

香港存款保障委員會  
HONG KONG DEPOSIT  
PROTECTION BOARD

Annual Report 2006-2007

# Hong Kong Deposit Protection Board

The Hong Kong Deposit Protection Board is a statutory body established under the Deposit Protection Scheme Ordinance to oversee operation of the Deposit Protection Scheme. The purposes of the Scheme are to protect depositors and help to maintain stability of the banking system in Hong Kong.

The Board's mission is to maintain an effective and efficient deposit protection scheme in accordance with the Deposit Protection Scheme Ordinance and in line with international practices.

# Contents

2	Message from the Chairman
6	Review of Operations by the Chief Executive Officer
8	Main Features of the Deposit Protection Scheme
10	About the Hong Kong Deposit Protection Board
17	Key Milestones Leading to the Launch of Deposit Protection Scheme in Hong Kong
19	Report on Activities
43	Independent Auditors' Report
45	Statement of Accounts of the Deposit Protection Scheme Fund
69	List of Scheme Members

MESSAGE FROM  
THE CHAIRMAN



香港存款保障委員會  
HONG KONG DEPOSIT  
PROTECTION BOARD

Professor  
Andrew Chan Chi-fai, SBS, JP  
*Chairman*

“The successful launch of the Deposit Protection Scheme truly marked an important milestone in development of the financial safety net in Hong Kong.”

I am very pleased to report the launch of the Deposit Protection Scheme (DPS) and other activities and accomplishments of the Hong Kong Deposit Protection Board in 2006-07.

The successful launch of the DPS on 25 September 2006 truly marked an important milestone in development of the financial safety net in Hong Kong. The Scheme provides for the protection of deposits of up to HK\$100,000 per depositor per bank. At this level of protection, the Scheme already covers the vast majority of depositors in Hong Kong, and will be particularly meaningful to those small depositors who put their hard-earned savings in our banks.

The operation of the DPS is governed by the DPS Ordinance. The Board is responsible for its management and administration. Through the provision of deposit protection in this transparent and accountable manner, depositors can be assured that their savings are protected. More importantly, by strengthening the confidence of depositors in our banking sector, the Scheme will contribute to the stability of Hong Kong's financial system.

Our top priority last year was to ensure the successful launch of the Scheme. The Board convened no less than seven meetings in the 12 months prior to its launch to consider various businesses in earnest. These included the promulgation of rules and guidelines to govern the Scheme's operation, the design and development of a payout system that can quickly and efficiently facilitate payment of compensation to depositors, the engagement of payout agents, an agreement on a standby credit facility from the Exchange Fund, and the Board's budget and business plan.

The Board also carefully considered how best to promote the Scheme to the public. Indeed, its effectiveness depends on public awareness of the Scheme's existence and the extent of protection it provides. Both during and after the Scheme's launch, and on the advice of a professional firm, we arranged several educational and mass media campaigns to promote the DPS. I am delighted to say that the publicity activities undertaken by the Board have been effective in raising public awareness and understanding of the Scheme.

## MESSAGE FROM THE CHAIRMAN



Chairman of the Board, Professor Andrew Chan (left), and Chief Executive Officer, Mr Raymond Li (right), announcing the launch of the DPS

Depositors are not required to pay for protection under the DPS as it is funded entirely by contributions paid by member banks. Last year the DPS Fund collected contributions from members amounting to almost HK\$390 million. The Fund has been managed in accordance with the DPS Ordinance and subject to the oversight of the Investment Committee of the Board.

During the past year, we worked closely with the Hong Kong Monetary Authority (HKMA), members of the Scheme and service providers to the Board to ensure everything was in readiness for the launch on the due date. The Board also received support from the Legislative Council, Consumer Council, various government departments, public and professional bodies. And, I would like to sincerely thank my fellow Board members, the management team, the HKMA and Scheme members for their support, hard work and dedication throughout.

Many tasks remain to be accomplished in the coming year. The Board has considered and approved its business plan for 2007-08, paying particular attention to the continued monitoring of the Scheme's effectiveness, improving the readiness of our system and service providers for payout, and promoting public awareness and understanding of the Scheme.

Finally, I am honoured to have overseen the birth of the Deposit Protection Scheme. I believe the Board, with the assistance of the HKMA, has already established a strong foundation for deposit protection in Hong Kong. However there is no room for complacency. In the coming months, we will continue to refine and improve the functioning of the Scheme, thereby contributing further towards the well-being of the people and the financial system of Hong Kong.

**Professor Andrew Chan Chi-fai**, SBS, JP

*Chairman*

## REVIEW OF OPERATIONS BY THE CHIEF EXECUTIVE OFFICER



**Mr Raymond Li, JP**  
*Chief Executive Officer*

“Good progress was made last year in meeting the Board’s target of launching the DPS on 25 September and in operating the Scheme following its commencement.”





Good progress was made last year in meeting the Board's target of launching the DPS on 25 September and in operating the Scheme following its commencement. Highlights of our achievements in 2006-07 include:

- The introduction of legislative amendments to the DPS Ordinance to clarify the protection status of structured deposits and the issuing of two sets of rules governing the Scheme's operation in the form of subsidiary legislation. The purpose of the *DPS (Representation on Scheme Membership and Protection of Financial Products under Scheme) Rules* (Representation Rules) is to assist members of the public to distinguish between DPS protected and non-DPS protected financial products, while the *DPS (Payment of Contributions, Late Payment Fees and Rebates) Rules* prescribe how Scheme members should pay contributions or late payment fees to the Board, as well as how the Board should pay rebates of contributions to Scheme members. A review was conducted in December on the compliance of selected Scheme members with the Representation Rules.
- The development and implementation of the Payout System before the launch of the Scheme. "Live" data from Scheme members was used to assess the system's capabilities in handling real banking data. These simulation tests are continuing in an effort to improve the Payout System. Payout agents that might be called on to assist with the calculation and payment of compensation to depositors were recruited, including an information technology consultancy firm, a cheque printing company, a call centre operator and a business recovery service provider. To enable the Board to arrange compensation efficiently in the event of a payout, the Board issued the *Guideline on Information Required for Determining and Paying Compensation*. This statutory guideline specifies the requirements on information systems and customer records to be followed by member banks. Based on the results of the self-assessment by members, banks with 500,000 deposit accounts or less reported 100% compliance with the guideline by October 2006, while those with over 500,000 deposit accounts reported 85% compliance by April 2007.

## REVIEW OF OPERATIONS BY THE CHIEF EXECUTIVE OFFICER

- The collection of contributions from members for 2006 and 2007 was completed on schedule. The investment and investment control policies for the DPS Fund were implemented following approval by the Board's Investment Committee. As at 31 March 2007, the total assets of the DPS Fund stood at over HK\$370 million.
- The Board secured a credit facility from the Exchange Fund to pay compensation to depositors in the event of a bank failure. The size of the credit facility is sufficient to cope with the simultaneous failure of two medium-sized banks. This is consistent with the international standards promulgated by the Financial Stability Forum.
- A comprehensive publicity campaign was organised to promote awareness of the Scheme during its launch period. The campaign included the use of television and radio, and exhibitions in public housing estates. An enquiry hotline and a website were also launched to help the public learn more about the Scheme.

In the coming year, further improvements and refinements will be made to the operation of the DPS in line with the Board's business plan for 2007-08. In particular, we will work to establish a mechanism to monitor the Scheme's coverage, continuously promote public awareness and understanding of the Scheme, monitor member banks' compliance with the disclosure requirements in the Representation Rules, further improve the Board's readiness for payout, and review the corporate governance of the Board after it has gained experience in operating the DPS.

I would also like to thank members of the Board for their support and advice over the past year, as well as my staff who have worked superbly in assisting the Board in performing its functions.

**Mr Raymond Li, JP**  
*Chief Executive Officer*

## MAIN FEATURES OF THE DEPOSIT PROTECTION SCHEME



All licensed banks, unless otherwise exempted by the Hong Kong Deposit Protection Board, are required to participate in the DPS as Scheme members.



The compensation limit is set at HK\$100,000 per depositor per Scheme member.



Depositors are not required to apply for protection or compensation, eligible deposits held with Scheme members are automatically protected by the DPS.



Both Hong Kong dollar and foreign currency deposits are protected.



The DPS protects eligible deposits held in Scheme members, it does not protect term deposits with a maturity longer than 5 years, structured deposits, secured deposits, bearer instruments, off-shore deposits and non-deposit products, such as bonds, stocks, warrants, mutual funds, unit trusts and insurance policies.



A depositor's entitlement to compensation will be calculated on a net basis, i.e. the liability of the depositor will be deducted from the amount of protected deposits in determining compensation.



A DPS Fund with a target fund size of 0.3% of the total amount of relevant deposits (translating into a fund size of approximately HK\$1.3 billion) will be built up through collecting contributions from Scheme members.



Differential contributions will be assessed based on the supervisory ratings of individual Scheme members for building up the DPS Fund.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Introduction

Launched in September 2006, the DPS is a key building block in Hong Kong's financial safety net. Through the provision of a measure of protection for depositors, the DPS contributes to the stability of the banking system.

