



**SECURITIES AND
FUTURES COMMISSION**
證券及期貨事務監察委員會

Quarterly Report

April - June 2001





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Operations Highlights

1 April to 30 June 2001

1. The Securities and Futures Commission (SFC) publishes its first-ever Quarterly Report in fulfilment of its pledge to improve its transparency and accountability.
2. In the first quarter ended 30 June 2001, the SFC achieved a surplus of \$2.2 million, as against a budget deficit for the quarter of \$15 million. This brought the Commission's reserves to a total of \$680 million as of 30 June 2001. The approved budget for the financial year 2001/2002 was a deficit of \$52.8 million. These interim financial results have been independently reviewed by the Commission's auditors, KPMG. The review does not constitute an audit.
3. The better than expected operating results were largely due to tight underspending against budget by 13%, while revenue was lower than expected by 1%. When compared with the quarter ended 30 June 2000, actual revenue was lower by 4.3%, whilst total expenditure was higher by 20.8%. The larger expenditure was mainly due to the increase in headcount by 46 staff, including temporary staff recruited, largely as a result of taking over direct supervision of licensed intermediaries on 6 March 2000, award of merit pay, and committed expenditure on market infrastructure, technology and a strategic review.
4. On the regulatory front, the SFC continued to engage in regulatory reform and the upgrading of standards. Seven Consultations on Codes or regulatory changes were completed in the quarter, compared with three in the same quarter last year. The important Consultations completed included the Review of the Code on Takeovers and Mergers and Share Repurchases, draft Disciplinary Fining Guidelines and Guidelines on the Regulation of Automated Trading Services.
5. The SFC continued to work with the Legislative Council Bills Committee and began a clause-by-clause review of the new Securities and Futures Bill in June. It also established a Shareholders Group to provide advice and feedback to the Commission on issues relating to shareholders' rights. The SFC also consulted the market on draft subsidiary legislation, guidelines and the proposed new Investor Compensation Arrangement.
6. To facilitate market development, the SFC worked with the Stock Exchange to pave the way for the launch of Exchange Traded Funds. A general review is also underway to bring the Code on Unit Trusts and Mutual Funds in line with market development.
7. The SFC took disciplinary actions against 28 registrants for misconduct and various failures and seven parties were prosecuted for breaches of the Securities (Disclosure of Interests) Ordinance and unregistered dealing. One alleged insider dealing case was referred to the Financial Secretary for his consideration of the appointment of an Insider Dealing Tribunal.
8. The SFC continued to give priority to investor education initiatives. During the quarter, new investor booklets were published and a new TV/radio Announcement of Public Interest and bi-lingual poster campaign as well as a new radio series entitled "Investors' Mastermind" were launched. The SFC also engaged consultants to conduct a retail investor survey in order to facilitate the drawing-up of a strategic plan for the investor education programmes.
9. In external relations and international activities, the SFC worked with the Hong Kong Monetary Authority and the Hong Kong Securities Institute to organise a successful "Asia and Global Finance: New Opportunities" conference in May, in conjunction with the Fortune 500 Global Forum in Hong Kong.



Review of Operations

1 April to 30 June 2001

I am pleased to present the first Quarterly Report of the Securities and Futures Commission (SFC) for the period 1 April to 30 June 2001.

During the period under review, the Hang Seng Index rose from its lowest level at 12,064 on 4 April to its peak at 13,878 on 22 May. It closed at 13,043 on 29 June, 2.2% higher than the previous quarter's 12,761 close on 30 March. Average daily turnover on the stock market increased by 11% to \$10 billion during the quarter, rising from \$9 billion in the previous quarter. Average daily turnover for the quarter ended 30 June 2000 was \$10.8 billion.

Financial Highlights

The financial result for the first quarter of the financial year 2001/2002 was a surplus of \$2.198 million, compared with an approved budget deficit of \$15 million for the quarter. This brought the Commission's reserves up to a total of \$680 million as of 30 June 2001.

Revenue in the first quarter totalled \$108.7 million, 1% lower than budget. An increase in levy revenue for the quarter was more than offset by the decrease in fees and charges and investment income, resulting in a net decrease of 4.3% in total revenue in comparison with actual revenue in the same quarter last year. The higher transaction levy revenue was largely due to the increase in the Commission's share of the levy rate from 0.004% to 0.005%, which came into effect on 12 June 2000. Fees and licence charges declined due to reduced numbers of licensing applications and corporate financial transactions. Investment income was also lower because available funds for investments were reduced by the contributions to the compensation fund in the financial year 2000/2001.

