercise day (E+5)

DIRECT STOCK ADMISSIONS

During the two months of November and December 1998, a total of 39 eligible new issues were admitted to CCASS of which 6 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	6	0	28	1	4	39
Issues adopted Jumbo Certificate arrangement	6	0	0	0	N/A	6

Quick Quiz

1. The CHATS Payment Instructions facility is available for use on each business day between 10:00 a.m. and 3:30 p.m..
2. There are two reports available: Withdrawal Order Audit Trail Report and Withdrawal Order Status Report. The Audit Trail Report provides details of withdrawal orders input activities of a Participant on a

business day, and lists withdrawal orders that are purged by Hongkong Clearing on that day in chronological order. The Status Report lists all withdrawal orders of different status of a Participant as at the end of a business day.

3. The formula for calculating the Discounted Market Value of a stock collateral follows: Stock Quantity x Valuation Price x (1 - Haircut Ratio). Broker Participants may acquire the Valuation Price and Haircut Ratio of a security via the CCASS Terminal.

HONGKONG CLEARING LAUNCHED FURTHER PROMOTION OF INVESTOR ACCOUNT SERVICE

Hongkong Clearing organised an exhibition of the Investor Account Service in the MTR station in Mongkok from 21 to 22 January 1999 to promote the Service. The exhibition attracted more than 5,000 investors. This was the second MTR station promotion. The first MTR exhibition was held in the Admiralty MTR station in August last year.

Hongkong Clearing representatives provided the visitors with information about the Service and application procedures. A total of 2,750 application forms were distributed at the exhibition, including 2,500 applications for Individual Accounts, 150 for Joint Individual Accounts and 100 for Corporate Accounts.

Hongkong Clearing also publicised the Service from the Investor Participants' perspectives through radio and newspaper advertisements. Three investors who have opened Investor Accounts talked about their experience in using the Service.

Ms Ng: "Sometimes I will conduct more than ten trades a day, and using the account to make affirmations is actually very convenient." Mr To: "Since I can now deposit the shares in my own Investor Account, even when the stock market is very volatile, I do not have to worry." Mrs Leung:

"The fees charged by Hongkong Clearing are very low. As I do not need to deliver the shares and cheques to my broker for settlement, it saves my time."

財星高照

財源廣進

財運亨通

Acknowledgement

Hongkong Clearing would like to thank the three Investor Participants -- Ms Ng, Mr To and Mrs Leung -- for helping us to promote the Investor Account Service by making a recording for the radio advertisements.



Investors visiting the exhibition booth are given New Year couplets. Hongkong Clearing distributed about 20,000 couplets at the MTR exhibition to celebrate the upcoming Festival. The benefits of the Investor Accounts as told by three Investor Participants are printed on the back of the couplets.

SEMINARS FOR INVESTOR PARTICIPANTS AND SECURITIES TRAINING COURSES ATTENDEES



Seminars for Investor Participants

Hongkong Clearing organised three seminars in December 1998 for Investor Participants who wish to gain an in-depth understanding of the Investor Account Service. The seminars, held at the Investor Service Centre, were attended by more than 70 Investor Participants.

Ellen Lam, Assistant Director of the Customer Services Department said, "The seminars were part of the customer services we provided to Investor Participants. After the seminars, the Investor Participants have become more familiar with the operations of CCASS and the Investor Account Service. The seminars have also given us the opportunity to introduce our future development and to learn the investors' views on the Service so that we can improve it."

Investor Participants were particularly interested in the operations of Realtime Delivery versus Payment and the developments towards straight-through processing. They also welcomed Hongkong Clearing's plans to allow Internet access to CCASS accounts and provide Chinese Activity Statements and Monthly Statements.

Many investors commented on their use of the Investor Account Service and made some useful suggestions. These include simplifying the account statement and lengthening the response time for Investor Participants to input instructions via the CCASS Phone. As for their opinions on the services provided by brokers, some investors said that they were very satisfied with their brokers' services. However, some commented that their brokers should improve their services by reducing the fee charged on inputting the Investor Settlement Instructions and allowing them to transfer shares to brokers' accounts after a sale order is executed.