### Functions of the Board

Under section 5 of the DPS Ordinance, the Board's functions include assessing and collecting contributions payable by Scheme members, managing the DPS Fund, making payments to depositors in the event of a failure of a Scheme member and recovering payments from the assets of the failed Scheme member.

### Performance of Functions through the Monetary Authority

Pursuant to section 6 of the DPS Ordinance, the Board shall perform its functions through the Monetary Authority (MA) unless indicated otherwise by the Financial Secretary. This means the MA will act as an executive arm of the Board in administering the DPS.

The HKMA has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer (CEO) of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources, and information technology. Detailed arrangements regarding the extent of support provided by the HKMA are set out in a Memorandum of Understanding signed between the two organisations.

### Composition of the Board

Members of the Board are appointed by the Financial Secretary with power delegated from the Chief Executive. They come from different professions such as accounting, banking, consumer protection, insolvency law, investment, information technology and public administration. The Board currently comprises nine members including two ex-officio members representing the Monetary Authority and the Secretary for Financial Services and the Treasury.

## Members of the Board



**Professor Andrew Chan Chi-fai**, SBS, JP  
Professor Chan has been Chairman of the Board since 1 July 2004. He is Professor in Marketing and Director of the Executive MBA Programme, The Chinese University of Hong Kong.



**Mr Ian Chapman**  
Appointed as member on 1 July 2004, Mr Chapman is a solicitor and Partner of Johnson, Stokes and Master specialising in restructuring and insolvency law.



**Professor David Cheung Wai-lok**  
Appointed as member on 1 July 2004, Professor Cheung is Head of the Department of Computer Science, The University of Hong Kong.



**Mr Nicholas Peter Etches**  
Appointed as member on 1 July 2004, Mr Etches is a former partner of KPMG with experience in accounting and insolvency practice.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD



### **Mr Nam Lee-yick**

Appointed as member on 1 July 2004, Mr Nam is former Executive Director of Chong Hing Bank Limited and Vice President of Citibank N.A.. He is currently Independent Non-Executive Director of Hopewell Holdings Ltd and Hopewell Highway Infrastructure Ltd.



### **Ms Elisabeth Charlotte Scott**

Appointed as member on 1 July 2006, Ms Scott is Managing Director of Schroder Investment Management (Hong Kong) Limited and Chairman of the Hong Kong Investment Funds Association.



### **Professor Yeung Yuet-bor**

Appointed as member on 1 July 2006, Professor Yeung is the former Head of Information Technology of HSBC and is currently Professor of Information Systems, City University of Hong Kong.



### **Mr William Ryback, JP**

Mr Ryback is Deputy Chief Executive of the Hong Kong Monetary Authority and is an ex officio member of the Board representing the Monetary Authority.



### **Mr Kevin Ho Chi-ming, JP**

Mr Ho is the Permanent Secretary for Financial Services and the Treasury (Financial Services). He is an ex officio member of the Board representing the Secretary for Financial Services and the Treasury.

## Investment Committee of the Board

The Investment Committee of the Board is established in accordance with section 7 of Schedule 2 to the DPS Ordinance. It consists of the following members:

**Mr Nam Lee-yick,**

*Chairman, Former Executive Director of Chong Hing Bank Limited and Vice President of Citibank N.A.*

**Mr Francis Chu Siu-chuen,**

*Member, Executive Director (Reserves Management), Hong Kong Monetary Authority*

**Ms Elisabeth Charlotte Scott,**

*Member, Managing Director of Schroder Investment (Hong Kong) Limited and Chairman of the Hong Kong Investment Funds Association*

**Professor Yeung Yuet-bor,**

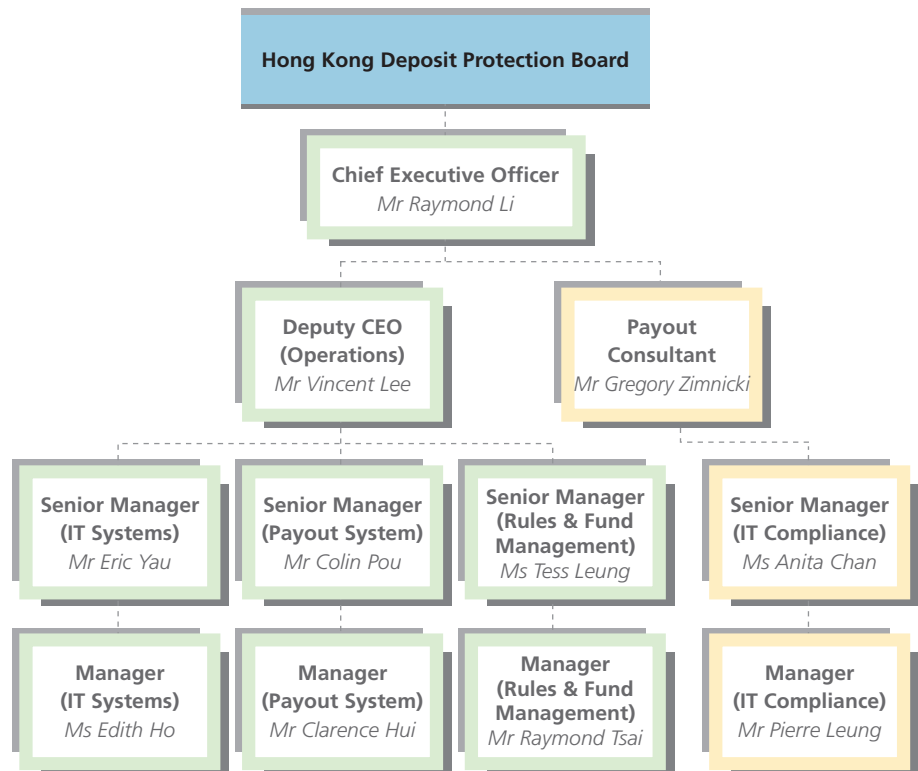
*Member, Professor, Department of Information Systems, City University of Hong Kong*

The terms of reference of the Investment Committee are:

- to make recommendations on the investment policy and strategy in respect of the DPS Fund;
- to monitor the investment performance of the DPS Fund and to establish proper risk management controls for the investment activities of the Board; and
- to work on any other matters as determined from time to time by the Board.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Organisational Structure of the Board (as of 1 July 2007)



HKMA staff seconded to assist the Board. The emoluments of these staff members are reimbursed by the Board to the Exchange Fund.



Front row, from left to right:  
Mr Gregory Zimnicki, Mr Raymond Li, Mr Vincent Lee

Back row, from left to right:  
Ms Edith Ho, Mr Pierre Leung, Mr Clarence Hui, Mr Eric Yau, Mr Colin Pou, Mr Raymond Tsai, Ms Tess Leung, Ms Anita Chan



## Consultative Committee on Deposit Protection Scheme

To keep the industry informed of the development of the DPS, the Board has established a Consultative Committee comprising 13 representatives of the banking industry. The Committee serves as a useful forum for the Board and the banking industry to exchange views on issues of common interest. Members of the Committee are:

Mr Fung Tin-yiu, Bank of China (Hong Kong) Limited  
Mr Tong Hon-shing, The Bank of East Asia Limited  
Mr Ahming Lau, BNP Paribas, Hong Kong Branch  
Mr C Y Ling, CITIC Ka Wah Bank Limited  
Ms Francesca So, Dah Sing Bank Limited  
Ms Sinna Ho, DBS Bank (Hong Kong) Limited  
Mr Joseph Cho, Hang Seng Bank Limited  
Ms Diana Cesar, The Hong Kong and Shanghai Banking Corporation Limited  
Mr David Cheng, Industrial and Commercial Bank of China (Asia) Limited  
Mr Andrew Lau, JPMorgan Chase Bank, Hong Kong Branch  
Ms Maggie Cheung, Mizuho Corporate Bank Limited, Hong Kong Branch  
Ms Tai Kwai Heung, Nanyang Commercial Bank Limited  
Ms Pauline Lai, Standard Chartered Bank (Hong Kong) Limited

The Committee's terms of reference are:

- to advise the Board on the formulation of the approach and strategy to engage the banking industry in the project of establishing the deposit protection scheme;
- to consider and give comments on specific policy and/or operational initiatives proposed by the Board that may have impact on the banking industry; and
- to assist the Board to maintain effective communication with the banking industry.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Deposit Protection Appeals Tribunal

Under the DPS Ordinance, certain decisions of the Board and the MA can be the subject of an appeal to the Deposit Protection Appeals Tribunal. These include the Board's decisions on whether a foreign bank branch can be exempted from participation in the DPS, the amount of contribution payable by a Scheme member, and the amount of compensation payable to a depositor, as well as the MA's decision to impose an asset maintenance requirement on a Scheme member.

The Tribunal was established in January 2005. Mr Simon Herbert Mayo, a former Vice-President of the Court of Appeal of the High Court, was appointed by the Chief Executive as Chairman of the Tribunal. Members of the Tribunal are appointed by the Financial Secretary from a panel of six people. The panel members are:

Mr Simon Herbert Mayo, *Chairman*  
Mr Charles David Booth, *Member*  
Professor Simon Ho Shun-man, *Member*  
Miss Winnie Lun Pong-hing, *Member*  
Ms Melissa Kaye Pang, *Member*  
Mr Rupert James Purser, *Member*  
Mr James Wardell, *Member*

Sittings of the Tribunal are convened when required.

