



## Table of Contents

Operations Highlights	1
Review of Operations	3
Securities and Futures Commission Condensed Consolidated Financial Statements	12
Investor Compensation Fund Condensed Financial Statements	19
Unified Exchange Compensation Fund Condensed Financial Statements	25
Commodity Exchange Compensation Fund Condensed Financial Statements	32

*This is the Securities and Futures Commission's first Quarterly Report for the financial year from 1 April 2004 to 31 March 2005. The report aims to enhance the transparency and accountability of the Commission.*

Office : 8th Floor, Chater House, 8 Connaught Road Central, Hong Kong  
Tel : (852) 2840 9222  
Fax : (852) 2521 7836  
Website : [www.hksfc.org.hk](http://www.hksfc.org.hk)  
Electronic Investor Resources Centre : [www.hkeirc.org](http://www.hkeirc.org)

Enquiries : General : (852) 2840 9222  
Investor Hotline : (852) 2840 9333  
SFC Infoline : (852) 2840 9393  
Media Hotline : (852) 2840 9287  
E-mail : [enquiry@hksfc.org.hk](mailto:enquiry@hksfc.org.hk)



## Operations Highlights

1 April to 30 June 2004

### Financial Position

1. The SFC recorded a surplus of \$44.2 million in the quarter, compared with a projected deficit of \$1.4 million in the approved budget. Reserves stood at \$735.2 million on 30 June.
2. Total revenue was \$145.1 million, 55% higher than the previous same period because of increased market turnover and a rise in fees and charges income due to increased market activity. Total expenditure (including depreciation) amounted to \$101 million, same as that recorded last year.

### Regulatory Developments

3. As promised to Legco, we are reviewing the Securities and Futures Ordinance (SFO) to consider if certain provisions or the subsidiary legislation made under it need to be amended.
4. We are working on amendments to the SFO required for the proposed new statutory framework to implement Government's proposals to enhance the regulation of listing.
5. The SFC and Hong Kong Exchanges and Clearing Limited (HKEx) are finalising consultation conclusions on the regulation of sponsors and independent financial advisers (IFAs). We aim to release the conclusions and amendments to the Listing Rules concerning the conduct of sponsors and IFAs later in the year.
6. We are finalising a review of the Codes on Takeovers and Mergers and Share Repurchases to keep them in line with current market practice.
7. We are analysing the response to the consultation on the regulatory framework for addressing analyst conflicts of interest. We hope to release the conclusions in the fourth quarter.
8. The SFC commenced theme inspections in June on the business conduct of investment advisers and reviewed their compliance with law, rules and codes. We will formulate regulatory policy proposals to protect investors in this area.
9. The geographical restriction on Real Estate Investment Trusts is being reviewed by an SFC taskforce which has discussed research findings on how to set benchmarks for overseas investments. We expect to consult the market on any recommendations made by the taskforce.
10. The SFC released results of a survey on fund trading practices which show that neither market timing nor late trading was widespread or prevalent in Hong Kong. We will discuss with the industry possible means to guard against trading malpractices.
11. The SFC is assisting in drafting the necessary legislation for the operational model for a scripless securities market proposed by HKEx.



## Supervisory and Enforcement Actions

12. During the quarter, a small licensed firm, Sharegain Development Limited, went into receivership. We monitored closely the return of clients assets in an orderly manner.
13. The SFC issued a restriction notice on Charles Schmitt & Associates Limited (CSAL) following suspected misappropriation of assets of a CSAL fund. The SFC later obtained judgement from the High Court for appointing an administrator of its chief executive officer's property.
14. During the quarter, the SFC had 18 successful prosecutions and disciplined 15 licensees for various regulatory breaches. In one of the disciplinary cases, the Securities and Futures Appeals Tribunal confirmed that the SFC had the power to increase a disciplinary penalty if the prevailing market so required.

## Others

15. The SFC jointly produced a TV educational drama series, *All about Stock Investing*, with Radio Television Hong Kong. Other educational materials on topics including investment advisers and bonds investing were published.
16. We signed a Letter of Intent with Indonesia's Ministry of Finance Capital Market Supervisory Agency on the establishment of regulatory co-operation relating to investment funds.
17. Mr Raymond Kwok was re-appointed as a Non-Executive Director. Mr Richard Gnodde and Mr Blair Pickerell were appointed as new members of the Advisory Committee.



## Review of Operations

1 April to 30 June 2004

This is the Securities and Futures Commission's first Quarterly Report for the financial year starting 1 April 2004.

During the quarter, major overseas markets were weighed down by rising concerns of interest rate hikes and high oil prices. The US Fed's indication that any interest rate hike was likely to be gradual helped revive investors' confidence and the decision of the Federal Open Market Committee at its 30 June meeting to raise the Fed Funds rate by 25 basis points was in line with market expectations.

Local market sentiment followed that in major overseas markets. The Hang Seng Index (HSI) sank to the year low of 10,967 in mid-May but robust economic reports and better-than-expected land auction results helped recoup some losses. The HSI closed at 12,286 at the end of the quarter, down 3.1% from 12,682 on 31 March.

The average daily turnover on the Main Board fell 29% from the previous quarter to \$13.8 billion; that of HSI constituent stocks fell 20% to \$5.9 billion, accounting for 43% of the total turnover.

Share prices of Mainland stocks listed in Hong Kong consolidated amid credit-tightening measures adopted in the Mainland. The average daily turnover of H shares and red chips dropped by 32% and 34% to \$3.5 billion and \$2.2 billion respectively. The respective indices lost 10.2% and 4.3% respectively.

Average daily turnover on the Growth Enterprise Market (GEM) was \$69 million, 69% lower than the previous quarter. The S&P/HKEx GEM Index dropped 12.8% to close at 1,079 on 30 June.

Initial Public Offering (IPO) activities increased during the quarter with 15 IPOs on the Main Board and seven on the GEM. The total amount of funds raised through IPOs was \$33.7 billion, 56% higher than the previous quarter.


### Financial Highlights<sup>1</sup>

Total revenue in the quarter was \$145.1 million, 55% higher than the same period last year. This was mainly because the average daily stock market turnover for the quarter rose 80% to \$14.9 billion<sup>2</sup> from \$8.3 billion in the same period last year. Fees and charges income rose 22% to \$40.2 million mainly due to increased market activity.

---

<sup>1</sup> We have consolidated the financial results of Investor Compensation Company Limited in this financial report.

<sup>2</sup> For income purpose, the turnover figure includes the amount of new fund raisings, which also attract transaction levy.