Expenditure for the quarter was \$101.6 million, 13% below approved budget, but an increase of 20.8% on the same period last year. Staff expenditure was higher by 16.3%, mainly due to an increase in temporary and permanent staff of 46, largely as a result of taking over the direct supervision of licensed intermediaries with effect from 6 March 2000 subsequent to the establishment of Hong Kong Exchanges and Clearing Limited and award of merit pay. Total staff numbers at the end of June 2001 were 339 permanent staff and 53 temporary staff. The temporary staff comprised mainly persons hired to expedite process reform in the regulatory, licensing and technology areas. The increases in other expenses relate to the engagement of consultants for market studies, additional staff training and external relation activities and the outsourcing of our help desk services.

Regulatory Activities

During the quarter, the total number of licensed registrants and exempt persons increased to 29,427, 7.5% higher than that of the same quarter last year.



Number of SFC Registrants and Exempt Persons		
	June 2001	June 2000
Registered under Securities Ordinance (exclude Securities Margin Financiers)	23,211	21,354
Registered under Securities Ordinance (as Securities Margin Financiers)	266	N.A.
Registered under Commodities Trading Ordinance	5,110	5,023
Registered under Leveraged Foreign Exchange Trading Ordinance	840	1,007
Total	29,427	27,384

On the regulatory front, the Commission continued to engage in regulatory reform and the upgrading of existing codes and standards. Seven consultation papers were completed during the quarter, compared with three completed in the same quarter last year. These consultation papers were prepared with considerable help and assistance from market participants.

SFC Consultations that Began / Closed During the Period 1 April to 30 June 2001			
Issue Date	Closing Date	Consultation Paper	Status
23 February	6 April	A Consultation Paper on the Securities and Futures Bill - Part XV Forms Proposed for Disclosure of Interests	Completed
7 March	6 April	A Consultation Paper on the Proposed New Investor Compensation Arrangements	Completed
22 March	4 May	A Consultation Paper on Draft Guidelines for the Regulation of Automated Trading Services	Completed
28 March	11 May	A Consultation Paper on Draft Disciplinary Fining Guidelines	Completed
10 April	15 June	A Consultation Paper on a Review of the Codes on Takeovers and Mergers and Share Repurchases	Completed
12 April	24 May	A Consultation Document on the Draft Securities and Futures (Client Money) Rules	Completed
12 April	24 May	A Consultation Document on the Draft Securities and Futures (Client Securities) Rules	Completed

During the quarter, four new codes and guidelines were implemented to affirm and enhance the high professional standard of intermediaries in Hong Kong.

Codes and Guidelines to Take Effect During the Period 1 April to 30 June 2001	
Publication	Effective Date
Revised Code of Conduct for Persons Registered with the Securities and Futures Commission	1 April 2001
Guidance Note on Competence	1 April 2001
Guidance Note on Continuous Professional Training	1 April 2001
Guidance Note for Persons Advertising or Offering Collective Investment Schemes (CIS) on the Internet	4 May 2001



In the area of corporate governance, the SFC established a Shareholders Group to provide advice to the Commission on issues relating to shareholders' rights. The Standing Committee on Company Law Reform, on which the SFC is represented, has been studying these issues and, in July, released a consultation paper with proposals to improve the corporate governance regime. The SFC and the Stock Exchange continue to review the Listing Rules to strengthen their corporate governance provisions. In addition, the SFC and the Stock Exchange have also agreed on the principles of changes to the Listing Rules of the Growth Enterprise Market to improve the quality of listings.

The Securities and Futures Bill

During the quarter, the SFC has been working with the Administration and the Legislative Council Bills Committee in scrutinising the Securities and Futures Bill. The clause-by-clause examination of the Bill began in June and will resume in September. The SFC attended 21 Committee meetings this quarter to answer Members' questions, prepared explanatory papers for each part of the Bill under discussion and prepared draft Committee Stage Amendments reflecting comments from the market and Committee members. Our aim is to secure enactment of the Bill as soon as possible, hopefully by the end of this year.

Drafting and refinement of the subsidiary legislation which will underpin the Bill is also in progress. The SFC consulted the market on draft subsidiary legislation, codes and guidelines and the proposed new Investor Compensation Arrangement during the quarter. We are now studying the comments received.

Market Development Activities

The SFC has also been consulting and working with the market on important new product and infrastructure development. We assisted the Stock Exchange on regulatory issues relating to Exchange Traded Funds and on legislative amendments regarding overseas funds admitted for trading only on the Exchange. The iShares on Korea and Taiwan markets, two MSCI-based Exchange Traded Funds, commenced trading on 2 May.

