

Commodity Exchange Compensation Fund

[Report of the Futures Compensation Fund Committee (the Committee)]

The members of the Committee present their annual report and the audited financial statements for the year ended 31 March 2005.

1. Establishment of the Commodity Exchange Compensation Fund (the Fund)

Part VIII of the repealed Commodities Trading Ordinance (Chapter 250) established the Fund. However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single investor compensation fund (ICF) was formed to ultimately replace the Fund and the Unified Exchange Compensation Fund. After reserving sufficient money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

Part VIII of the repealed Commodities Trading Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 75 of Schedule 10 of the SFO.

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 137 to 143.

3. Members of the Committee

The members of the Committee during the year ended 31 March 2005 and up to the date of this report were:

Mr. Peter Au-Yang	[appointed on 1 April 2005]
Mr. Mark Dickens, JP	[resigned on 31 March 2005]
Mr. Lawrence Fok	[resigned on 31 May 2004]
Mr. Eddy C Fong, SBS, JP	[appointed on 1 April 2005]
Mr. Gerald Greiner	[appointed on 21 June 2004]
Mrs. Alexa Lam	
Mr. T Brian Stevenson, SBS	[resigned on 31 March 2005]
Mr. Calvin Tai	

4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the year.

5. Auditors

The retiring auditors, KPMG, being eligible, offer themselves for re-appointment.

On behalf of the Committee

Peter Au-Yang

Chairman

28 April 2005

Commodity Exchange Compensation Fund

[Auditors' Report To The Securities And Futures Commission (the SFC)]

We have audited the financial statements of the Commodity Exchange Compensation Fund (the Fund) established under Section 77 of the Hong Kong Commodities Trading Ordinance set out on pages 137 to 143 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Respective responsibilities of the SFC and auditors

The Hong Kong Commodities Trading Ordinance requires the SFC to keep proper accounts of the Fund and to prepare financial statements of the Fund in respect of each financial year. The directors of the SFC do so on the basis that these financial statements should give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the SFC in the preparation of the financial statements and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2005 and of its deficit and cash flows for the year then ended, and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG

Certified Public Accountants
Hong Kong

28 April 2005

[Income and Expenditure Account]

For the year ended 31 March 2005
(Expressed in Hong Kong dollars)

	Note	2005 \$'000	2004 \$'000
Income			
Net investment income	3&5	2	731
Expenses			
Auditors' remuneration		25	37
Bank charges		1	21
Professional fees		9	22
Sundry expenses		1	2
		36	82
(Deficit)/surplus for the year		(34)	649
Accumulated surplus brought forward		108,262	107,613
Accumulated surplus carried forward		108,228	108,262

The notes on pages 141 to 143 form part of these financial statements.

Commodity Exchange Compensation Fund

[Balance Sheet]

At 31 March 2005

(Expressed in Hong Kong dollars)

	Note	2005	2004
		\$'000	\$'000
Current assets			
Fixed and call deposits with banks		488	524
Cash at bank		4	5
		492	529
Current liabilities			
Accounts payable and accrued charges	6	224	227
Net current assets		268	302
Net assets		268	302
Representing:			
<u>Compensation fund</u>			
Accumulated surplus		108,228	108,262
Contributions to Investor Compensation Fund	7	(107,960)	(107,960)
		268	302

Approved and authorised for issue by the Futures Compensation Fund Committee on behalf of the Securities and Futures Commission on 28 April 2005 and signed on its behalf by

Peter Au-Yang

Chairman

Alexa Lam

Committee Member

Eddy C Fong

Committee Member

The notes on pages 141 to 143 form part of these financial statements.

[Statement of Changes in Equity]

For the year ended 31 March 2005

(Expressed in Hong Kong dollars)

	Note	2005 \$'000	2004 \$'000
Compensation Fund balance as at 1 April		302	129,013
(Deficit)/surplus for the year		(34)	649
Contributions reimbursed to the HKFE		–	(21,400)
Contributions to Investor Compensation Fund	7	–	(107,960)
Compensation Fund balance as at 31 March		268	302

The notes on pages 141 to 143 form part of these financial statements.