Expenditure (including depreciation) amounted to \$101 million, same as that recorded last year. We continued to exercise stringent cost control and managed to keep total operating expenditure 10% below its approved budget level.

As a result, the SFC recorded a surplus of \$44.2 million in the quarter, compared with a projected deficit of \$1.4 million in the approved budget and the \$7.4 million actual deficit recorded for the same period last year.

At the end of June, the reserves stood at \$735.2 million, equivalent to 1.7 times the approved annual operating expenditure (including depreciation) of \$443 million.

The total number of staff at the end of June was 412, comprising 377 regular staff and 35 temporary staff, a slight increase from 408 staff a year ago to cope with increasing workload.

### **Securities and Futures Ordinance (SFO)**


We continued the task of the ongoing review of the SFO to consider if certain provisions or the subsidiary legislation made under it need to be amended. These include proposed amendments to improve efficiency in administering the new licensing regime and amendments to certain provisions relating to the disclosure of interests in Part XV of the SFO.

Intermediaries' migration to the new licensing regime continued smoothly. However, the pace slowed down because a majority of them had taken advantage of an "early bird" licensing fee discount offer that ended in March. For the first 15 months of the two-year transitional period ending 31 March 2005, around 12,000 licensees representing 70% of all those migrating had either migrated or lodged their applications. This was up from 64% as at the end of the previous quarter.

### **Improving Market Quality**

We have also been working on amendments to the SFO required for the proposed new statutory framework to implement Government's proposals to enhance the regulation of listing. New statutory rules to be made by the SFC under Section 36 of the SFO are being drafted. These rules will contain the important listing requirements to be given statutory backing - namely those on financial reporting and other periodic disclosures, disclosure of price sensitive information, and shareholders' approval for certain notifiable transactions. We intend to consult the public on the proposed amendment rules later in the year.

The SFC and Hong Kong Exchanges and Clearing Limited (HKEx) are finalising the consultation conclusion report of the Consultation Paper on the Regulation of Sponsors and Independent Financial Advisers (IFAs). We aim to release later in the year the report together with amendments to the Listing Rules concerning the conduct of sponsors and IFAs, in particular the sponsors' role in advising listed companies and listing applicants and in conducting due diligence.



The SFC will consult the public in the fourth quarter this year on changes to the existing regulatory regime for licensed and registered persons to cater specifically for sponsors and IFAs and measures that would help strengthen regulatory oversight over them.

The Takeovers Executive is finalising a review of the Codes on Takeovers and Mergers and Share Repurchases to keep them in line with current market practice. Proposed changes will reflect the Executive's experience in its day-to-day administration of the Codes and comments from market practitioners. We intend to consult the public later in the year.

### **Partnership with Industry**

The number of intermediaries steadily increased from 20,607 as at 31 March to 21,184 as at 30 June due to continuous market recovery.

The securities industry continued to grow healthily. The number of active margin clients increased to 75,419 as at 30 June 2004, compared to 66,053 one year ago. The assets held by the industry nearly doubled in the same period due to the inclusion of assets held by 22 licensed corporations that were exempt dealers before 1 April 2003 and hence were not required to file financial returns. Such corporations were required to file financial returns commencing from 1 October 2003 after the expiry of a six-month grace period (see table on page 6).

Following the arrangements on mutual recognition of qualifications of practitioners by the China Securities Regulatory Commission (CSRC) and the SFC under the CEPA commitments, 169 Hong Kong candidates passed the first examination on Mainland securities laws and regulations held in late March. A number of them had applied and been granted the Mainland securities industry qualification. Another five Hong Kong professionals passed the examination on Mainland futures laws and regulations held in June. They are qualified to apply for the Mainland futures industry qualification starting early July.

During the quarter, we issued circulars to brokerage firms reminding them, among other things, to watch out for fraudulent activities targeting them, and to protect themselves and investors from fake websites. We also issued four sets of "Questions and Answers" providing guidance on licensing issues including new measures to facilitate issuance of temporary licences and licensing of itinerant professionals of international investment houses.

We received 30 submissions to the Consultation Paper on the Regulatory Framework for Addressing Analyst Conflicts of Interest. We will continue to engage the industry and other interested parties in finalising guidelines most appropriate for Hong Kong. We hope to release the conclusions in the fourth quarter and implement the guidelines by year-end.

The SFC commenced theme inspections on the business conduct of investment advisers in June and reviewed their compliance with law, rules and codes, with technical assistance from an overseas securities regulator.

We have ongoing dialogue with the industry. During the quarter, we participated in four seminars to brief about 870 market practitioners on issues relating to the fidelity insurance schemes, migration progress to the new licensing regime and analyst conflicts of interest.

<b>Statistical Information and Financial Position of the Securities Industry (Note 1)</b>						
	<b>As at 30 Jun 2004</b>	<b>As at 30 Jun 2003</b>				
Total number of securities dealers and securities margin financiers (Note 2)	667	676				
Total number of active cash clients (Note 2, 3)	666,621	729,591				
Total number of active margin clients (Note 3)	75,419	66,053				
<b>Balance Sheet (Note 4)</b>	<b>(\$ Million)</b>	<b>(\$ Million)</b>				
Cash in hand and at bank (Note 5)	99,811	63,930				
Amounts receivable from margin clients (Note 6)	16,008	11,810				
Amounts receivable from clients / other dealers arising from dealing in securities	77,496	48,763				
Other assets	103,754	33,400				
<b>Total assets</b>	<b>297,069</b>	<b>157,903</b>				
Amounts payable to clients / other dealers arising from dealing in securities	124,815	79,576				
Total borrowings from financial institutions	41,642	4,431				
Other liabilities	56,505	21,600				
Total shareholders' fund (Note 7)	74,107	52,296				
<b>Total liabilities and shareholders' fund</b>	<b>297,069</b>	<b>157,903</b>				
<p>Note 1: The data were extracted from the monthly Financial Returns (FR) submitted in accordance with the Securities and Futures (Financial Resources) Rules by securities dealers and securities margin financiers. These figures are subject to amendments made by the licensed corporations.</p> <p>Note 2: The numbers decreased because some licensed corporations ceased to be our licensees due to business restructuring.</p> <p>Note 3: Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statement of accounts in respect of the relevant reporting month in accordance with Securities and Futures (Contracts Notes, Statements of Account and Receipts) Rules.</p> <p>Note 4: Increases in these items were mainly due to the inclusion of the financial figures of licensed corporations that were exempt dealers before 1 April 2003 and hence were not required to file FR. Such corporations were required to file FR commencing from 1 October 2003 after the expiry of a six-month grace period.</p> <p>Note 5: Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$43,019 million (30 June 2003: \$29,182 million).</p> <p>Note 6: Average collateral coverage (the number of times the aggregate market value of securities collateral deposited by clients covers the amounts receivable from margin clients on a given date on an industry-wide basis):</p> <table border="0"> <tr> <td><u>As at 30 Jun 2004</u></td> <td><u>As at 30 Jun 2003</u></td> </tr> <tr> <td>4.3</td> <td>3.6</td> </tr> </table> <p>Note 7: The value of shareholders' fund includes value of redeemable shares.</p>			<u>As at 30 Jun 2004</u>	<u>As at 30 Jun 2003</u>	4.3	3.6
<u>As at 30 Jun 2004</u>	<u>As at 30 Jun 2003</u>					
4.3	3.6					