## KEY MILESTONES LEADING TO THE LAUNCH OF DEPOSIT PROTECTION SCHEME IN HONG KONG

### **BCCI Crisis and Subsequent Bank Runs (1991)**

In 1991, the collapse of Bank of Credit and Commerce International led to the closure of its Hong Kong subsidiary, Bank of Credit and Commerce Hong Kong Ltd (BCCHK). The contagion effect of this event was manifested in a number of bank runs in Hong Kong. The damage to the confidence in the banking sector was quickly contained.

### **Public Consultation on Deposit Protection (1992)**

Following the failure of BCCHK and a number of contagious bank runs in 1991, the Government conducted a public consultation in 1992 on whether to introduce a DPS in Hong Kong. The proposal for establishing a DPS was rejected, mainly due to cost, fairness and moral hazard concerns.

### **Introduction of Priority Claims System in Companies Ordinance (1995)**

Although the establishment of a DPS did not take place after the public consultation in 1992, the Companies Ordinance was amended in 1995 to accord a higher priority to depositors up to the first HK\$100,000 of their aggregate deposits in the event of liquidation of a licensed bank.

### **Rumour Driven Bank Run (1997)**

The spread of rumours triggered by the Asian financial crisis in 1997 adversely affected confidence in individual banks and the system as a whole, resulting in a short and temporary run on a local bank. This incident showed that even though the rumours might be entirely unfounded, depositors could still react strongly. Such events would not be conducive to the maintenance of financial stability, particularly in times of crisis.

### **Banking Sector Consultancy Study (1998)**

In 1998, the HKMA commissioned a consultancy study on the further development of the Hong Kong banking sector. As a measure to enhance the safety and soundness of the banking system, the study identified the need for introducing an enhanced form of explicit deposit protection in Hong Kong.

## KEY MILESTONES LEADING TO THE LAUNCH OF DEPOSIT PROTECTION SCHEME IN HONG KONG

### **Consultancy Study on Deposit Protection in Hong Kong (2000)**

In response to the recommendation in the 1998 Banking Sector Consultancy Study and the growing international trend in favour of an explicit form of deposit protection, the HKMA commissioned a consultancy study on enhancing deposit protection in Hong Kong. In view of the broad support from the public, the Chief Executive-in-Council approved in principle the establishment of a DPS in Hong Kong in April 2001.

### **Industry Consultations on Specific Design Features of the DPS (2001)**

The HKMA undertook industry consultations on specific design features of the DPS. The comments received in these exercises were subsequently reflected in the second public consultation paper.

### **HKMA Consultation Paper on How the DPS in Hong Kong Should Be Structured (2002)**

In 2002, the HKMA conducted a second round of public consultation with a view to presenting its proposals on the salient features of the DPS and to seek views of interested parties on these proposals.

### **Enactment of the Deposit Protection Scheme Ordinance (2004)**

Taking into consideration the comments received in the two rounds of public consultation, the HKMA finalised its proposals on the structure of the DPS and proceeded to prepare the relevant legislation for its implementation. The DPS Bill was enacted as an Ordinance in May 2004.

### **Formation of the Hong Kong Deposit Protection Board (2004)**

Following the enactment of the DPS Ordinance, the Board was formed in July 2004 to take charge of the implementation of the DPS in Hong Kong.

### **Commencement of Deposit Protection (2006)**

After two years of intensive preparations, the Board completed the key preparatory tasks for launching the DPS in the third quarter of 2006 and the DPS was launched on 25 September 2006.

### OPERATIONS OF THE DEPOSIT PROTECTION SCHEME

#### Launch of the Deposit Protection Scheme

After two years of intensive preparation, the Deposit Protection Scheme began providing deposit protection and collecting contributions from Scheme members on 25 September 2006. By protecting deposits, the Scheme helps strengthen public confidence in the banking system and contributes to the maintenance of financial stability. The following chapters detail the Board's key accomplishments both prior to and following the launch of the Scheme.



Members of the Board celebrating the launch of the DPS with official guests



Financial Secretary, Mr Henry Tang, and Chief Executive of the Hong Kong Monetary Authority, Mr Joseph Yam at the DPS launching ceremony



Chairman of the Board, Professor Andrew Chan (left), and Chief Executive Officer, Mr Raymond Li (right) announcing the launch of the DPS

### **Structured and Secured Deposits**

In the course of preparing for the launch of the DPS, the Board observed that some Scheme members were unclear about the protection status of structured deposits, such as equity-linked deposits, currency-linked deposits, credit-linked deposits, index-linked deposits, inverse floaters and range accruals. In order to remove this ambiguity, the Board introduced legislative amendments to Schedule 1 of the DPS Ordinance to clarify that structured deposits were not protected by the Scheme. The related amendment notice came into force on the same day as the launch of the Scheme. The Board has established a set of quantitative benchmarks based on the popularity of structured deposits for triggering a review of the protection of such products. In the unlikely event the exclusion of structured deposits materially impinges upon the effectiveness of the DPS, the Board will consider introducing appropriate amendments to the Ordinance to reverse the exclusion.

The Board also noted that some Scheme members provide secured credit facilities as part of their integrated banking services to their depositors. As deposits pledged as security for credit facilities are not protected under the Scheme because they do not constitute a deposit within the meaning of section 2 of the DPS Ordinance, the Board considered there was a need to assess the popularity of secured credit facilities under integrated banking services and whether they would alter the effectiveness of the DPS. A survey is being designed to assess the implications of the popularity of integrated banking services with secured credit facilities and structured deposits for the coverage of the Scheme.

### **Compliance with DPS (Representation on Scheme Membership and Protection of Financial Products under Scheme) Rules (Representation Rules)**

The Representation Rules govern the representations Scheme members are to make regarding their membership and the protection status of their financial products. The objective of this set of Rules is to assist members of the public to distinguish between DPS protected and non-DPS protected financial products, so they can make decisions on selecting suitable products. The Representation Rules were issued by the Board in the form of subsidiary legislation in May 2006 and became effective on the launch date of the Scheme on 25 September 2006.



Member banks displaying the official DPS sign

In order to ensure representations made by Scheme members to general depositors complied with the requirements of the Representation Rules, the Board conducted a focus review in the fourth quarter of 2006 of 24 Scheme members with relatively large retail customer bases. The scope of the review covered the major requirements of the Representation Rules which included:

- Display of membership signs at relevant places of business
- Display of membership signs on the website
- Membership representation in advertisements
- Disclosure of financial products offered before commencement of the Representation Rules
- Disclosure of financial products offered on or after commencement of the Representation Rules
- Disclosure when deposits were no longer protected by the DPS.

The results indicated the selected Scheme members generally achieved full compliance with the Representation Rules.

### Co-operation with the Hong Kong Monetary Authority

Both the Board and the HKMA are financial safety net players in Hong Kong. They share a common objective, which is to promote the stability of the banking system. To ensure this important objective is accomplished, the Board and the HKMA have agreed on how the two organisations should co-operate with each other in the performance of their respective functions. In addition, as the Board is required by the DPS Ordinance to perform functions through the HKMA, the Board has agreed on the extent of support provided by the HKMA. The Board has also secured a standby facility from the Exchange Fund to provide the necessary liquidity required for payment of compensation in the event of a bank failure. The detailed arrangements on how the two organisations should co-operate have been set out in a Memorandum of Understanding.

### Plans for 2007-08

#### *Monitoring the coverage of the DPS*

In the coming year, the Board will continue to monitor the implications of key market developments for the coverage of the DPS. A survey to assess the implication of the popularity of structured deposits and integrated banking services with secured credit facilities for the coverage of the DPS is now being designed and will be issued for completion by Scheme members in the second half of 2007.

#### *Compliance with Representation Rules by Scheme members*

To ensure members of the public are properly informed of the protection status of their deposits, the Board will continue to monitor the compliance of Scheme members with the disclosure requirements in the Representation Rules. Taking into account the experience of the focus review on selected Scheme members in 2006, another review on compliance will be held in 2007-08.



## DEPOSIT PROTECTION SCHEME FUND

### Contributions from Scheme Members

Each Scheme member is required to make an annual contribution to the DPS Fund in the manner prescribed by the *DPS (Payment of Contributions, Late Payment Fees and Rebates) Rules* (Contribution Rules) issued by the Board in May 2006. In accordance with Schedule 4 of the DPS Ordinance, the Board assessed and collected HK\$90 million in contributions from Scheme members in 2006. This covered the amount for the period from the launch date of the DPS (25 September 2006) to 31 December 2006. All contributions were paid on time in October by Scheme members in the manner prescribed in the Contribution Rules.

Based on the amount of relevant deposits held by each Scheme member and their respective supervisory ratings on 20 October 2006, the annual contributions for the year 2007 amounted to HK\$300 million. The Board collected the contributions from Scheme members in January 2007, with all payments made on schedule. Assuming that relevant deposits will grow at a similar pace as in 2006 and the supervisory ratings remain relatively stable, the contribution to be collected in 2008 is estimated to be around HK\$310 million.

