Commodity Exchange Compensation Fund (the 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 2006.

1. Establishment of 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Part VIII of the repealed Commodities Trading Ordinance (Chapter 250) established the Fund.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Part VIII of the repealed Commodities Trading Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 75 of Schedule 10 of the SFO.

Pursuant to Section 75(9) of Schedule 10 of the SFO, the SFC shall pay the remaining balance of the Fund to the ICF. We expect that the Fund will be wound up by the end of the first quarter of the financial year 2006/07 after all outstanding liabilities are settled and the remaining cash balance is transferred into the ICF. The details are set out in note 10 to the financial statements.

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 136 to 143.

3. Members of the Committee

The members of the Committee during the year ended 31 March 2006 and up to the date of this report were:

Mr. Martin Wheatley (Chairman)	[appointed on 21 June 2005]
Mr. Gerald Greiner	
Mrs. Alexa Lam	
Mr. Calvin Tai	
Mr. Eddy C. Fong, SBS, JP	[appointed on 1 April 2005]
Mr. Peter Au-Yang	[appointed on 1 April 2005 and resigned on 20 June 2005]

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

Since the Fund is expected to be wound up by the end of the first quarter of the financial year 2006/07, the retiring auditors, KPMG, have not offered themselves for re-appointment.

On behalf of the Committee

Martin Wheatley
Chairman

26 April 2006

Auditors' Report
To the Securities & Futures Commission (the SFC)

We have audited the financial statements of the Commodity Exchange Compensation Fund (the Fund) established under Section 77 of the repealed Hong Kong Commodities Trading Ordinance set out on pages 136 to 143 which have been prepared in accordance with International Financial Reporting Standards.

Respective responsibilities of the SFC and auditors

The directors of the SFC are responsible for preparing financial statements of the Fund that 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 Hong Kong Standards on Auditing 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 2006 and of its surplus and cash flows for the year then ended, and have been properly prepared in accordance with International Financial Reporting Standards.

KPMG
Certified Public Accountants
Hong Kong

26 April 2006

Commodity Exchange Compensation Fund

Income and Expenditure Account

For the year ended 31 March 2006

(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Income			
Interest income	3	**18**	2
Recoveries	3	**549**	-
		567	2
Expenses			
Auditors' remuneration		**20**	25
Bank charges		**–**	1
Professional fees		**9**	9
Sundry expenses		**1**	1
		30	36
Surplus/(deficit) for the year		**537**	(34)
Accumulated surplus brought forward		**108,228**	108,262
Accumulated surplus carried forward		**108,765**	108,228

The notes on pages 140 to 143 form part of these financial statements.

Balance Sheet

At 31 March 2006

(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Current assets			
Fixed and call deposits with banks		**983**	488
Cash at bank		**1**	4
		984	492
Current liabilities			
Accounts payable and accrued charges	5	**179**	224
Net current assets		**805**	268
Net assets		**805**	268
Representing:			
Compensation fund			
Accumulated surplus		**108,765**	108,228
Contributions to Investor Compensation Fund	6	**(107,960)**	(107,960)
		805	268

Approved and authorised for issue by the Futures Compensation Fund Committee on behalf of the Securities and Futures Commission on 26 April 2006 and signed on its behalf by

Martin Wheatley	**Alexa Lam**	**Eddy C. Fong**
Chairman	*Committee Member*	*Committee Member*

The notes on pages 140 to 143 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	2006	2005
	$'000	$'000
Compensation Fund balance as at 1 April	**268**	302
Surplus/(deficit) for the year	**537**	(34)
Compensation Fund balance as at 31 March	**805**	268

The notes on pages 140 to 143 form part of these financial statements.