## Facilitating Market Development

The Taskforce on Overseas Real Estates Investments by Real Estate Investment Trusts (REITs), which is reviewing the geographical restriction on REITs, met in July to discuss research findings on how to set benchmarks for overseas investments. We expect to consult the market on any recommendations made by the Taskforce.

The SFC followed closely the investigation and developments relating to mutual fund trading malpractices internationally and conducted a survey on fund trading practices of licensed corporations in Hong Kong. Survey findings, released in early July, show that neither market timing nor late trading was widespread or prevalent in Hong Kong. We will examine the results, further review the fund trading practices and discuss with the industry possible means to guard against abusive trading practices.

Findings of another survey, the Fund Management Activities Survey 2003, were also released in early July. We received responses from licensed corporations and registered institutions (or banks, which were included in the survey for the first time) engaged in asset management or other private banking activities. It was found that fund management business in Hong Kong grew by 80% during the year to \$2,947 billion due to strong financial markets, inflow of overseas funds, and inclusion of data from banks. The survey shows that Hong Kong remained strong in attracting overseas funds for investment management.


The introduction of more products helped push up the number of authorised unit trusts/mutual funds during the quarter (see table). There was continuous interest in capital guaranteed funds (and especially those with variable maturity features), though the pace of introduction had slowed down probably due to expected interest rate hikes.

We authorised two more hedge funds in the quarter, bringing the total to 12 hedge funds (five single hedge funds and seven fund-of-hedge funds) authorised as at the end of June. As we have built up considerable experience in implementing the guidelines on hedge funds, we shall commence a review of the guidelines in the second half of the year. The SFC will continue to work with the industry to facilitate the success of retail hedge funds in Hong Kong and better cater to market needs.

Several insurance companies launched more investment-linked assurance products to increase their market share and give investors more choices (see table). The number of authorised equity-linked deposits also increased to 41 as at 30 June, compared to 35 a year ago.

<b>Number of SFC Authorised Collective Investment Schemes</b>			
	<b>30 Jun 2004</b>	<b>31 Mar 2004</b>	<b>30 Jun 2003</b>
Unit trusts and mutual funds	1,927	1,872	1,952
Investment-linked assurance schemes	165	160	136
Pooled retirement funds	37	37	37
MPF master trust / industry schemes	46	46	46
MPF pooled investment funds (Note 1)	255	255	250
Other schemes (Note 2)	47	44	41
<b>Total</b>	<b>2,477</b>	<b>2,414</b>	<b>2,462</b>
Note 1: There are 108 funds included in this category that are offered both as retail unit trusts as well as pooled investment funds for MPF purpose.			
Note 2: The schemes included equity-linked deposits.			





In May, HKEx issued its Consultation Conclusions on a Proposed Operational Model for a Scripless Securities Market. HKEx revised its proposal from a Split Register Model to a Single Register Model, under which registrars need not issue scrips and instead will keep electronic records of such shares. HKEx plans to begin the dematerialisation exercise with the Central Clearing and Settlement System (CCASS) depository and make dematerialisation an option for other registered shareholders. In subsequent developments, an electronic link will be set up between CCASS and the share registrars. The SFC is assisting in drafting the necessary legislation.

As at 30 June, the SFC was considering four applications for authorisation to provide Automated Trading Services (ATS) in Hong Kong, of which three were from overseas exchanges or companies and one from a local company. This followed authorisation of five ATS providers in October last year.

The SFC and the Financial Services and the Treasury Bureau started a review on the Investor Compensation Fund (ICF). We are considering various aspects, including a mechanism to adjust the existing transaction levy of 0.002% once the assets of the ICF reach a certain level. We would consider the desirability of self-funding for the ICF so as to enable the income generated by it to be sufficient to cover its expenditure. We aim to brief the Legco Panel on Financial Affairs by year-end before consulting the public on the proposals.

### **Supervisory and Enforcement Actions**

In May, Sharegain Development Limited, a licensed firm in receivership, voluntarily suspended trading and started to return assets to clients. The SFC has closely monitored the situation and maintained close contact with the receiver.

We were informed by Towry Law (Asia) Hong Kong Limited in late May that it had decided to close to new business. The SFC and Towry Law's management are working together on a number of outstanding matters, including two suspended unauthorised funds that Towry Law distributed (Global Diversified Trading Limited and Global Opportunities Trading Limited), to ensure a satisfactory resolution in the interests of investors.

In June, the SFC issued a restriction notice on Charles Schmitt & Associates Limited (CSAL) and obtained an interim injunction to prevent CSAL's chief executive officer Mr Charles Schmitt from dealing with any assets he holds or controls. These actions followed suspicion by the SFC that clients assets might have been misappropriated from CSA Absolute Return Fund Limited, an unauthorised fund advised by Mr Schmitt on behalf of CSAL. In early July, the SFC further obtained judgment from the High Court for appointing an administrator of Mr Schmitt's property.

In May, the SFC reminded market practitioners to abide by the law when conducting pre-placement consultation. The SFC was investigating unusual trading activities relating to the placement of shares by listed companies or their controlling shareholders. In some cases, the SFC had reasonable grounds to believe that some institutional advisers had prior knowledge of placement activities and had acted upon them.

During the quarter, the SFC prosecuted 26 people and companies of which 18 were successfully prosecuted - for market manipulation, breaches of disclosure of securities interests law, breaches of the Financial Resources Rules, unlicensed activities, hawking of futures contracts, and defrauding and misleading the SFC. Summonses were withdrawn against five persons resulting in their acquittals. A further three persons were acquitted after trial.

We disciplined 15 licensees for a variety of misconduct. There was one licence revocation, six suspensions (for one month to 10 months) and eight reprimands. We settled with one licensee on payment to the SFC but without admission of liability.