### Investments of DPS Fund

#### *The DPS Ordinance*

In keeping with the need for capital preservation and liquidity, section 21 of the DPS Ordinance provides that the Board may invest money of the Fund that is not immediately required for the performance of its function in the following types of financial instruments:

- (a) deposits with the MA for the account of the Exchange Fund;
- (b) Exchange Fund Bills;
- (c) US Treasury Bills;
- (d) exchange rate contracts or interest rate contracts including derivative products entered for hedging purpose; and
- (e) any other investment approved by the Financial Secretary.

### *Investment Objectives*

An investment policy governing the investments of the DPS Fund was endorsed by the Board's Investment Committee in August 2006. The policy aims at specifying how the Fund's investments are to be managed. The policy objectives are:

- (a) to preserve capital;
- (b) to ensure that sufficient liquidity will be available to meet the Board's financial obligations;
- (c) subject to (a) and (b), to obtain the maximum investment return on the assets of the DPS Fund.

### *The Investment Process*

The Board's management team is responsible for the day-to-day investment management of the DPS Fund and reports to the Investment Committee on the Fund's performance. In discharging its responsibilities, the management team operates in accordance with the relevant provisions of the DPS Ordinance and the investment policy of the DPS Fund endorsed by the Investment Committee.

### *Risk Management and Controls*

An investment control policy was developed in November 2006 setting out the risk management and internal controls of the DPS Fund. This policy details the risk assessment consideration and the related control measures governing the investment activities of the Fund, the segregation of duties between the trading functions and the back-office functions of the Board, and the respective responsibilities of each staff member of the Board responsible for investments. Under the investment control policy, investment reports are to be submitted to the Board and the Investment Committee for regular monitoring.

### *Performance of the DPS Fund*

The contributions collected from Scheme members since the launch of the DPS have been invested according to the provisions of the DPS Ordinance and the investment policy of the DPS Fund. By law, the Fund's investments are limited to deposits with the Exchange Fund, Exchange Fund Bills and US Treasury Bills with an original maturity of not more than 12 months. At the end of March 2007, the DPS Fund amounted to HK\$374 million. Between 25 September 2006 and 31 March 2007, the Fund earned gross income of HK\$3.3 million, representing an annualised return of 4.06%. The audited statement of accounts are set out in pages 45 to 68.

### **Improving the System for Assessing Contributions**

Since assessment and collection of contributions are an on-going activity, the Board believes improving the contribution collection system will be beneficial to its long-term operations. The user requirements for the contribution database system have been defined and the development is now substantially completed. Testing is being conducted to ensure the system can deliver the desirable features.

### **Plans for 2007-08**

Based on the returns of relevant deposits to be submitted by Scheme members in relation to their positions on 20 October 2007 and the supervisory ratings of individual Scheme members to be supplied by the HKMA, the Board will assess and collect the contributions payable for 2008 in January 2008. The Board will continue to invest the DPS Fund in line with the DPS Ordinance and the investment policy. The improved system for assessing contributions is progressing on schedule and is expected to be completed by the end of 2007.

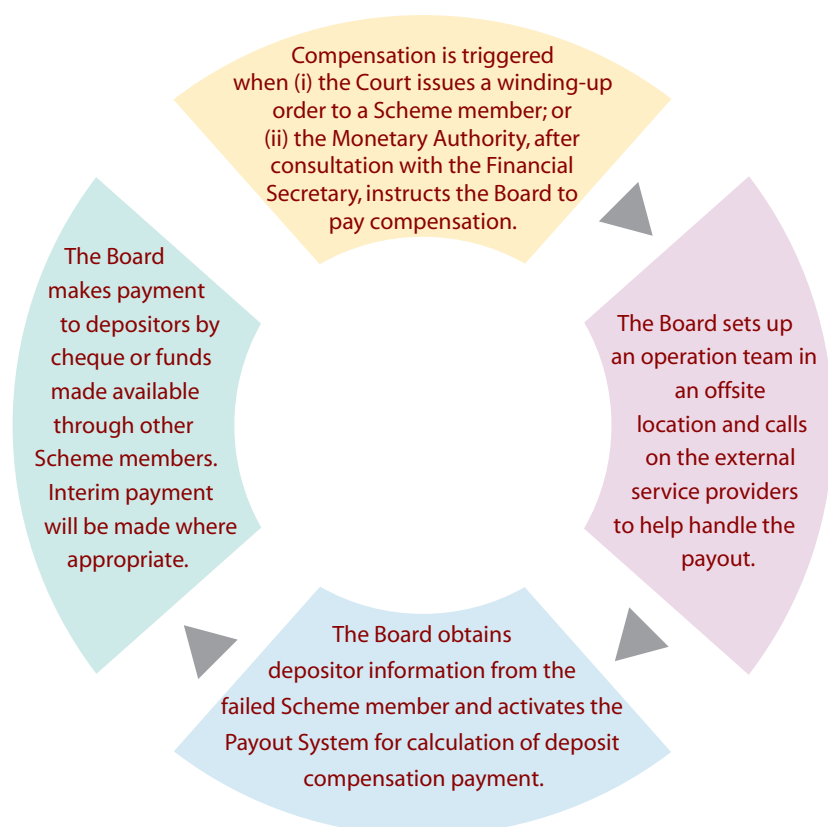
## PAYOUT READINESS

### Development of the Payout System and Procedures

To facilitate payment of compensation to depositors (a process referred to as payout), the Board developed a Payout System and conducted several rounds of user acceptance testing (UAT). The final round of the UAT made use of “live” data from a Scheme member to assess the Payout System’s capabilities in handling real banking data. During the process, appropriate measures were taken to mask and safeguard any personal data involved. The results of the UAT were satisfactory, and the Board formally accepted the Payout System from its information technology vendor in February 2007.

Although the Board is satisfied with this tool for facilitating compensation payments, it continually reviews the system’s capabilities to assess whether improvements are required based on the results of its simulation tests, payout rehearsals and any changes in the banking sector that may have an impact on the Board’s procedures for making compensation payments.

### Payout Process

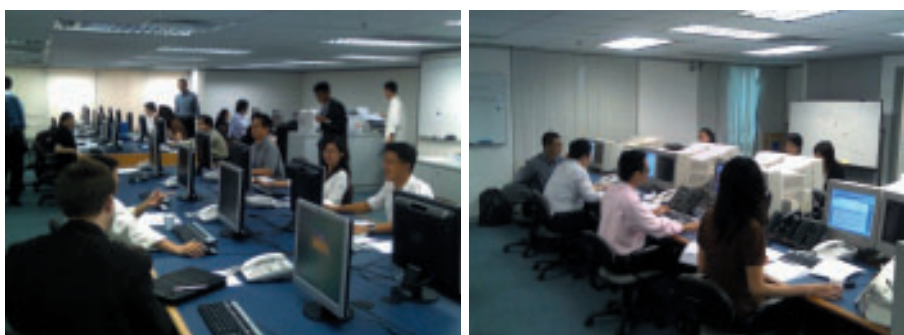


### Simulation Tests

During the year, the Board commenced a programme of simulation tests in which it obtained data from Scheme members, processed the data on the Board's Payout System and applied payout processes and procedures to maintain the knowledge and readiness to perform a payout involving Board personnel and its network of service providers. The Board also worked with Scheme members during the simulation tests to assist them in complying with the Board's *Guideline on Information Required for Determining and Paying Compensation* (ISG) before the Board would commence a compliance review programme based on the ISG. The first simulation test was conducted in conjunction with the final round of the UAT of the Payout System and a second simulation test began in March 2007.

### Appointment of Payout Agents

The Board continued to build its virtual organisation of external service providers that might be called on to assist with the calculation and payment of compensation to depositors should a payout be required. Contractual arrangements were made with an information technology consultancy firm, a business recovery service provider, a cheque printing company, and a call centre operator to provide services that would support the Board at the time of a payout. To ensure these payout agents are capable of delivering the services if and when required, the Board conducted technical drills to test their operational capabilities. For instance, a technical drill was organised in September 2006 with the Board's business recovery service provider to test the facilities and infrastructure of the Payout Operation Centre and its readiness for the Board's needs.



Technical drills at the Board's Payout Operation Centre – primary and secondary sites

The Board also worked with a selected number of Scheme members to confirm the technical requirements for providing information to them so they could efficiently disburse the compensation payments to depositors in a payout. In addition, the Board continued to work with accounting firms selected to co-ordinate the activities of other service providers, confirming their understanding of their role and responsibilities during a payout.

### **Rehearsal Exercise and Planning**

To ensure the Board's virtual organisation can operate in an efficient and co-ordinated manner during a payout, the Board will conduct regular rehearsals with its network of external service providers. Planning has already started on the first rehearsal scheduled to be conducted in the second half of 2007-08.