Regulatory guidelines on the authorisation of index funds were issued for consultation in July and the guidelines for alternative investment funds are being considered and will be issued for consultation shortly. In addition, a general review is underway to bring the Code on Unit Trusts and Mutual Funds in line with changing market and regulatory developments locally and internationally.

The Steering Committee on the Enhancement of Financial Infrastructure (SCEFI) met in April again to discuss the progress of its various working groups tasked with the implementation of FinNet, straight through processing (STP) and a scripless market.

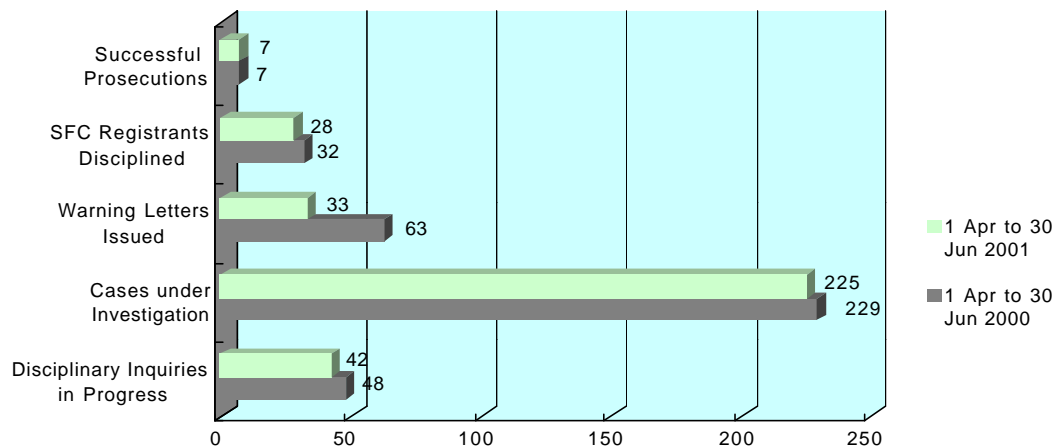
Enforcement Actions

The SFC has been actively exercising regulatory discipline through enforcement actions. During the quarter, disciplinary actions were taken against 28 registrants for misconduct and



various failures and seven parties were successfully prosecuted for breaches of the Securities (Disclosure of Interests) Ordinance and unregistered dealing. In addition, warning letters were issued and a number of disciplinary inquiries and investigations are ongoing demonstrating the Commission's vigilance in its determination to minimise market malpractices.

Statistics on Enforcement Actions



The crackdown on insider dealing activities continues. One alleged insider dealing case was referred to the Financial Secretary for his consideration of the appointment of an Insider Dealing Tribunal during the quarter. In the last 12 months, nine cases were referred to the Financial Secretary, a number of which have already been passed to the Insider Dealing Tribunal for further action.

Investor Education

Investor education is the first important step to investor protection. In May, we published two investor booklets, *The A to Z of Stock Investing* and *Getting Started in Funds and MPF*, and launched the new TV/radio Announcement of Public Interest and bi-lingual poster campaign on 21 May. The key message is "Get the Facts before You Invest". A new radio series, "Investors' Mastermind", was also launched on Metro Finance in May.

To facilitate the drawing-up of a strategic plan for the investor education programmes, the SFC engaged consultants in May to conduct a retail investor survey. The scope of this survey covers the profile of current investors, their educational needs, preferred information channels and level of satisfaction with the current market regulation. Fieldwork started in mid-June and results are expected shortly.

During the quarter, the SFC received 649 public enquiries and 137 complaints about registrants or market conduct, compared to 965 enquiries and 154 complaints during the same period last year.



External Relations and Cross-Border Co-operation

In May, the Financial Secretary hosted the "Asia and Global Finance: New Opportunities" conference, which the Hong Kong Monetary Authority, the SFC and the Hong Kong Securities Institute helped to organise with market sponsors. The Conference coincided with the Fortune 500 Global Forum, and was attended by over 200 key decision-makers in the financial services industry worldwide.

The SFC also participated in the International Organisation of Securities Commissions (IOSCO) Annual Conference and its Technical Committee meeting in June. Our Executive Director, Andrew Procter, continued to chair the Task Force on the implementation of IOSCO's Objectives and Principles of Securities Regulation. SFC staff continued to contribute to key technical working groups of IOSCO.

Outlook

The budgeted financial position for the financial year ended 31 March 2002 is a deficit of \$52.8 million. Current market turnover, a levy on which the Commission depends primarily for its revenue, has been lower than the budgeted daily turnover of \$11 billion. However, the Commission continues to control expenditure tightly so that barring major changes, we expect the year's position to be within budget.