In one of the disciplinary cases, the Securities and Futures Appeals Tribunal (SFAT) confirmed that the SFC had the power to increase a disciplinary penalty if the prevailing market condition so required. In the case, a licensee was suspended for three months for failings relating to operation of a client account by a third party. He appealed to the SFAT and argued that penalties in previous similar cases were lighter. The SFAT upheld the SFC's decision.

We also took disciplinary actions against five licensees which were eventually concluded with no formal sanction imposed, although four of them received private warnings. Disciplinary proceedings were also commenced and discontinued against one deemed licensee who left his firm before the conclusion of the action. A person's deemed licence is effectively revoked on the day the person leaves his or her firm. The SFC has no jurisdiction to continue with disciplinary proceedings against such a person. However, the person would be required to answer the SFC's concerns about him or her if he or she re-applies for a licence or other regulatory approval.

In the quarter, the SFC received 21 complaints in relation to boiler room operations. Liaison work with other domestic and overseas enforcement bodies in this regard continued.

<b>Statistics of Enforcement Actions</b>			
	<b>Apr - Jun 2004</b>	<b>Jan - Mar 2004</b>	<b>Apr - Jun 2003</b>
Successful prosecutions	18	14	17
SFC licensees disciplined	15	13	17
Warning letters issued (Note 1)	80	70	47
Cases under investigation (Notes 2, 3 and 4)	519	546	788
Disciplinary inquiries in progress (Note 3)	105	99	75
Note 1: The increase from a year ago was mainly related to late submission cases under the disclosure of interest requirements of the SFO. Note 2: Some cases are ongoing investigations from the previous quarter. Note 3: Number of cases as at end of quarters. Note 4: The drop from a year ago was due to the conclusion of many late submission cases under the disclosure of interest requirements of the SFO. Also, there were fewer new cases in this quarter on Financial Resources Rules, insider dealing and market manipulation.			

## Strengthening Communication with Investors and Other Stakeholders

To educate investors on investing in stocks, the SFC partnered with the Radio Television Hong Kong (RTHK) to produce a TV drama series *All about Stock Investing*. The nine five-minute episodes were aired from mid-June to early August on TVB and ATV. It is now being aired on New World First buses until early October. To enhance the public's interest in the TV programme, an online game simulating investment in Hang Seng Index constituent stocks was launched on RTHK's Education Television website.

In April and May, 17 sessions of investor education teachers workshops were organised. There were over 1,500 enrolments from more than 220 secondary schools, the Hang Seng School of Commerce and The Hong Kong Institute of Education. The teachers responded favourably, with some of them inviting SFC staff to talk to their students.

We also spoke to 600 people in two workshops on financial capability management for parents and one seminar for senior citizens.

As a continuous initiative, we published educational material covering topics related to capital re-organisation of listed companies, shareholders' voting rights, investment advisers, nominee services, internet scams which use emails to entice recipients to disclose their personal financial data, implied volatility and new types of exotic warrants, bonds investing and reading listed company annual reports.

Statistics of Investor Enquiries and Public Complaints			
	Apr - Jun 2004	Jan - Mar 2004	Apr - Jun 2003
Enquiries	1,276	1,534	1,007
Complaints	342	325	329


In the quarter, news of Towry Law Asia (HK) Limited closing to new business and suspected misappropriation of the CSAL fund triggered a number of enquiries for advice on the best course of action clients should take. However, the total number of enquiries dropped mainly because of a decrease in enquiries related to IPOs.

The SFC's *Annual Report 2003-2004* was tabled at the Legco on 12 May, only six weeks after the financial year-end. On the same day, the third edition of the SFC's *An English-Chinese Glossary of Securities, Futures and Financial Terms* (for the first time with a CD ROM version) was published.

We continued to publish our bi-monthly newsletter *SFC Alert*, the monthly *SFC Enforcement Reporter*, and the spring issue of *Quarterly Bulletin* to keep the market informed of our work and enforcement actions. All these publications are available on the SFC website.

## International Co-operation and External Relations

In May, I led an SFC delegation to the Annual Conference of the International Organization of Securities Commissions (IOSCO) in Amman, Jordan. During the conference, I was privileged to be elected as the Chairman of the IOSCO Technical Committee for a two-year term. We set up an exhibition booth with



poster display, videocast and souvenirs to promote the attractiveness and advantages of Hong Kong, the host city of the IOSCO Annual Conference in 2006.

As a member of a Technical Committee taskforce which is drafting the Code of Conduct for Credit Rating Agencies, the SFC participated in a meeting in Rome, Italy in April. The SFC, with input from the Hong Kong Monetary Authority, also contributed written comments on two drafts of the Code. IOSCO intends to pre-consult four main credit rating agencies and the Basle Committee on Banking Supervision before a public consultation later this year.

We signed a Letter of Intent with Indonesia's Ministry of Finance Capital Market Supervisory Agency (Bapepam) on the establishment of regulatory co-operation. The SFC and Bapepam will work towards the mutual recognition of investment funds authorised in their respective jurisdictions for cross-border distribution, with the longer-term goal of entering into a revised Memorandum of Understanding.

On enforcement co-operation, the SFC received 13 requests from overseas regulators: 10 sought non-public information and three sought investigatory assistance. We made two requests to overseas regulators for non-public information and investigatory assistance.

On secondment, one staff member from CSRC was seconded to the Enforcement Division for four weeks.

During the quarter, the SFC welcomed one local delegation and one Mainland delegation from the private sector.

### Looking Ahead

The Process Review Panel for the SFC has published its third Annual Report to the Financial Secretary covering its work in 2003, during which it reviewed the SFC's procedures covering various areas of its work together with 51 completed cases. The Panel concluded in general that adequate safeguards and checks and balances existed in the SFC's internal procedures and, in carrying out its regulatory functions, the SFC had adhered to its established internal procedures. It made certain recommendations for improvement. We welcome the Panel's findings and look forward to continuing our co-operation with the Panel in its fourth year of work.

Mr Raymond Kwok has been re-appointed as a Non-Executive Director for two years from 1 August 2004 to 31 July 2006. I warmly welcome his re-appointment. I also welcome the appointment of Mr Richard Gnodde and Mr Blair Pickerell as new members of our Advisory Committee from 1 July 2004 to 31 May 2005, and thank Mr Mario Francescotti, who retired in May from the committee, for his contribution.

Based on current information and by keeping a tight rein on expenditures, we expect to record a surplus in the second quarter.