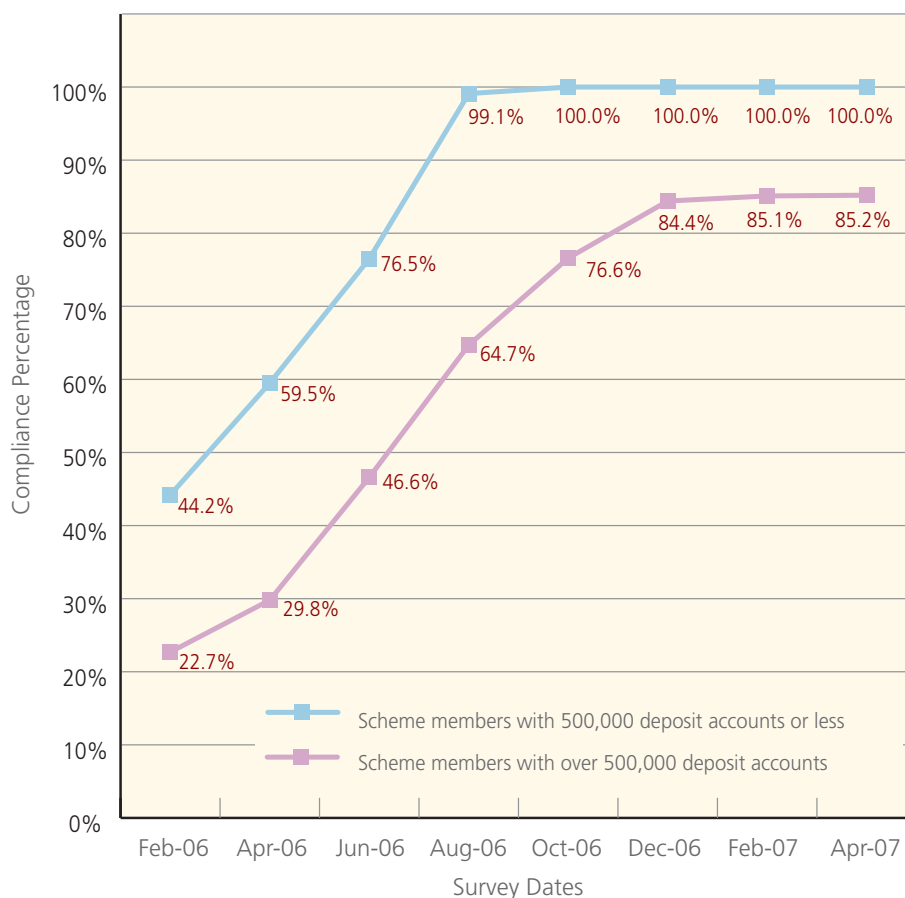
These rehearsals include familiarising the payout agents with the Board's payout policies, procedures and systems through pre-rehearsal training, applying management control and reporting processes to strengthen co-ordination between service providers, and developing scenarios and challenges that test the capabilities of the service providers to perform their functions. For all payout agents to benefit from these rehearsals, different agents will be included on a rotating basis.

### **Compliance with the Guideline on Information Required for Determining and Paying Compensation**

When compensation under the DPS is triggered in respect of a Scheme member, the Board will determine whether a depositor is entitled to compensation under the DPS and, if so, the amount of the entitlement. In accomplishing this task, the Board will rely on the records obtained from the failed Scheme member. To enable the Board to make compensation payments efficiently, an ISG was issued in the form of a statutory guideline in June 2006 under section 8(1) of the DPS Ordinance. This guideline sets out the requirements on information systems and customer records to be followed by Scheme members.

While members were expected to achieve compliance with the guideline shortly after it was issued, flexibility to achieve full compliance by the end of 2007 was given to Scheme members with more than 500,000 deposit accounts, or a member belonging to the same group of companies.

### Average Compliance of Scheme Members with ISG



The Board has been monitoring Scheme members' compliance with the ISG using bi-monthly surveys in which the members self-report their level of compliance. The results to date are encouraging as those Scheme members with 500,000 deposit accounts or less reported 100% compliance by October 2006, while those with over 500,000 deposit accounts reported 85% compliance by April 2007 with 8 months still remaining before they must be in full compliance.

### Plans for 2007-08

The Board will continue its series of simulation tests, completing the one commenced in March 2007 and conducting two more tests that will focus on different aspects of the payout procedures and processes. The Board will also conduct its first payout rehearsal in the second half of 2007-08, bringing together its key payout agents to run through payout processes and co-ordination activities, as well as perform payout procedures in a scenario designed to test their effectiveness in working as a team to deliver the expected results of a payout operation.

The Board has recently recruited two new employees, a Senior Manager (IT Compliance) and a Manager (IT Compliance), whose duties are to develop and execute a compliance review programme for verifying the level of compliance with the ISG reported by Scheme members. The review will begin with Scheme members with 500,000 deposit accounts or less, and continue with members having more than 500,000 deposit accounts once this group has reported 100% compliance with the ISG.

Using the results of the simulation tests, the Board will continue to work with members to advance their understanding and application of the ISG. Where appropriate, the Board will issue clarifications and make amendments to the ISG to increase its transparency and comprehension for Scheme members. Consultations will be held with the Consultative Committee on Deposit Protection Scheme to provide effective implementation by Scheme members.

Based on the knowledge gained from conducting simulation tests and rehearsal exercises, the Board will continue to improve its payout policies and procedures to ensure they embrace all the challenges that may be encountered in a deposit payout.



## PUBLIC AWARENESS AND EDUCATION



Student ambassadors of the Board at one of the roving exhibitions for promoting the Scheme

### The Importance of Public Awareness

A key objective in establishing the DPS is to contribute to the stability of Hong Kong's financial system. In the event of a banking crisis or amid rumours of a crisis, the protection provided by the DPS will help allay public fears and maintain confidence in the banking system. For the DPS to be effective in achieving this objective, however, it is essential the public is well informed of the availability of the DPS and its benefits. Considering that Hong Kong has no prior experience with deposit protection, raising public awareness of the Scheme is a major challenge to the Board and strengthening public understanding of its features is a long term task that requires persistent effort of the Board.

With the assistance of a professional public relations consultant firm, the Board formulated a publicity plan for promoting the DPS. Under the plan, a series of promotional and educational activities were held during and after the launch of the DPS.



Chairman of the Board, Professor Andrew Chan (right) and Chief Executive Officer, Mr Raymond Li (left) promoting the DPS at the press conference

### Promotional and Educational Activities Undertaken by the Board

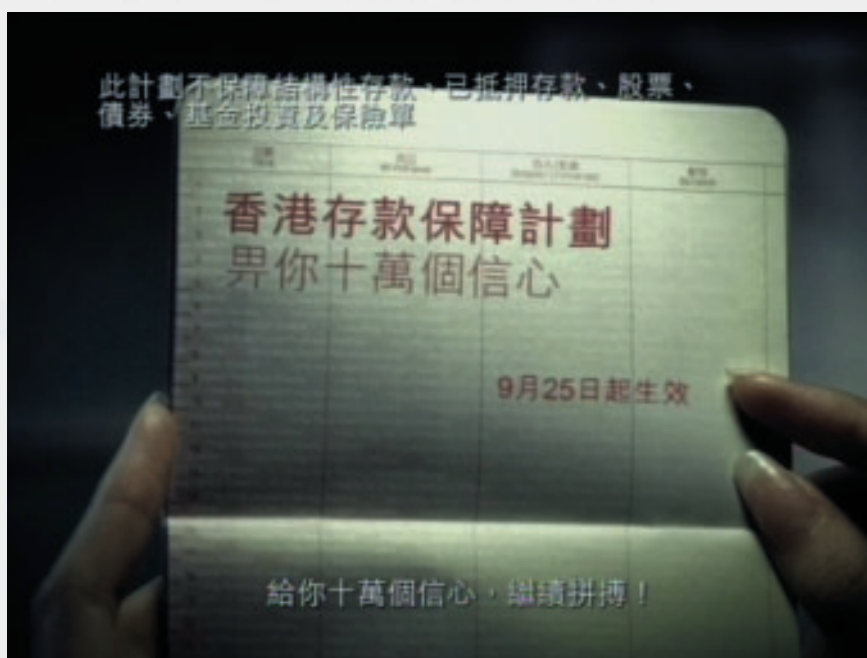
A press conference was held on 19 September to announce the launch of the Deposit Protection Scheme, which was followed by a reception on the launch date. Both events were covered extensively in the media and were successful in attracting widespread public attention. Media interviews by Board representatives during the launch period were also helpful in promoting public awareness.

An important element in the Board's publicity plan has been the use of various forms of advertising in the mass media to quickly build up public awareness and promote the DPS.

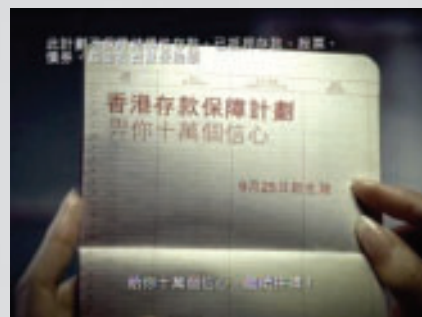
## Promotion of the DPS Through the Mass Media

Deposit protection is a new concept to most people in Hong Kong, yet, it is relevant to almost everybody. The major challenge facing the Board in formulating its publicity strategy was how to introduce this new concept to millions of people with vastly different social and economic backgrounds.