Hongkong Clearing will continue to organise these seminars from time to time. Investor Participants can call the CCASS Operations Hotline if they wish to attend the seminars.



Seminars for Securities Training Courses Attendees

Hongkong Clearing's representative gave a presentation on the Investor Account Service to attendees of a securities training class coordinated by the Stock Exchange. During December 1998, about 300 attendees of eight securities training courses have attended the presentation.



SUBSCRIPTION TO IPOs MADE EASY

Hongkong Clearing will further strengthen its Investor Account Service with the launch of Electronic Initial Public Offering (EIPO) subscription in April 1999. Replacing the current paper-based system with an electronic system, the EIPO will make it easier for Investor Participants to subscribe to IPOs and increase the overall efficiency of the flotation process.

With EIPO, Investor Participants can make use of the CCASS Phone System to subscribe to new shares by inputting the number of shares they apply for via CCASS. Their instructions are then recorded and processed by the system.

CCASS will generate Electronic Payment Instructions (EPI) to debit

the application monies from the Investor Participants' Designated Bank accounts and credit the monies to the receiving bank of the issuer. On the other hand, CCASS will transmit the application details to the registrar for checking multiple applications and adjustment of rejected items. Rejected EPI information will be sent to the registrar from the receiving bank.

After balloting by the registrar, share certificates and allotment files will be sent to CCASS together with the refund instructions. CCASS will update the successful applicants' stock accounts and arrange refund to those who are not allotted any shares and those who receive partial allotment. Investor Participants will receive statements on shares allotted or refund information.

ELECTRONIC IPO



Input number of shares applied for via CCASS

Receive statements on share allotted and refund information

Receive refund from receiving bank



Record and process application instructions

Update IP's stock account and arrange refund to IP



Check multiple applications and adjust for rejected items

Balloting

Issue certificates and allotment file and refund instructions to CCASS



Receive application monies

Send rejected EPIs information to registrar

Effect refund to IP

TWO MORE DESIGNATED BANKS FOR INVESTOR ACCOUNT SERVICE

Two more banks became Designated Banks for Investor Account Service on 21 December 1998. The new additions bring to 32 the number of CCASS Designated Banks providing money settlement services for Investor Participants, of which 20 support Realtime Delivery versus payment (RDP) service.

The two additional banks are **Nanyang Commercial Bank Ltd** and **The National Commercial Bank Ltd**. They only provide Direct Debit Instruction, Direct Credit Instruction and Electronic Payment Instruction services, but not CHATS (Clearing House Automated Transfer System) payment services for RDP settlement.



NOMINEE SERVICES FOR INVESTOR PARTICIPANTS

Hongkong Clearing provides Comprehensive nominee services to Investor Participants. For example, Investor Participants may cast their votes for general meetings by giving their voting instructions to Hongkong Clearing. Hongkong Clearing will also collect benefit entitlements and distribute them to Investor Participants.

In the case of corporate actions or activities, such as rights issues and take-over offers, where Investor Participants are required to make decisions, Hongkong Clearing will send activity statements to Investor Participants regarding the corporate actions and deadlines for giving instructions to Hongkong Clearing, which will act on their behalf. Investor Participants can also enquire about the deadlines for corporate actions via the CCASS Phone System or refer to the announcements list available at the Investor Service Centre at Room

1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay.

Under normal circumstances, listed issuers will make announcements on corporate actions or activities in local newspapers. Investor Participants are advised to also look for the information relating to their shareholdings in the newspapers on a regular basis. However, Investor Participants should note that the deadlines for inputting instructions for corporate actions via the CCASS Phone System are usually one to two days earlier than the deadlines published in newspapers, depending on the types of corporate activities. As for votings, the CCASS deadlines are usually three to four days earlier than the dates of meetings.

For more information on nominee services, Investor Participants can refer to the *Operating Guide for Investor Participants* or call the CCASS Phone Operations Hotline at 2979 7888.