Andrew Sheng  
Chairman

13 August 2004

# Securities and Futures Commission

## Consolidated Income and Expenditure Account

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Income</b>			
Levies		95,807	54,468
Fees and charges		40,230	33,008
Investment income		5,164	5,503
Recoveries from Investor Compensation Fund		959	109
Other income		2,986	488
		<u>145,146</u>	<u>93,576</u>
<b>Expenses</b>			
Staff costs		78,180	77,262
Premises			
rent		4,532	5,002
other		2,794	5,080
Other expenses		10,754	7,134
		<u>96,260</u>	<u>94,478</u>
Depreciation		<u>4,728</u>	<u>6,478</u>
		<u>100,988</u>	<u>100,956</u>
<b>Surplus / (deficit)</b>	2	<u><u>44,158</u></u>	<u><u>(7,380)</u></u>

We have not prepared a separate statement of changes in equity as the surplus/(deficit) for the quarter would be the only component of such a statement.

The notes on pages 16 to 18 form part of the condensed consolidated financial statements.

# Securities and Futures Commission

## Consolidated Balance Sheet

At 30 June 2004

(Expressed in Hong Kong Dollars)

	<u>Note</u>	Unaudited <u>At 30 Jun 2004</u> \$'000	Audited <u>At 31 Mar 2004</u> \$'000
<b>Non-current assets</b>			
Fixed assets		30,567	34,037
Held-to-maturity debt securities	3	175,744	66,329
<b>Current assets</b>			
Held-to-maturity debt securities	3	502,972	579,802
Bank deposits		91,261	75,781
Debtors, deposits and prepayments		57,291	58,101
Cash at bank and in hand		<u>2,328</u>	<u>2,182</u>
		<u>653,852</u>	<u>715,866</u>
<b>Current liabilities</b>			
Fees received in advance		29,968	34,788
Creditors and accrued charges		<u>22,153</u>	<u>22,198</u>
		<u>52,121</u>	<u>56,986</u>
<b>Net current assets</b>			
		<u>601,731</u>	<u>658,880</u>
<b>Total assets less current liabilities</b>			
		808,042	759,246
<b>Non-current liabilities</b>			
	4	<u>72,860</u>	<u>68,222</u>
<b>Net assets</b>			
		<u>735,182</u>	<u>691,024</u>
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
		42,840	42,840
<b>Accumulated surplus</b>			
	2	<u>692,342</u>	<u>648,184</u>
		<u>735,182</u>	<u>691,024</u>

The notes on pages 16 to 18 form part of the condensed consolidated financial statements.

# Securities and Futures Commission

## Balance Sheet

At 30 June 2004

(Expressed in Hong Kong Dollars)

	Note	Unaudited At 30 Jun 2004 \$'000	Audited At 31 Mar 2004 \$'000
<b>Non-current assets</b>			
Fixed assets		30,178	33,597
Held-to-maturity debt securities	3	175,744	66,329
<b>Current assets</b>			
Held-to-maturity debt securities	3	502,972	579,802
Bank deposits		91,261	75,781
Debtors, deposits and prepayments		57,120	57,877
Cash at bank and in hand		<u>888</u>	<u>962</u>
		<u>652,241</u>	<u>714,422</u>
<b>Current liabilities</b>			
Fees received in advance		29,968	34,788
Creditors and accrued charges		<u>20,196</u>	<u>20,366</u>
		<u>50,164</u>	<u>55,154</u>
		<u>-----</u>	<u>-----</u>
<b>Net current assets</b>		<u>602,077</u>	<u>659,268</u>
		<u>-----</u>	<u>-----</u>
<b>Total assets less current liabilities</b>		807,999	759,194
<b>Non-current liabilities</b>	4	<u>72,817</u>	<u>68,170</u>
<b>Net assets</b>		<u>735,182</u>	<u>691,024</u>
		<u>-----</u>	<u>-----</u>
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>		42,840	42,840
<b>Accumulated surplus</b>	2	<u>692,342</u>	<u>648,184</u>
		<u>735,182</u>	<u>691,024</u>
		<u>-----</u>	<u>-----</u>

The notes on pages 16 to 18 form part of the condensed consolidated financial statements.

## Securities and Futures Commission

### Consolidated Cash Flow Statement For the quarter ended 30 June 2004 (Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Cash flows from operating activities</b>		
Surplus / (deficit)	44,158	(7,380)
Adjustments for :		
Depreciation	4,728	6,478
Investment income	(5,164)	(5,503)
Profit on sale of fixed assets	(4)	-
	<u>43,718</u>	<u>(6,405)</u>
Decrease / (increase) in debtors, deposits and prepayments	3,757	(6,415)
Increase in creditors and accrued charges	414	2,722
Decrease in fees received in advance	(4,820)	(5,569)
Increase in non-current liabilities	<u>4,638</u>	<u>5,248</u>
<b>Net cash generated from / (used in) operating activities</b>	<u>47,707</u>	<u>(10,419)</u>
<b>Cash flows from investing activities</b>		
Interest received	5,667	5,540
Held-to-maturity debt securities bought	(177,534)	-
Held-to-maturity debt securities redeemed	141,500	-
Fixed assets bought	(1,734)	(8,813)
Fixed assets sold	<u>20</u>	<u>-</u>
<b>Net cash used in investing activities</b>	<u>(32,081)</u>	<u>(3,273)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	15,626	(13,692)
<b>Cash and cash equivalents at beginning of the quarter</b>	<u>77,963</u>	<u>178,792</u>
<b>Cash and cash equivalents at end of the quarter</b>	<u>93,589</u>	<u>165,100</u>

#### Analysis of the balance of cash and cash equivalents :

	Unaudited At 30 Jun 2004 \$'000	Unaudited At 30 Jun 2003 \$'000
Bank deposits	91,261	164,443
Cash at bank and in hand	<u>2,328</u>	<u>657</u>
	<u>93,589</u>	<u>165,100</u>



# Securities and Futures Commission

## Notes to the Condensed Consolidated Financial Statements

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

### 1. BASIS OF PREPARATION

We have prepared the interim financial report in accordance with International Accounting Standard 34 "Interim financial reporting" adopted by the International Accounting Standards Board.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2004 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of Investor Compensation Company Limited in the SFC's condensed financial statements made up to 30 June 2004. We eliminate all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2004 to the interim financial report.

There were no significant changes in the operation of the SFC for the quarter ended 30 June 2004.

### 2. ACCUMULATED SURPLUS

#### The Group and the SFC

Movements of accumulated surplus during the quarter are as follows :

	<u>Unaudited</u> \$'000
Balance at 31 March 2004	648,184
Surplus for the quarter	44,158
	<hr/>
Balance at 30 June 2004	<u>692,342</u>



## **Securities and Futures Commission**

**Notes to the Condensed Consolidated Financial Statements**

**For the quarter ended 30 June 2004**

*(Expressed in Hong Kong dollars)*

### **3. HELD-TO-MATURITY DEBT SECURITIES**

#### **The Group and the SFC**

As of 30 June 2004, the total market value of held-to-maturity debt securities amounted to \$683,320,000 (31 March 2004 : \$655,104,000), which was above the total carrying cost of \$678,716,000 (31 March 2004 : \$646,131,000).