On the advice of the public relations and advertising consultants, the Board used the mass media to promote the DPS. In the first wave of promotional activities during the launch period, TV and radio commercials were used extensively to quickly build up a general public awareness of the Scheme. To improve the reach of the messages, especially to the low-income group that the DPS aims to protect, the Board also used other mass media outlets, including commuter bus TV services, newspapers and the Internet. A lively and light-hearted approach was adopted to highlight the Board's messages in the advertisements to make them easily understood and conducive to engendering public recognition.



Slogan of the publicity  
campaign



Scenes from the  
successful DPS  
TV commercial

## TV and Radio Commercials

People in different walks of life and work occupations were featured in the TV commercial, signifying that the fruits (savings) of their labour were being well guarded by the DPS. By associating the benefits of the Scheme with people's day-to-day lives, the commercial was designed to help them appreciate the merits of the DPS and how it was relevant to them. The message was reinforced by the campaign's slogan – "Save with Confidence".

In line with the theme of the TV commercial, the radio commercials also emphasised the relevance of the Scheme to people from all walks of life, albeit in a more explicit and vivid manner to attract the attention of listeners.

“就連我

Catchy newspaper advertisements



Educational cartoons emphasise the message

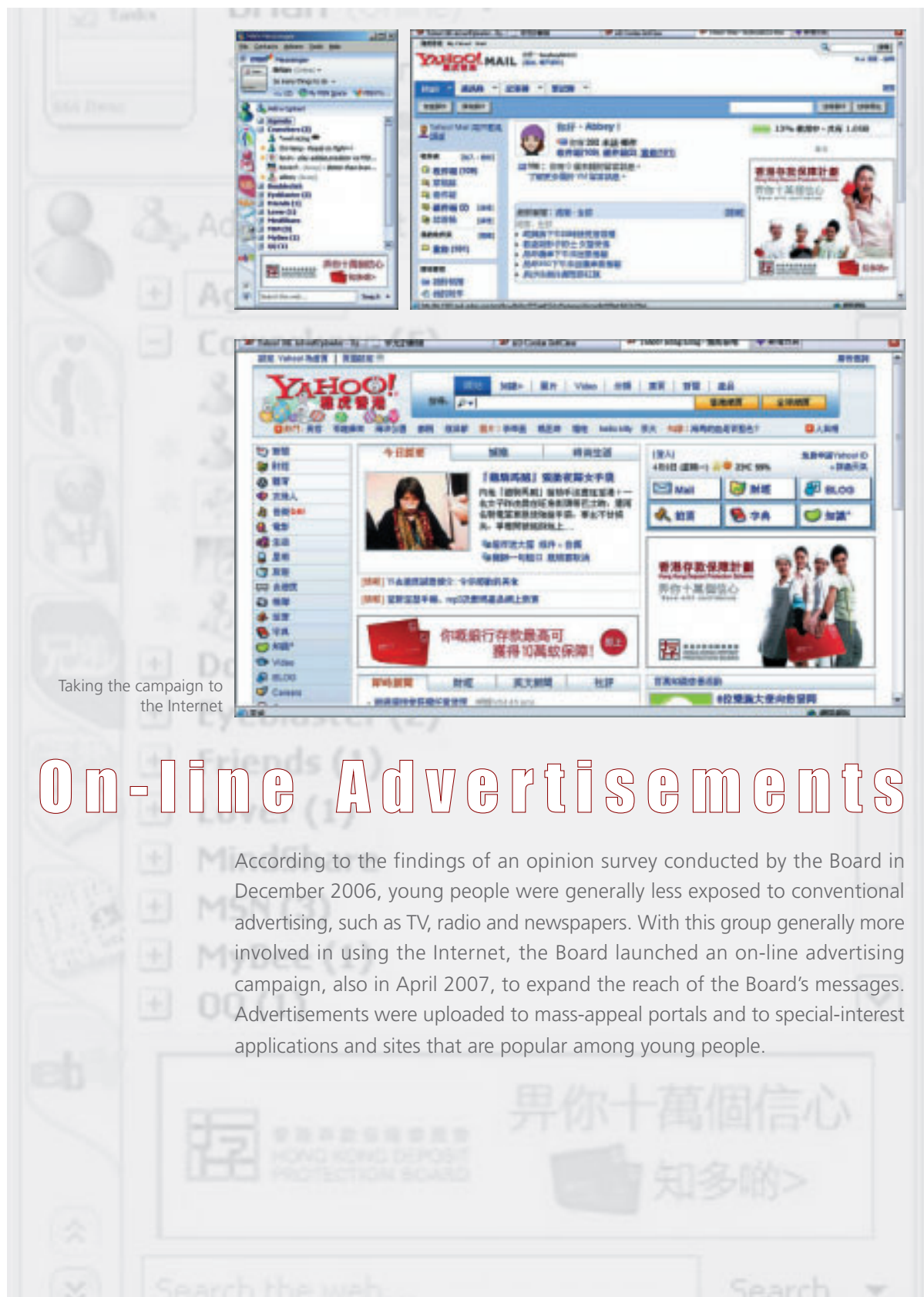


# Newspaper Advertisements

The print media, with its capacity to allow greater detail for explaining key features, was employed to broaden the reach of the Board's message and to improve public understanding of the DPS. In the first and second quarter of 2007, the Board launched an advertising campaign in a number of large circulation newspapers and all free newspapers.

In April 2007, the Board launched a series of educational cartoons in a lively and interesting setting to educate readers on the main features of the DPS.





## On-line Advertisements

According to the findings of an opinion survey conducted by the Board in December 2006, young people were generally less exposed to conventional advertising, such as TV, radio and newspapers. With this group generally more involved in using the Internet, the Board launched an on-line advertising campaign, also in April 2007, to expand the reach of the Board's messages. Advertisements were uploaded to mass-appeal portals and to special-interest applications and sites that are popular among young people.



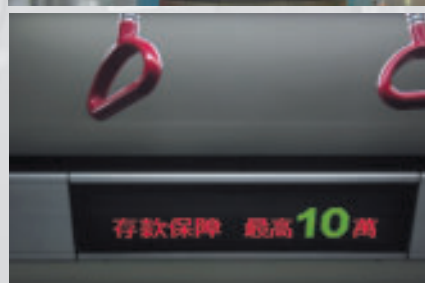
A familiar sight on public transport

# Advertising on Public Transport

The Board explored the feasibility of utilising other advertising channels to promote the DPS, and in the second quarter of 2007 launched an advertising campaign on major public transportation systems. Advertisements were displayed on bus bodies and at MTR platforms and in MTR carriages.



Snapshots of advertisement at MTR platforms and MRT carriages



## REPORT ON ACTIVITIES

Apart from utilising the mass media, the Board obtained support from Scheme members to promote the DPS. Information leaflets were made available at branches of all Scheme members, and over three million copies were sent out by 46 members for their customers as a statement insert in the fourth quarter of 2006. Some Scheme members also helped by displaying DPS posters and broadcasting the TV commercials in their branches.