Cash Flow Statement

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	2006 $'000	2005 $'000
Cash flows from operating activities		
Surplus/(deficit) for the year	**537**	(34)
Interest income	**(18)**	(2)
Decrease in accounts payable and accrued charges	**(45)**	(3)
Net cash from/(used in) operating activities	**474**	(39)
Cash flows from investing activities		
Interest received	**18**	2
Net cash from investing activities	**18**	2
Net increase/(decrease) in cash and cash equivalents	**492**	(37)
Cash and cash equivalents at beginning of the year	**492**	529
Cash and cash equivalents at end of the year	**984**	492

Analysis of the balance of cash and cash equivalents:

	2006 $'000	2005 $'000
Fixed and call deposits with banks	**983**	488
Cash at bank	**1**	4
	984	492

Notes to the Financial Statements

For the year ended 31 March 2006
(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 repealed Commodities Trading Ordinance (CTO) 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.

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 repealed CTO, under Section 75(1) of Schedule 10 of the SFO, Part VIII of the repealed CTO remains effective in respect of the operation of the Fund.

As required by Section 75(4) of Schedule 10 of the SFO, HKFE had published a notice in the newspapers on 2 April 2003 specifying 3 October 2003 as the deadline for lodging any claim for compensation against the Fund in relation to a default occurring before 1 April 2003. No claim had been received before the deadline specified.

2. Money constituting the Fund

Under the repealed CTO, 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.

3. Significant accounting policies

The Fund prepares its financial statements in accordance with International Financial Reporting Standards ("IFRSs") (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board ("IASB"). 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 we expect that the Fund will be wound up by the end of the first quarter of the financial year 2006/07, 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.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Recognition of income

Interest income We record interest income as it accrues using the effective interest method.

Recoveries We record recoveries pursuant to Section 95 of the repealed CTO as income to the Fund, when and only when, we can virtually certain that the recoveries will be received.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Accounts payable and accured charges

We state accounts payable and accured charges initially at fair value and thereafter state them at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. Significant accounting policies (cont'd)

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 (being members of key management personnel, and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Fund where those parties are individuals.

Impact of the newly implemented IFRSs

In December 2003 and March 2004, the IASB approved amendments to a number of existing standards as a result of the Improvements project and issued several new standards. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts with the standards, to deal with some convergence issues and to make other improvements.

As a result, we adopted the newly implemented IFRSs for the financial period starting from 1 April 2005. However, the adoption of these newly implemented IFRSs do not have a significant impact on the financial statements of the Fund.

4. Taxation

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

5. Accounts payable and accrued charges

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

6. 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 2006, a total of $107,960,000 were transferred into the ICF from the Fund (31 March 2005: $107,960,000).

7. 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.

8. 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.

9. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund (2005: nil).

10. Non-adjusting post balance sheet event

Pursuant to Section 75(9) of Schedule 10 of the SFO, after all claims against the Fund have been disposed of and all deposits paid to the Fund under Section 82 of the repealed CTO have been reimbursed to the HKFE, the SFC shall pay the remaining balance of the Fund to the ICF. Section 75(11) of Schedule 10 of the SFO also stipulates that where the SFC is unable to locate a successful claimant within three years from the date their claim was allowed, the money must be paid into the ICF. The three year period started to run from 1 April 2003 and expired on 31 March 2006. As at 31 March 2006, there was an unclaimed balance of $158,013 payable to 10 claimants. Such balance will be paid into the ICF after the completion of the three year period on 31 March 2006.

On 3 April 2006, $932,010 was transferred into the ICF from the Fund, leaving a cash balance of $51,583. The cash balance will be used to settle all outstanding liabilities, including audit fees. The Committee expects that the Fund will be wound up by the end of the first quarter of the financial year 2006/07 after all outstanding liabilities are settled and the remaining cash balance is transferred into the ICF.

11. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2006

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements.

Of these development, the following relate to matters that may be relevant to the Fund's operations and financial statements:

	Effective for accounting periods beginning on or after
IFRS 7, Financial instruments: disclosures	1 January 2007

We are in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Fund's results of operations and financial position.