### **4. NON-CURRENT LIABILITIES**

#### **The Group and the SFC**

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our income and expenditure account on a straight line basis over the lease period from 2004 to 2013 as an integral part of the lease expense.

### **5. AGEING ANALYSIS OF DEBTORS AND CREDITORS**

There was no material debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 June 2004. Therefore we do not provide ageing analysis on debtors and creditors.

### **6. EXCHANGE FLUCTUATION**

All our balance sheet items are denominated in either United States dollars or Hong Kong dollars, and, as a result, we are not exposed to significant exchange rate risk.



## Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the quarter ended 30 June 2004

*(Expressed in Hong Kong dollars)*

### 7. INVESTMENTS IN SUBSIDIARIES

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorised share capital of \$10,000 and issued share capital of \$2 and Investor Compensation Company Limited (ICC) on 11 September 2002 with an authorised share capital of \$1,000 and issued share capital of \$0.2. Both FinNet and ICC are incorporated in Hong Kong.

The objective of FinNet is to operate an electronic network to facilitate payment and delivery transactions and interconnection of all financial institutions and financial entities in Hong Kong.

The objective of ICC is to facilitate the administration and management of the Investor Compensation Fund established under the Securities and Futures Ordinance.

Both companies are wholly owned subsidiaries of the SFC. As at 30 June 2004, the investments in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.2. The balance was too small to appear on the balance sheet which was expressed in thousand dollars.

FinNet has not commenced operation. The balance sheet of FinNet as at 30 June 2004 and the income and expenditure account for the quarter then ended were immaterial. Therefore, we have not accounted for its result in the condensed consolidated financial statements.

The financial statements of ICC are included in the condensed consolidated financial statements.



# Investor Compensation Fund (the Fund)

## Report of the Investor 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 2004.

### 1. ESTABLISHMENT OF THE FUND

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Fund on 1 April 2003.

### 2. FINANCIAL RESULTS

The Committee presents the financial results which are set out in the condensed financial statements on pages 20 to 24.

### 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, JP  
Mrs. Alexa Lam  
Ms. Anna H.Y. Wu, SBS, JP  
Mr. Paul Chow Man Yiu, JP

### 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, JP  
Chairman

28 July 2004

## Investor Compensation Fund

### Income and Expenditure Account

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Income</b>			
Net investment income		402	875
Levy - securities		35,892	19,955
Levy - futures / option contracts		3,422	2,296
		<u>39,716</u>	<u>23,126</u>
		-----	-----
<b>Expenses</b>			
ICC expenses	2	959	1,386
Auditors' remuneration		6	-
Bank charges		26	-
Professional fees		5	-
Exchange difference		5	-
Sundry expenses		1	-
		<u>1,002</u>	<u>1,386</u>
		-----	-----
<b>Surplus</b>		38,714	21,740
<b>Accumulated surplus brought forward</b>		154,609	-
		<u>193,323</u>	<u>21,740</u>
<b>Accumulated surplus carried forward</b>		<u>193,323</u>	<u>21,740</u>

The notes on page 24 form part of the condensed financial statements.

# Investor Compensation Fund

## Balance Sheet

At 30 June 2004

(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited At 30 Jun 2004 \$'000	Audited At 31 Mar 2004 \$'000
<b>Current assets</b>			
Debt securities		122,085	174,286
Other receivable		86	-
Interest receivable		501	1,656
Due from ICC		1,918	1,778
Levy receivable from the SEHK		11,386	16,415
Levy receivable from the HKFE		1,164	1,163
Fixed and call deposits with banks		885,439	766,964
Cash at bank		<u>100,044</u>	<u>13</u>
		1,122,623	962,275
<b>Current liabilities</b>			
Accounts payable and accrued charges		<u>17</u>	<u>66</u>
<b>Net current assets</b>		<u>1,122,606</u>	<u>962,209</u>
<b>Net assets</b>		<u>1,122,606</u>	<u>962,209</u>
Representing:			
<b><u>Compensation fund</u></b>			
Contributions from UECF	3	821,323	699,640
Contributions from CECF	3	107,960	107,960
Accumulated surplus		<u>193,323</u>	<u>154,609</u>
		<u>1,122,606</u>	<u>962,209</u>

The note on page 24 form part of the condensed financial statements.

## Investor Compensation Fund

Statement of Changes in Equity  
For the quarter ended 30 June 2004  
(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited Quarter Ended <u>30 Jun 2004</u> \$'000	Unaudited Quarter Ended <u>30 Jun 2003</u> \$'000
Compensation fund balance as at 1 April		962,209	-
Surplus for the quarter		38,714	21,740
Contributions from UECF	3	121,683	329,500
Contributions from CECF	3	-	51,690
Compensation fund balance as at 30 June		<u>1,122,606</u>	<u>402,930</u>

The note on page 24 form part of the condensed financial statements.

## Investor Compensation Fund

### Cash Flow Statement

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the quarter	38,714	21,740
Net investment income	(402)	(875)
Decrease / (Increase) in levies receivable	5,028	(8,089)
Increase in accounts receivable	(140)	-
(Decrease) / Increase in accounts payable and accrued charges	<u>(49)</u>	<u>1,386</u>
<b>Net cash generated from operating activities</b>	<u>43,151</u>	<u>14,162</u>
<b>Cash flows from investing activities</b>		
Redemption of debt securities	51,500	-
Interest received	<u>2,172</u>	<u>405</u>
<b>Net cash generated from investing activities</b>	<u>53,672</u>	<u>405</u>
<b>Cash flows from financing activities</b>		
Contributions received from UECF	121,683	329,500
Contributions received from CECF	<u>-</u>	<u>51,690</u>
<b>Net cash generated from financing activities</b>	<u>121,683</u>	<u>381,190</u>
<b>Net increase in cash and cash equivalents</b>	218,506	395,757
<b>Cash and cash equivalents at beginning of the quarter</b>	<u>766,977</u>	<u>-</u>
<b>Cash and cash equivalents at end of the quarter</b>	<u>985,483</u>	<u>395,757</u>
<b>Analysis of the balance of cash and cash equivalents:</b>		
	Unaudited At 30 Jun 2004 \$'000	Unaudited At 30 Jun 2003 \$'000
Cash at bank	100,044	2
Fixed and call deposits with banks	<u>885,439</u>	<u>395,755</u>
	<u>985,483</u>	<u>395,757</u>





# Investor Compensation Fund

## Notes to the Condensed Financial Statements

For the quarter ended 30 June 2004

*(Expressed in Hong Kong dollars)*

### 1. BASIS OF PREPARATION

The Fund prepares the interim financial report in accordance with International Accounting Standard 34 "Interim financial reporting" adopted by the International Accounting Standards Board.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2004 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2004 to the interim financial report.