Global markets are challenged by the uncertain outlook in the major markets. Globally, securities turnover has declined after a record year in 2000 and competition has intensified. Structural changes are evident as there are more and more mergers and strategic alliances between global intermediaries and also exchanges and clearing houses. These trends are also evident in the Hong Kong markets, as securities and futures intermediaries face increasing competition from banks and new electronic brokers. The Commission's regulatory and enforcement work can only increase with such challenges.

With the passing of the new Bill in sight, considerable resources will have to be put into its implementation and enforcement. These, together with other market development and infrastructure activities, will put considerable strain on the Commission's staff resources. I am grateful for the loyalty and the dedication of my colleagues in working closely with market participants to improve the quality of our markets.

Andrew L T Sheng
Chairman



Independent Review Report

To The Securities and Futures Commission (SFC)

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Introduction

We have been instructed by the SFC to review the interim financial report for the quarter ended 30 June 2001 set out on pages 8 to 11.

Directors' responsibilities

The directors are responsible for preparing an interim financial report of the SFC to match the requirements in the relevant provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and to comply with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Committee. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the quarter ended 30 June 2001.

KPMG
Certified Public Accountants
Hong Kong, 8 August 2001



Securities and Futures Commission

Income and Expenditure Account
For the quarter ended 30 June 2001
(Expressed in Hong Kong Dollars)

	<u>Note</u>	Unaudited Quarter ended 30 June 2001 \$'000	Unaudited Quarter ended 30 June 2000 \$'000
Income			
Levies		62,592	58,285
Fees and charges		32,997	39,493
Investment income		12,605	15,285
Other income		532	531
		<u>108,726</u>	<u>113,594</u>
Expenses			
Staff costs		80,900	69,536
Premises			
- rent		5,002	5,003
- other		2,821	2,619
Other expenses		12,878	6,958
		<u>101,601</u>	<u>84,116</u>
Depreciation		4,927	3,734
		<u>106,528</u>	<u>87,850</u>
Surplus	2	<u>2,198</u>	<u>25,744</u>

We have not prepared a separate statement of recognised gains and losses as the surplus would be the only component of such a statement.

The notes on page 11 form an integral part of the condensed financial statements.



Securities and Futures Commission

Balance Sheet

At 30 June 2001

(Expressed in Hong Kong Dollars)

	<u>Note</u>	Unaudited <u>At 30 June 2001</u> \$'000	Audited <u>At 31 March 2001</u> \$'000
Non-current assets			
Fixed assets		37,398	38,696
Held-to-maturity debt securities		361,209	370,204
Current assets			
Held-to-maturity debt securities		240,993	277,046
Bank deposits		141,923	102,624
Debtors, deposits and prepayments		38,056	29,821
Cash at bank and in hand		2,720	4,469
		<u>423,692</u>	<u>413,960</u>
		-----	-----
Current liabilities			
Provision for contribution to the Unified Exchange Compensation Fund		66,174	66,174
Fees received in advance		30,018	31,271
Creditors and accrued charges		45,710	47,216
		<u>141,902</u>	<u>144,661</u>
		-----	-----
Net current assets		<u>281,790</u>	<u>269,299</u>
		-----	-----
Net assets		<u>680,397</u>	<u>678,199</u>
		-----	-----
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated Surplus	2	637,557	635,359
		<u>680,397</u>	<u>678,199</u>
		-----	-----

The notes on page 11 form an integral part of the condensed financial statements.



Securities and Futures Commission

Cash Flow Statement

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2001 \$'000	Unaudited Quarter ended 30 June 2000 \$'000
Net cash (outflow)/inflow from operating activities	(15,715)	9,662
Returns on investments - interest received	11,851	11,961
Investing activities		
Held-to-maturity debt securities bought	-	(149,972)
Held-to-maturity debt securities redeemed	45,000	-
Held-to-maturity debt securities sold	-	148,062
Fixed assets bought	(3,677)	(5,642)
Fixed assets sold	91	-
Net cash inflow/(outflow) from investing activities	41,414	(7,552)
Increase in cash and cash equivalents	37,550	14,071
Cash and cash equivalents at beginning of the quarter	107,093	155,439
Cash and cash equivalents at end of the quarter	144,643	169,510

Reconciliation of surplus of income over expenses to net cash (outflow) / inflow from operating activities :

Surplus	2,198	25,744
Investment income	(12,605)	(15,285)
Depreciation	4,927	3,734
Profit on sale of fixed assets	(43)	-
(Increase) / decrease in debtors, deposits and prepayments	(7,433)	11,365
Decrease in creditors and accrued charges	(1,506)	(13,693)
Decrease in fees received in advance	(1,253)	(2,203)
Net cash (outflow) / inflow from operating activities	(15,715)	9,662

Analysis of the balance of cash and cash equivalents :

	Unaudited At 30 June 2001 \$'000	Unaudited At 30 June 2000 \$'000
Bank deposits	141,923	168,503
Cash at bank and in hand	2,720	1,007
	144,643	169,510



Securities and Futures Commission

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

1. Basis of preparation

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Committee.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2001 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those accounts.