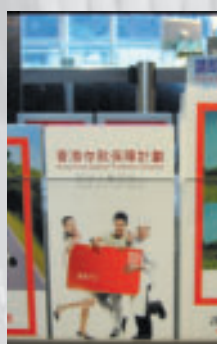
Creative poster appeals to the public



Information leaflet highlights features of the DPS

## Collaboration with Scheme Members

Information leaflets available at member outlets







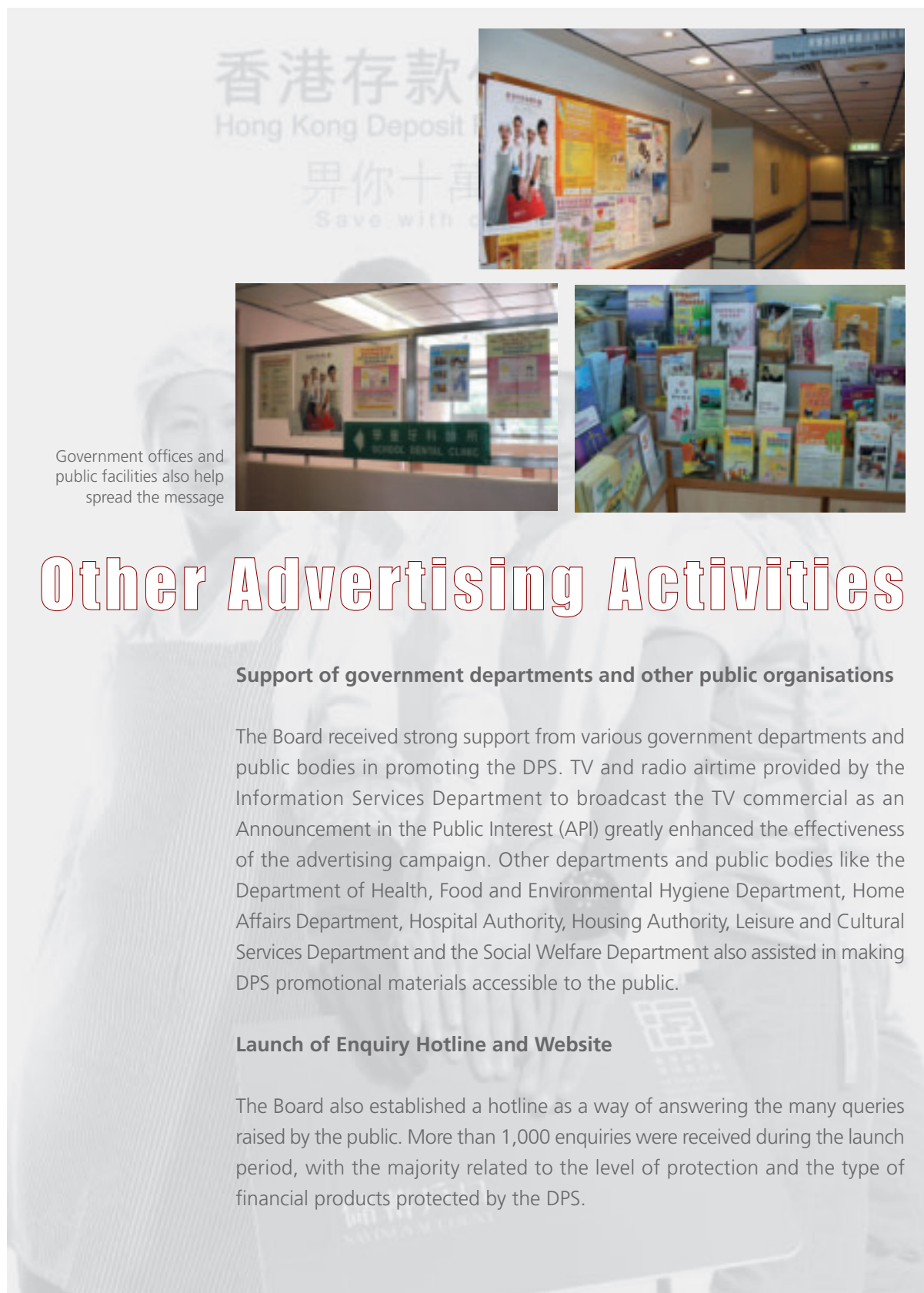
Roving exhibitions prove popular with the public

## Roving Exhibitions

To provide an opportunity for the public to understand the DPS in an interactive setting, the Board launched a Hong Kong-wide roving exhibition in October 2006. Some 18 exhibitions were held between October and March 2007 at public housing estates, shopping malls and major MTR and KCRC stations. Student ambassadors of the Board were deployed at the exhibitions to introduce the DPS to the public and answer enquiries on the spot. Computer games and souvenirs were made available at the exhibitions to attract the public.



Shopping centres are a strategic outlet for promoting the Scheme



Government offices and public facilities also help spread the message

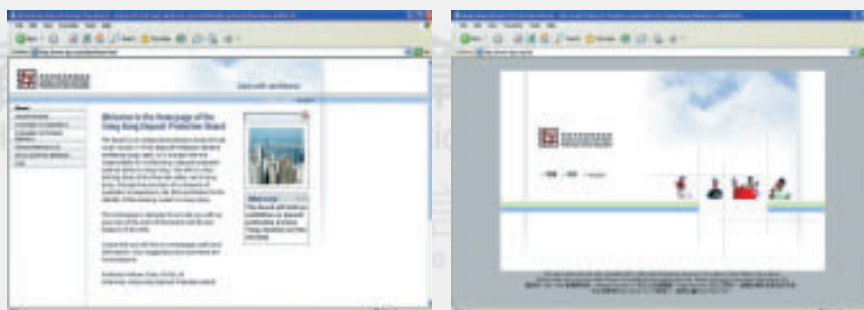
## Other Advertising Activities

### Support of government departments and other public organisations

The Board received strong support from various government departments and public bodies in promoting the DPS. TV and radio airtime provided by the Information Services Department to broadcast the TV commercial as an Announcement in the Public Interest (API) greatly enhanced the effectiveness of the advertising campaign. Other departments and public bodies like the Department of Health, Food and Environmental Hygiene Department, Home Affairs Department, Hospital Authority, Housing Authority, Leisure and Cultural Services Department and the Social Welfare Department also assisted in making DPS promotional materials accessible to the public.

### Launch of Enquiry Hotline and Website

The Board also established a hotline as a way of answering the many queries raised by the public. More than 1,000 enquiries were received during the launch period, with the majority related to the level of protection and the type of financial products protected by the DPS.



The DPS website provides detailed information for Internet users

In addition, a website was launched to facilitate access to DPS information through the Internet. More than 20,000 visitors have viewed the website since its inception on 19 September 2006.

## Review and Plans for 2007-08

### Effectiveness of the Publicity Campaign

In December 2006, the Board commissioned an independent research agency to conduct an opinion survey on the DPS. The results of the survey indicated that the publicity activities undertaken during the launch period were effective in raising public awareness and understanding of the DPS. The survey also helped identify areas where further effort should be directed, for example, to increase public understanding of the Scheme's key features. The enhanced public awareness of the DPS achieved by the publicity campaign during the launch period will greatly facilitate the Board's work in these areas in the future.

### Plans for 2007-08

Maintaining a high level of public awareness of the DPS and improving public understanding of the Scheme remain to be two important tasks of the Board in 2007-08. As such, the Board will explore the feasibility of utilising other means to extend the reach of the Board's messages to the public, especially to low-income groups that the DPS aims to protect. In the Board's promotional and educational activities in 2007-08, there will be more emphasis on strengthening the public's understanding of the Scheme.

### INTERNATIONAL CO-OPERATION

As a member of the International Association of Deposit Insurers (IADI), the Board continued to participate in forums organised by both IADI and its member deposit insurers to exchange knowledge and ideas on issues relevant to deposit protection in an international context. During the year, Board personnel took part in a number of international meetings including:

- the Korean Deposit Insurance Corporation International Open House in Seoul
- the International Financial Stability: Cross-border Banking & National Regulation in Chicago
- the IADI 5th Annual Conference and 5th Annual General Meeting in Rio de Janeiro, Brazil
- the Japan Deposit Insurance Corporation 2nd Round Table in Tokyo
- the 5th Annual Asia Regional Committee Meeting of IADI and International Conference on Deposit Insurance in Hanoi, Vietnam

In March 2007, the Board hosted a study visit by a delegation from the Malaysian Deposit Insurance Corporation that focused on understanding the Board's payout processes, procedures and Payout System. The visit is part of a continuing programme to enable the establishment of closer ties with regional deposit protection organisations and for international counterparts to keep abreast of latest developments.

# INDEPENDENT AUDITORS' REPORT TO THE HONG KONG DEPOSIT PROTECTION BOARD

We have audited the statement of accounts of the Deposit Protection Scheme Fund (the "Fund") established under section 14 of the Deposit Protection Scheme Ordinance (the "Ordinance") set out on pages 45 to 68, which comprises the balance sheet as at 31 March 2007, income and expenditure account, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## THE BOARD'S RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Ordinance requires the Hong Kong Deposit Protection Board (the "Board") to keep and maintain proper accounts and records of all transactions of the Fund. The Board is responsible for the preparation and the true and fair presentation of the statement of accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of statement of accounts that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the statement of accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 19 of the Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the statement of accounts is free from material misstatement.



## INDEPENDENT AUDITORS' REPORT TO THE HONG KONG DEPOSIT PROTECTION BOARD

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the statement of accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the statement of accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the statement of accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the statement of accounts gives a true and fair view of the state of affairs of the Fund as at 31 March 2007 and of the surplus and cash flows of the Fund for the year then ended in accordance with Hong Kong Financial Reporting Standards and has been properly prepared in accordance with the Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 11 July 2007

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## INCOME AND EXPENDITURE ACCOUNT

	Notes	2007	2006
Income			
Contributions	6	<b>\$ 164,510,998</b>	\$ —
Interest income from cash and balances with bank and the Exchange Fund		<b>2,652,397</b>	13,921
Interest income from available-for-sale securities		<b>465,925</b>	—
Exchange gains		<b>179,157</b>	—
Other income		<b>90,000</b>	—
		<b>\$ 167,898,477</b>	\$ 13,921
Expenditure			
Staff costs	7	<b>\$ 4,209,933</b>	\$ 3,701,595
Premises costs		<b>1,039,968</b>	—
Financial information services		<b>11,160</b>	6,000
Office supplies		<b>202,778</b>	641
Overseas travel		<b>170,934</b>	34,694
Transport and traveling		<b>5,793</b>	618
Hire of services		<b>9,492,894</b>	73,675
Communications		<b>20,639</b>	959
Printing and publicity		<b>10,934,145</b>	47,960
Other expenses		<b>193,312</b>	187,093
Depreciation and amortisation		<b>569,665</b>	30,868
		<b>\$ 26,851,221</b>	\$ 4,084,103
Surplus/(deficit) for the year		<b>\$ 141,047,256</b>	\$ (4,070,182)

The notes on page 50 to 68 form part of this statement of accounts.