### 2. ICC EXPENSES

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the quarter ended 30 June 2004, ICC incurred \$959,000 for its operation (For the quarter ended 30 June 2003 : \$1,386,000).

### 3. CONTRIBUTIONS FROM UECF AND CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) respectively as it considers appropriate after 1 April 2003. Up to 30 June 2004, the SFC has paid \$821,323,000 and \$107,960,000 into the Fund from the UECF and the CECF respectively.

### 4. CONTINGENT LIABILITIES

As at the date of this report, the Fund has received claims against four intermediaries. 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 \$900,000 (As at 31 March 2004 : \$450,000).



# 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 2004.

### 1. ESTABLISHMENT OF THE FUND

Part X of the repealed Securities Ordinance (Chapter 333) 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 Commodity 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 X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

### 2. FINANCIAL RESULTS

The Committee presents the financial results which are set out in the condensed financial statements on pages 26 to 31.

### 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, JP  
Mrs. Alexa Lam  
Mr. David M. Roberts  
Mr. Paul Chow Man Yiu, JP  
Mr. T. Brian Stevenson, SBS

### 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, JP  
Chairman

28 July 2004

## Unified Exchange Compensation Fund

### Income and Expenditure Account

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Income</b>			
Net investment income		(978)	4,282
Transaction levy		-	(4)
Recoveries	2	10,033	-
Compensation refund from claimants		-	620
		<hr/>	<hr/>
		9,055	4,898
		-----	-----
<b>Expenses</b>			
Provision for compensation reversed		(923)	(1,922)
Auditors' remuneration		9	10
Bank charges		16	42
Professional fees		13	43
Sundry expenses		1	64
		<hr/>	<hr/>
		(884)	(1,763)
		-----	-----
<b>Surplus</b>		9,939	6,661
<b>Accumulated deficit brought forward</b>		(13,284)	(165,136)
		<hr/>	<hr/>
<b>Accumulated deficit carried forward</b>		(3,345)	(158,475)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 30 and 31 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Balance Sheet

At 30 June 2004

(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited <u>At 30 Jun 2004</u> \$'000	Audited <u>At 31 Mar 2004</u> \$'000
<b>Current assets</b>			
Debt securities		136,318	160,985
Equity securities received under subrogation	2	6,130	7,251
Interest receivable		1,333	2,024
Fixed and call deposits with banks		79,339	167,407
Cash at bank		<u>157</u>	<u>215</u>
		<u>223,277</u>	<u>337,882</u>
<b>Current liabilities</b>			
Accounts payable and accrued charges		4,345	4,522
Provision for compensation	3	<u>7,111</u>	<u>9,545</u>
		<u>11,456</u>	<u>14,067</u>
<b>Net current assets</b>		<u>211,821</u>	<u>323,815</u>
<b>Net assets</b>		<u>211,821</u>	<u>323,815</u>
Representing:			
<b>Compensation fund</b>			
Contributions from the SEHK	4	46,200	46,450
Excess transaction levy from the SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from the SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated deficit		<u>(3,345)</u>	<u>(13,284)</u>
		1,033,144	1,023,455
Contributions to Investor Compensation Fund	5	<u>(821,323)</u>	<u>(699,640)</u>
		<u>211,821</u>	<u>323,815</u>

The notes on pages 30 and 31 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

Statement of Changes in Equity  
For the quarter ended 30 June 2004  
(Expressed in Hong Kong dollars)

	<u>Note</u>	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
Compensation fund balance as at 1 April		323,815	871,603
Surplus for the quarter		9,939	6,661
Contributions refunded to the SEHK	4	(250)	-
Contributions to Investor Compensation Fund		(121,683)	(329,500)
Compensation fund balance as at 30 June		<u>211,821</u>	<u>548,764</u>

The notes on pages 30 and 31 form part of the condensed financial statements.

# Unified Exchange Compensation Fund

## Cash Flow Statement

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the quarter	9,939	6,661
Net investment income	978	(4,282)
Decrease in levy receivable	-	5,607
Decrease in equity securities received under subrogation	1,121	-
Decrease in provision for compensation	(2,434)	(8,014)
Decrease in accounts payable and accrued charges	<u>(177)</u>	<u>(12)</u>
<b>Net cash generated from / (used in) operating activities</b>	<u>9,427</u>	<u>(40)</u>
<b>Cash flows from investing activities</b>		
Debt securities redeemed	21,500	71,000
Interest received	<u>2,880</u>	<u>8,445</u>
<b>Net cash generated from investing activities</b>	<u>24,380</u>	<u>79,445</u>
<b>Cash flows from financing activities</b>		
Contribution refunded to the SEHK	(250)	-
Contributions to Investor Compensation Fund	<u>(121,683)</u>	<u>(329,500)</u>
<b>Net cash used in financing activities</b>	<u>(121,933)</u>	<u>(329,500)</u>
<b>Net decrease in cash and cash equivalents</b>	(88,126)	(250,095)
<b>Cash and cash equivalents at beginning of the quarter</b>	<u>167,622</u>	<u>339,704</u>
<b>Cash and cash equivalents at end of the quarter</b>	<u>79,496</u>	<u>89,609</u>
<b>Analysis of the balance of cash and cash equivalents:</b>		
	Unaudited At 30 Jun 2004 \$'000	Unaudited At 30 Jun 2003 \$'000
Cash at bank	157	918
Fixed and call deposits with banks	<u>79,339</u>	<u>88,691</u>
	<u>79,496</u>	<u>89,609</u>

# Unified Exchange Compensation Fund

## Notes to the Condensed Financial Statements

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

### 1. BASIS OF PREPARATION

The Fund prepares the interim financial report in accordance with International Accounting Standard 34 "Interim financial reporting" adopted by the International Accounting Standards Board. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance (SFO) which came into effect from 1 April 2003, the Fund prepares the interim financial report on a break-up basis with assets stated at recoverable amounts.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2004 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2004 to the interim financial report.