The same accounting policies adopted in the financial statements for the year ended 31 March 2001 have been applied to the interim financial report.

2. Accumulated surplus

Movements of accumulated surplus during the quarter are as follows :

	<u>Unaudited</u>
	\$' 000
Balance at 31 March 2001	635,359
Surplus for the quarter	2,198
	<hr/>
Balance at 30 June 2001	<u>637,557</u>

3. Changes since 31 March 2001

The nature and relative size of items of income and expenditure in the quarter ended 30 June 2001 are similar to that shown in the audited financial statements for the year ended 31 March 2001. Similarly our assets and liabilities are not significantly different from those at 31 March 2001.



Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2001.

1. ESTABLISHMENT OF THE FUND

Part X of the Securities Ordinance (Chapter 333) established the Fund.

2. FINANCIAL RESULTS

The committee presents the financial results which are set out in the condensed financial statements on pages 13 to 20.

3. MEMBERS OF THE COMMITTEE

The members of the Committee during the quarter and up to the date of this report were: -

Mr. Mark Dickens
Mr. Andrew Procter
Mr. David M. Roberts
Mr. Kwong Ki Chi, GBS
Hon. Bernard Chan

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 quarter.

On behalf of the Committee

Mark Dickens
Chairman

3 August 2001



Independent review report to the board of directors of Securities and Futures Commission (the SFC)

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Introduction

We have been instructed by the SFC to review the interim financial report for the quarter ended 30 June 2001 of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the Hong Kong Securities Ordinance set out on pages 14 to 20.

Directors' responsibilities

The SFC is responsible for preparing an interim report of the Fund to match the requirements in the relevant provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and to comply with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Committee. The interim financial report is the responsibility of the SFC and has been approved by the Securities Compensation Fund Committee.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the quarter ended 30 June 2001.

KPMG
Certified Public Accountants
Hong Kong, 3 August 2001



Unified Exchange Compensation Fund

Income and Expenditure Account
For the quarter ended 30 June 2001
(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended <u>30 June 2001</u> \$	Unaudited Quarter Ended <u>30 June 2000</u> \$
Income		
Investment Income	10,032,879	5,134,939
	-----	-----
Expenses		
Auditors' remuneration	10,350	9,720
Bank charges	35,776	11,087
Professional fees	71,232	33,000
Sundry expenses	1,180	-
	-----	-----
	118,538	53,807
	-----	-----
Surplus	9,914,341	5,081,132
Accumulated surplus brought forward	191,533,895	159,551,489
	-----	-----
Accumulated surplus carried forward	201,448,236	164,632,621
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The notes on pages 18 to 20 form an integral part of the condensed financial statements.



Unified Exchange Compensation Fund

Balance Sheet

At 30 June 2001

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2001 \$	Audited At 31 March 2001 \$
Non-current assets			
Held-to-maturity debt securities		389,855,523	390,060,457
Current assets			
Held-to-maturity debt securities		98,041,330	123,146,790
Contributions receivable		102,347,362	102,347,362
Interest receivable		3,972,263	5,358,046
Bank fixed and call deposits		168,020,274	132,127,801
Cash at bank		40,368	57,360
		372,421,597	363,037,359
Current liabilities			
Accounts payable and accrued charges		580,750	585,635
Provision for compensation	3	38,603,109	123,280,031
		39,183,859	123,865,666
Net current assets		333,237,738	239,171,693
Net assets		723,093,261	629,232,150
Representing:			
Compensation fund			
Contributions from the SEHK		46,450,000	46,450,000
less: Compensation paid	2	(72,581,920)	(72,581,920)
Provision for compensation	3	(12,654,986)	(10,880,262)
Add: Recoveries		12,312,669	9,853,688
Replenishments from the SEHK		16,360,196	16,360,196
		(10,114,041)	(10,798,298)
Excess transaction levy from the SEHK		353,786,882	353,786,882
Special contribution		3,500,000	3,500,000
Additional contributions from the SEHK and the SFC		630,000,000	630,000,000
Special levy surplus		3,002,104	3,002,104
Accumulated surplus		201,448,236	191,533,895
		1,191,737,222	1,181,822,881
Less: Compensation paid	2	(432,581,797)	(429,392,664)
Provision for compensation	3	(25,948,123)	(112,399,769)
		733,207,302	640,030,448
		723,093,261	629,232,150

The notes on pages 18 to 20 form an integral part of the condensed financial statements.