Commodity Exchange Compensation Fund

[Cash Flow Statement]

For the year ended 31 March 2005
(Expressed in Hong Kong dollars)

	2005	2004
	\$'000	\$'000
Cash flows from operating activities		
(Deficit)/surplus for the year	(34)	649
Net investment income	(2)	(731)
Decrease in levy receivable	–	772
Decrease in accounts payable and accrued charges	(3)	(25)
Net cash (used in)/from operating activities	(39)	665
Cash flows from investing activities		
Debt securities redeemed	–	23,000
Debt securities sold	–	51,555
Interest received	2	2,766
Net cash from investing activities	2	77,321
Cash flows from financing activities		
Contributions reimbursed to the HKFE	–	(21,400)
Contributions to Investor Compensation Fund	–	(107,960)
Net cash used in financing activities	–	(129,360)
Net decrease in cash and cash equivalents	(37)	(51,374)
Cash and cash equivalents at beginning of the year	529	51,903
Cash and cash equivalents at end of the year	492	529

Analysis of the balance of cash and cash equivalents:

	2005	2004
	\$'000	\$'000
Cash at bank	4	5
Fixed and call deposits with banks	488	524
	492	529

[Notes to the Financial Statements]

For the year ended 31 March 2005
(Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of the Hong Kong Futures Exchange Limited (HKFE). Part VIII of the Commodities Trading Ordinance governs its operation.

The HKFE receives and determines claims against the Fund. The SFC maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The Commodities Trading Ordinance limits to \$2 million the total amount that may be paid per exchange participant default. If allowed claims exceed the limit, payments are made proportionally to claimants. The HKFE, with the approval of the SFC, can decide to increase the limit if it considers that the assets of the Fund so permit.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single investor compensation fund (ICF) was formed to ultimately replace the Fund and the Unified Exchange Compensation Fund. After allowing a sufficient sum of money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 shall be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 89 of the Commodities Trading Ordinance, under Section 75(1) of Schedule 10 of the SFO, Part VIII of the Commodities Trading Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Under the Commodities Trading Ordinance, the HKFE was required to keep deposited with the SFC \$100,000 for each holder of HKFE trading rights before 1 April 2003. In December 2003, these deposits were reimbursed to the HKFE according to Section 75(3) of Schedule 10 of the SFO.

Other sources of money for the Fund include a contract levy chargeable on contracts traded on the HKFE before the SFO came into effect on 1 April 2003 and recoveries.

Commodity Exchange Compensation Fund

3. Significant accounting policies

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board. We set out below a summary of our significant accounting policies.

Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a break-up basis with assets stated at recoverable amounts. We have not provided in the financial statements for all expenses expected to be incurred subsequent to the balance sheet date and up to the date operations will cease as these are estimated to be immaterial.

Recognition of income

Net Investment income Net investment income comprised (i) interest income from bank deposits and debt securities, (ii) unrealised gain or loss on revaluation of debt securities and (iii) realised gain or loss on redemption and disposal of debt securities. We record interest income on an accrual basis.

Provision for compensation

We make provision for compensation for known liabilities arising from claims for pecuniary losses suffered by persons as a result of defaults occurring prior to 1 April 2003 on the part of the exchange participants of the HKFE which are determined up to the date on which the financial statements are approved by the Committee. We charge such provisions as expenses through the income and expenditure account.

Other payables

We state other payables at cost.

Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Fund:

- (i) parties that the Fund has the ability, directly or indirectly, to control or to significantly influence in making financial and operating decisions;
- (ii) parties that have the ability, directly or indirectly, to control or to significantly influence the Fund in making financial and operating decisions; and
- (iii) parties that are subject to common control or common significant influence.

Related parties may be individuals or corporate entities.

4. Taxation

Section 87 of the Hong Kong Inland Revenue Ordinance exempts the Fund from Hong Kong taxes.

5. Net investment income

	2005	2004
	\$'000	\$'000
Interest income from bank deposits and debt securities	2	1,474
Loss on revaluation of debt securities	-	(743)
Net investment income	2	731

6. Accounts payable and accrued charges

Accounts payable and accrued charges comprised mainly compensation payment re-established for those cheque payments that were not cleared over six months from the cheque issuing date and accrued auditors' remuneration.

7. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single investor compensation fund (ICF) was formed to ultimately replace the Fund and the Unified Exchange Compensation Fund. Under Section 75(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. As at 31 March 2005, total \$107,960,000 were transferred into the ICF from the Fund (31 March 2004: \$107,960,000).

8. Related party transactions

We have related party relationships with the ICF, the SFC and the HKFE. During the year, there were no significant related party transactions.

9. Financial instruments

The Fund had Hong Kong dollar deposits with banks only and, as a result, was not subject to significant interest rate, foreign exchange and credit risk.

10. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund (2004: nil).