### 2. EQUITY SECURITIES AND RECOVERIES

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund arranged to pay processing fees and to liquidate the shares as far as possible. The Fund recognised as recoveries the sale proceeds and the remaining shares at market value as of 30 June 2004 after deducting relevant processing fees and charges for collecting and selling the securities received.

### 3. PROVISION FOR COMPENSATION

	Unaudited \$'000
Balance as at 1 April 2003	30,628
Less: amount paid during the year ended 31 March 2004	(17,284)
unused provision reversed during the year ended 31 March 2004	<u>(3,799)</u>
Balance as at 31 March 2004	9,545
Less: amount paid during the quarter ended 30 June 2004	(1,511)
unused provision reversed during the quarter ended 30 June 2004	<u>(923)</u>
Balance as at 30 June 2004	<u><u>7,111</u></u>



## Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2004

*(Expressed in Hong Kong dollars)*

### 3. PROVISION FOR COMPENSATION (Con't)

We made provision for claims in respect of four SEHK exchange participants for which the SEHK has published a notice calling for claims. The maximum liabilities of the Fund in respect of three of these default cases can exceed the normal \$8 million limit.

### 4. CONTRIBUTIONS FROM THE SEHK

The SEHK advised the SFC of five trading rights having been relinquished in November 2003. The deposits of \$250,000 in respect of these five trading rights were refunded to SEHK during the quarter ended 30 June 2004.

### 5. CONTRIBUTIONS TO INVESTOR COMPENSATION FUND

Under section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the Investor Compensation Fund (ICF), which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Upto 30 June 2004, the SFC paid \$821,323,000 into the ICF from the Fund.

### 6. CONTINGENT LIABILITIES

As at the date of this report, the SEHK has received claims against seven exchange participants. They are subject to the normal \$8 million ceiling pursuant to section 109 of the repealed 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 \$56 million (As at 31 March 2004 : \$64 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 2004.

### 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(1) of Schedule 10 of the SFO.

### 2. FINANCIAL RESULTS

The Committee presents the financial results which are set out in the condensed financial statements on pages 33 to 37.

### 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, JP

Mrs. Alexa Lam

Mr. Calvin Tai

Mr. Lawrence Fok [resigned on 31 May 2004]

Mr. Gerald Greiner [appointed on 21 June 2004]

Mr. T. Brian Stevenson, SBS

### 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, JP  
Chairman

28 July 2004

## Commodity Exchange Compensation Fund

### Income and Expenditure Account

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Income</b>		
Net investment income	-	492
	<hr/>	<hr/>
<b>Expenses</b>		
Auditors' remuneration	9	11
Bank charges	-	8
Professional fees	-	4
Sundry expenses	1	1
	<hr/>	<hr/>
	10	24
	<hr/>	<hr/>
<b>(Deficit) / Surplus</b>	(10)	468
<b>Accumulated surplus brought forward</b>	302	107,613
	<hr/>	<hr/>
<b>Accumulated surplus carried forward</b>	292	108,081
	<hr/>	<hr/>

The note on page 37 form part of the condensed financial statements.

# Commodity Exchange Compensation Fund

## Balance Sheet

At 30 June 2004

(Expressed in Hong Kong dollars)

	Unaudited At 30 Jun 2004 \$'000	Audited At 31 Mar 2004 \$'000
<b>Current assets</b>		
Fixed and call deposits with banks	487	524
Cash at bank	5	5
	<hr/> 492	<hr/> 529
<b>Current liabilities</b>		
Accounts payable and accrued charges	200	227
	<hr/>	<hr/>
<b>Net current assets</b>	292	302
	<hr/>	<hr/>
<b>Net assets</b>	292	302
	<hr/>	<hr/>
Representing:		
<b><u>Compensation fund</u></b>		
Accumulated surplus	292	108,262
Contributions to Investor Compensation Fund	-	(107,960)
	<hr/> 292	<hr/> (107,960)
	<hr/>	<hr/>

The note on page 37 form part of the condensed financial statements.

## Commodity Exchange Compensation Fund

Statement of Changes in Equity  
For the quarter ended 30 June 2004  
(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended <u>30 Jun 2004</u> \$'000	Unaudited Quarter Ended <u>30 Jun 2003</u> \$'000
Compensation fund balance as at 1 April	302	129,013
(Deficit) / Surplus for the quarter	(10)	468
Net contributions refunded to the HKFE	-	(200)
Contributions to Investor Compensation Fund	-	(51,690)
Compensation fund balance as at 30 June	<u>292</u>	<u>77,591</u>

The note on page 37 form part of the condensed financial statements.

# Commodity Exchange Compensation Fund

## Cash Flow Statement

For the quarter ended 30 June 2004

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2004 \$'000	Unaudited Quarter Ended 30 Jun 2003 \$'000
<b>Cash flows from operating activities</b>		
(Deficit) / Surplus for the quarter	(10)	468
Net investment income	-	(492)
Decrease in levy receivable	-	772
Decrease in accounts payable and accrued charges	<u>(27)</u>	<u>(31)</u>
<b>Net cash (used in) / generated from operating activities</b>	<u>(37)</u>	<u>717</u>
<b>Cash flows from investing activities</b>		
Debt securities redeemed	-	3,000
Interest received	<u>-</u>	<u>1,411</u>
<b>Net cash generated from investing activities</b>	<u>-</u>	<u>4,411</u>
<b>Cash flows from financing activities</b>		
Net contribution refunded to the HKFE	-	(200)
Contributions to Investor Compensation Fund	<u>-</u>	<u>(51,690)</u>
<b>Net cash used in financing activities</b>	<u>-</u>	<u>(51,890)</u>
<b>Net decrease in cash and cash equivalents</b>	(37)	(46,762)
<b>Cash and cash equivalents at beginning of the quarter</b>	<u>529</u>	<u>51,903</u>
<b>Cash and cash equivalents at end of the quarter</b>	<u>492</u>	<u>5,141</u>
<b>Analysis of the balance of cash and cash equivalents:</b>		
	Unaudited At 30 Jun 2004 \$'000	Unaudited At 30 Jun 2003 \$'000
Cash at bank	5	64
Fixed and call deposits with banks	<u>487</u>	<u>5,077</u>
	<u>492</u>	<u>5,141</u>



# Commodity Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2004

*(Expressed in Hong Kong dollars)*

## 1. BASIS OF PREPARATION

The Fund prepares the interim financial report in accordance with International Accounting Standard 34 "Interim financial reporting" adopted by the International Accounting Standards Board. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance (SFO) which came into effect from 1 April 2003, the Fund prepares the interim financial report on a break-up basis with assets stated at recoverable amounts.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2004 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2004 to the interim financial report.