Unified Exchange Compensation Fund

Statement of Recognised Gains and Losses

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited Quarter Ended 30 June 2001 \$	Unaudited Quarter Ended 30 June 2000 \$
Recoveries		2,458,981	3,669,520
Decrease in provision for compensation		84,676,922	37,727,076
Compensation paid out of the Fund	2	(3,189,133)	(37,727,076)
Net gains not recognised in the income and expenditure account		<u>83,946,770</u>	<u>3,669,520</u>
Surplus		<u>9,914,341</u>	<u>5,081,132</u>
Total recognised gains		<u><u>93,861,111</u></u>	<u><u>8,750,652</u></u>

The notes on pages 18 to 20 form an integral part of the condensed financial statements.



Unified Exchange Compensation Fund

Cash Flow Statement

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 June 2001 \$	Unaudited Quarter Ended 30 June 2000 \$
Net cash outflow from operating activities	(123,423)	(105,852)
Returns on investments - interest received	11,729,056	6,438,573
Investing activities - Held-to-maturity debt securities redeemed	25,000,000	142,000,000
Financing		
Recoveries	2,458,981	3,669,520
Compensation paid	(3,189,133)	(37,727,076)
Net cash outflow from financing	(730,152)	(34,057,556)
Increase in cash and cash equivalents	35,875,481	114,275,165
Cash and cash equivalent at beginning of the quarter	<u>132,185,161</u>	<u>175,877,044</u>
Cash and cash equivalent at end of the quarter	<u>168,060,642</u>	<u>290,152,209</u>
Reconciliation of surplus for the quarter to net cash outflow from operating activities:		
Surplus	9,914,341	5,081,132
Investment Income	(10,032,879)	(5,134,939)
Decrease in accounts payable and accrued charges	(4,885)	(52,045)
Net cash outflow from operating activities	<u>(123,423)</u>	<u>(105,852)</u>
Analysis of changes in financing:	Recoveries	Compensation Paid
	\$	\$
Balance at 1 April 2000	3,530,920	(438,328,748)
Cash inflow/(outflow) from financing	<u>3,669,520</u>	<u>(37,727,076)</u>
Balance at 30 June 2000	<u>7,200,440</u>	<u>(476,055,824)</u>
Balance at 1 April 2001	9,853,688	(501,974,584)
Cash inflow/(outflow) from financing	<u>2,458,981</u>	<u>(3,189,133)</u>
Balance at 30 June 2001	<u>12,312,669</u>	<u>(505,163,717)</u>
Analysis of the balance of cash and cash equivalents		
	Unaudited At 30 June 2001 \$	Unaudited At 30 June 2000 \$
Cash at bank	40,368	104,984
Bank fixed and call deposits	<u>168,020,274</u>	<u>290,047,225</u>
	<u>168,060,642</u>	<u>290,152,209</u>



Unified Exchange Compensation Fund
Notes to the Condensed Financial Statements
For the quarter ended 30 June 2001
(Expressed in Hong Kong dollars)

1. ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Committee.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2001 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

The same accounting policies adopted in the financial statements for the year ended 31 March 2001 have been applied to the interim financial report.

2. COMPENSATION PAID

	\$
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the Securities Ordinance	
Balance as at 1 April 2000	68,815,176
Add: compensation paid during the year ended 31 March 2001	3,766,744
	<hr/>
Balance as at 31 March 2001	72,581,920
Add: compensation paid during the quarter ended 30 June 2001	-
	<hr/>
Balance as at 30 June 2001	<u>72,581,920</u>
Compensation paid in excess of the \$8 million limit pursuant to Section 113(5A) of the Securities Ordinance	
Balance as at 1 April 2000	369,513,572
Add: compensation paid during the year ended 31 March 2001	59,879,092
	<hr/>
Balance as at 31 March 2001	429,392,664
Add: compensation paid during the quarter ended 30 June 2001	3,189,133
	<hr/>
Balance as at 30 June 2001	<u>432,581,797</u>



Unified Exchange Compensation Fund
Notes to the Condensed Financial Statements
For the quarter ended 30 June 2001
(Expressed in Hong Kong dollars)

2. COMPENSATION PAID - Cont' d

Total compensation paid as at 31 March 2001	<u>\$501,974,584</u>
Total compensation paid as at 30 June 2001	<u>\$505,163,717</u>

In five defaults since 1998, the SEHK proposed and the SFC approved increases in the \$8 million limit via payment of up to \$150,000 per claimant or if higher the claimant's proportional share of the \$8 million limit. The relevant defaults where we made payments during the quarter ended 30 June 2001 were:

C.A. Pacific Securities Ltd.	\$1,563,036
Chark Fung Securities Co. Ltd	\$1,626,097

3. PROVISION FOR COMPENSATION

	\$
Provision for compensation to be paid up to the \$8 million limit	
Balance as at 1 April 2000	26,658,386
Less: amount paid during the year ended 31 March 2001	(3,766,744)
unused provision reversed during the year	
ended 31 March 2001	(12,011,380)
Balance as at 31 March 2001	<u>10,880,262</u>
Add: additional provision made during the quarter	
ended 30 June 2001	1,774,724
Balance as at 30 June 2001	<u><u>12,654,986</u></u>



Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

3. PROVISION FOR COMPENSATION - Cont' d

	\$
Provision for compensation to be paid in excess of the \$8 million limit	
Balance as at 1 April 2000	151,291,614
Less: amount paid during the year ended 31 March 2001	(59,879,092)
Add: additional provision made during the year ended 31 March 2001	20,987,247
	<hr/>
Balance as at 31 March 2001	112,399,769
Less: amount paid during the quarter ended 30 June 2001	(3,189,133)
unused provision reversed during the quarter ended 30 June 2001	(83,262,513)
	<hr/>
Balance as at 30 June 2001	<u>25,948,123</u>

We made provision for unprocessed claims in respect of six SEHK exchange participants for which the SEHK has published a notice calling for claims pursuant to Section 112 of the Securities Ordinance. The maximum liabilities of the Fund in respect of four of these default cases can exceed the normal \$8 million limit. In respect of three of these default cases, we revised the provision according to claims being processed. During the period, we also reversed provision for claim against one formerly reported default case, which had been rejected by the SEHK.

4. CONTINGENT LIABILITIES

As at the date of this report, the SEHK has received claims against twelve exchange participants. They are subject to the normal \$8 million ceiling pursuant to Section 109 of the Securities Ordinance. The validity of these claims is under investigation. We have not made any provision for these claims. The maximum contingent liability of the Fund to these claims is \$96 million.

Furthermore, the SEHK has received claims of about \$2 million against a default case in response to its notice published in June 2001 pursuant to Section 112 of the Securities Ordinance. The default case is subject to the normal \$8 million limit. We have made a provision of \$2 million for claims received up to the date of this report. Since there is the possibility of receiving more claims after the date of this report within the time limit as specified in the notice, the Fund has a contingent liability of \$6 million in respect of this default case. Thus the total contingent liability of the Fund is \$102 million (March 2001 : \$96 million).



Commodity Exchange Compensation Fund (the Fund)

Report of the Futures Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2001.

1. ESTABLISHMENT OF THE FUND

Part VIII of the Commodities Trading Ordinance (Chapter 250) established the Fund.

2. FINANCIAL RESULTS

The Committee presents the financial results which are set out in the condensed financial statements on pages 22 to 27.

3. MEMBERS OF THE COMMITTEE

The members of the Committee during the quarter and up to the date of this report were:-

Mr. Mark Dickens

Mr. Andrew Procter

Mr. William D. Grossman

Mr. Mark Ho

Hon. Bernard Chan (appointed on 1 April 2001)

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 quarter.

On behalf of the Committee

Mark Dickens
Chairman

3 August 2001



Independent review report to the board of directors of Securities and Futures Commission (the SFC)

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Introduction

We have been instructed by the SFC to review the interim financial report for the quarter ended 30 June 2001 of the Commodity Exchange Compensation Fund (the Fund) established under Section 77 of the Hong Kong Commodities Trading Ordinance set out on pages 23 to 27.

Directors' responsibilities

The SFC is responsible for preparing an interim report of the Fund to match the requirements in the relevant provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and to comply with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Committee. The interim financial report is the responsibility of SFC, and has been approved by the Futures Compensation Fund Committee.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the quarter ended 30 June 2001.

KPMG
Certified Public Accountants
Hong Kong, 3 August 2001



Commodity Exchange Compensation Fund

Income and Expenditure Account
For the quarter ended 30 June 2001
(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 June 2001	Unaudited Quarter Ended 30 June 2000
	\$	\$
Income		
Investment Income	1,677,597	1,605,632
	-----	-----
Expenses		
Auditors' remuneration	10,350	9,720
Bank charges	12,269	10,545
Professional fees	14,219	3,000
Sundry expenses	900	-
	-----	-----
	37,738	23,265
	-----	-----
Surplus	1,639,859	1,582,367
Accumulated surplus brought forward	35,595,806	28,998,946
	-----	-----
Accumulated surplus carried forward	37,235,665	30,581,313
	=====	=====

The notes on page 27 form an integral part of the condensed financial statements.



Commodity Exchange Compensation Fund

Balance Sheet

At 30 June 2001

(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited At 30 June 2001 \$	Audited At 31 March 2001 \$
Non-current assets			
Held-to-maturity debt securities		43,066,247	43,070,728
Current assets			
Held-to-maturity debt securities		31,493,270	39,505,457
Interest receivable		929,411	881,261
Levy receivable		453,188	592,856
Bank fixed and call deposits		30,123,121	19,141,475
Cash at bank		18,640	7,710
		<u>63,017,630</u>	<u>60,128,759</u>
Current liabilities			
Accounts payable and accrued charges		230,942	252,672
		<u>230,942</u>	<u>252,672</u>
Net current assets		<u>62,786,688</u>	<u>59,876,087</u>
Net assets		<u>105,852,935</u>	<u>102,946,815</u>
Representing:			
<u>Compensation fund</u>			
Contributions from the HKFE	2	21,200,000	21,300,000
Contract levy	3	59,050,909	57,684,648
Accumulated Surplus		37,235,665	35,595,806
		<u>117,486,574</u>	<u>114,580,454</u>
Deduct: Compensation paid		(24,457,172)	(24,457,172)
Add: Recoveries		12,823,533	12,823,533
		<u>105,852,935</u>	<u>102,946,815</u>

The notes on page 27 form an integral part of the condensed financial statements.



Commodity Exchange Compensation Fund

Statement of Recognised Gains and Losses

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

	<u>Note</u>	<u>Unaudited Quarter Ended 30 June 2001</u> \$	<u>Unaudited Quarter Ended 30 June 2000</u> \$
Net refund of contributions to HKFE		(100,000)	(300,000)
Contract levy	3	1,366,261	1,061,148
Net gains not recognised in the income and expenditure account		<u>1,266,261</u>	<u>761,148</u>
Surplus		<u>1,639,859</u>	<u>1,582,367</u>
Total recognised gains		<u><u>2,906,120</u></u>	<u><u>2,343,515</u></u>

The notes on page 27 form an integral part of the condensed financial statements.



Commodity Exchange Compensation Fund

Cash Flow Statement

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 June 2001 \$	Unaudited Quarter Ended 30 June 2000 \$
Net cash outflow from operating activities	(59,468)	(30,769)
Returns on investments - interest received	1,646,115	1,716,241
Investing activities		
Held-to-maturity debt securities redeemed	8,000,000	5,500,000
Held-to-maturity debt securities bought	-	(7,968,000)
Net cash inflow/(outflow) from investing activities	8,000,000	(2,468,000)
Financing		
Net contribution refunded to HKFE	(100,000)	(300,000)
Contract levy received	1,505,929	1,174,825
Net cash inflow from financing	1,405,929	874,825
Increase in cash and cash equivalents	10,992,576	92,297
Cash and cash equivalent at beginning of the quarter	19,149,185	12,290,428
Cash and cash equivalent at end of the quarter	<u>30,141,761</u>	<u>12,382,725</u>
Reconciliation of surplus for the quarter to net cash outflow from operating activities:		
Surplus	1,639,859	1,582,367
Investment Income	(1,677,597)	(1,605,632)
Decrease in accounts payable and accrued charges	(21,730)	(7,504)
Net cash outflow from operating activities	<u>(59,468)</u>	<u>(30,769)</u>

Analysis of the balance of cash and cash equivalents:

	Unaudited At 30 June 2001 \$	Unaudited At 30 June 2000 \$
Cash at bank	18,640	133,063
Bank fixed and call deposits	30,123,121	12,249,662
	<u>30,141,761</u>	<u>12,382,725</u>



Commodity Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2001

(Expressed in Hong Kong dollars)

1. ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Committee.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2001 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

The same accounting policies adopted in the financial statements for the year ended 31 March 2001 have been applied to the interim financial report.

2. CONTRIBUTIONS FROM HKFE

	\$
Balance as at 1 April 2000	21,800,000
Add: Contribution received during the year ended 31 March 2001	200,000
Deduct: Refunds to outgoing shareholders during the year ended 31 March 2001	(700,000)
Balance as at 31 March 2001	<u>21,300,000</u>
Add: Contributions received during the quarter ended 30 June 2001	100,000
Deduct: Refunds to outgoing shareholders during the quarter ended 30 June 2001	(200,000)
Balance as at 30 June 2001	<u><u>21,200,000</u></u>

3. CONTRACT LEVY

During the quarter ended 30 June 2001, \$1,366,261 contract levy were recognised (quarter ended 30 June 2000: \$1,061,148).