# BALANCE SHEET

as at 31 March 2007  
(Expressed in Hong Kong dollars)

	Notes	2007	2006
Non-current assets			
Fixed assets	8	\$ 3,617,442	\$ 100,678
Intangible assets	9	9,767,400	93,000
		<b>\$ 13,384,842</b>	\$ 193,678
Current assets			
Other receivables	10	\$ 303,056	\$ 5,322,379
Available-for-sale securities	11	30,975,635	–
Cash and balances with bank and the Exchange Fund	13	329,667,874	523,306
		<b>\$ 360,946,565</b>	\$ 5,845,685
Current liabilities			
Contributions received in advance		\$ 228,701,515	\$ –
Other payables	12	9,714,208	571,123
Loan	13	–	10,600,000
		<b>\$ 238,415,723</b>	\$ 11,171,123
Net current assets/(liabilities)		<b>\$ 122,530,842</b>	\$ (5,325,438)
Net assets/(liabilities)		<b>\$ 135,915,684</b>	\$ (5,131,760)
Represented by			
Accumulated surplus/(deficit)		\$ 135,915,496	\$ (5,131,760)
Investment revaluation reserve		188	–
		<b>\$ 135,915,684</b>	\$ (5,131,760)

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 11 July 2007.

**Professor Andrew Chan Chi-fai**, SBS, JP  
Chairman

The notes on page 50 to 68 form part of this statement of accounts.



for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## STATEMENT OF CHANGES IN NET ASSETS

	2007	2006
Fund balance as at 1 April	<b>\$ (5,131,760)</b>	\$ (1,061,578)
Surplus/(deficit) for the year	<b>141,047,256</b>	(4,070,182)
Change in fair value of available-for-sale securities	<b>188</b>	—
Fund balance as at 31 March	<b>\$ 135,915,684</b>	\$ (5,131,760)

# CASH FLOW STATEMENT

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

	2007	2006
Operating activities		
Surplus/(deficit) for the year	<b>\$ 141,047,256</b>	\$ (4,070,182)
Interest income	<b>(3,118,322)</b>	(13,921)
Exchange gains	<b>(179,157)</b>	–
Depreciation and amortisation	<b>569,665</b>	30,868
Cash inflow/(outflow) from operating surplus/(deficit) before changes in operating assets and liabilities	<b>\$ 138,319,442</b>	\$ (4,053,235)
Changes in operating assets and liabilities		
Increase in other receivables	<b>(239,855)</b>	(3,012,661)
Increase in contributions received in advance	<b>228,701,515</b>	–
Increase in other payables	<b>9,143,085</b>	299,842
(Decrease)/increase in loan	<b>(10,600,000)</b>	6,900,000
Net cash inflow from operating activities	<b>\$ 365,324,187</b>	\$ 133,946
Investing activities		
Addition of intangible assets	<b>\$ (4,716,800)</b>	\$ (93,000)
Addition of fixed assets	<b>(3,752,829)</b>	(64,500)
Interest received	<b>2,620,375</b>	13,921
Purchase of available-for-sale securities	<b>(30,330,365)</b>	–
Net cash outflow from investing activities	<b>\$ (36,179,619)</b>	\$ (143,579)

	2007	2006
Net increase/(decrease) in cash and cash equivalents	<b>\$ 329,144,568</b>	\$ (9,633)
Cash and cash equivalents at 1 April	<b>523,306</b>	532,939
Cash and cash equivalents at 31 March	<b>\$ 329,667,874</b>	\$ 523,306
Analysis of balance of cash and cash equivalents		
Cash and bank balances	<b>\$ 329,667,874</b>	\$ 523,306

# NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## 1 PURPOSE AND ACTIVITIES

The Deposit Protection Scheme Fund (the "Fund") is established under the Deposit Protection Scheme Ordinance (the "Ordinance") for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks that are members of the Deposit Protection Scheme (the "Scheme"). The Hong Kong Deposit Protection Board (the "Board") manages the Fund in accordance with the provisions of the Ordinance. The Fund mainly consists of contributions collected from Scheme members and returns on investments of the Fund since the Scheme commenced operation on 25 September 2006. Expenditure incurred in the establishment and maintenance of the Scheme, as well as the management and administration of the Fund are paid from the Fund.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The statement of accounts has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs" which is a collective term including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The statement of accounts has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities.

The preparation of statement of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the statement of accounts, are disclosed in Note 4.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

*Standards, amendments and interpretations effective in accounting periods beginning on or after 1 January 2006 but not relevant to the Fund's operations*

- HKAS 19 (Amendment), Employee Benefits
- HKAS 21 (Amendment), Net Investment in a Foreign Operation
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HKAS 39 (Amendment), The Fair Value Option
- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts
- HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards
- HKFRS 6 Exploration for and Evaluation of Mineral Resources
- HK(IFRIC) – INT 4, Determining whether an Arrangement contains a Lease
- HK(IFRIC) – INT 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- HK(IFRIC) – INT 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- HK(IFRIC) – INT 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies

*Standards, amendments and interpretations that are not yet effective and have either not been early adopted by the Fund or not relevant to the Fund*

- HKFRS 7, Financial Instruments: Disclosures (effective for annual accounting periods beginning on or after 1 January 2007)
- Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual accounting periods beginning on or after 1 January 2007)
- HK(IFRIC) – INT 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
- HK(IFRIC) – INT 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)
- HK(IFRIC) – INT 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Revenue recognition

Revenue is recognised in the income and expenditure account when it is probable that economic benefits will flow to the Fund and the revenue can be measured reliably.

Contribution and exemption fee are collected from Scheme members as specified in Schedule 4 to the Ordinance. They are accounted for on an accrual basis.

Interest income is recognised in the income and expenditure account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### (c) Expenses

All expenses are recognised in the income and expenditure account on an accrual basis.

### (d) Contributions receivable and other receivables

Contributions receivable and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

	Years
Computer hardware/software costs:	
• Servers	5
• Others, e.g. personal computers, printers and accessories	3
Office furniture, equipment and fixtures	5

Only items costing HK\$10,000 or more are capitalised. Gains or losses arising from the disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income and expenditure account in the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's net selling price and value in use.

### (f) Financial assets

The Fund classifies its investments in debt securities as available-for-sale securities. Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices.

Purchases and disposal of available-for-sale securities are recognised on trade-date – the date on which the Fund commits to purchase or disposal of the securities. They are initially recognised at fair value plus transaction costs and subsequently held at fair value.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Financial assets (Continued)

Unrealised gains and losses arising from changes in the fair value are recognised directly in reserve, until the available-for-sale securities is derecognised or impaired at which time the cumulative gain or loss previously recognised in the reserve should be recognised in the income and expenditure account. However, interest calculated using the effective interest method is recognised in the income and expenditure account.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in the income and expenditure account; translation differences on non-monetary securities are recognised in reserve. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in reserve.

When the available-for-sale securities are disposed, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the reserve are treated as gains or losses on disposal.

### (g) Fair value measurement principles

The fair value of quoted investments in active markets is based on current bid prices. If the market for a financial asset is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants.



## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Intangible assets

Costs that are directly associated with the development of identifiable and unique systems controlled and used by the Fund, and that will probably generate economic benefit exceeding costs beyond one year, are recognised as intangible assets. Expenditure on development of the Payout System is capitalised if the systems are technically and commercially feasible. The expenditure capitalised includes the direct labour and costs of materials. Intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation of intangible assets with definite life is charged to the income and expenditure account on a straight-line basis over the assets' estimated useful life of 5 years.

### (i) Impairment of financial assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income and expenditure account – is removed from reserve and recognised in the income and expenditure account. If, in a subsequent period, the fair value of a debt securities classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income and expenditure account.

### (j) Impairment of other assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation, but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash at bank and on hand, demand deposits with banks, other financial institutions and the Monetary Authority ("MA") for the account of the Exchange Fund, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### (l) Other payables

Other payables are initially recognised at fair value and thereafter stated at amortised cost.

### (m) Translation of foreign currencies

#### (i) Functional and presentation currency

Items included in the statement of accounts are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The statement of accounts is presented in Hong Kong dollars, which is the Fund's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income and expenditure account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### (o) Provisions and contingent liabilities

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events where it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are recognised when the absence occurs.

#### (ii) Pension obligations

The Fund offers a mandatory provident fund scheme, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Fund. The Fund's contributions to the mandatory provident fund scheme are expensed as incurred.

### (q) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

### 3 RISK MANAGEMENT

#### (a) Governance

The Fund is established under the Ordinance for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks which are members of the Scheme. Under Part 4 of the Ordinance, the Fund is to consist of:

- contributions and late payment fees collected from Scheme members;
- money recovered by the Board from, or out of the assets of, failed Scheme members;
- returns on investments;
- money borrowed by the Board for the purpose of performing its functions; and
- any other money lawfully paid into the Fund.

The Board established an Investment Committee and delegated its power to the Committee to place, or invest, money of the Fund that is not immediately required by the Board for the performance of its functions. In particular, the Investment Committee:

- makes recommendations on the investment policy and strategy in respect of the Fund;
- monitors the investment performance of the Fund and establishes proper risk management controls for the investment activities of the Board; and
- works on any other matters as determined from time to time by the Board.

Operating within the requirements under the Ordinance and policies endorsed by the Investment Committee, the Board's staff conducts the day-to-day investment management and risk management of the Fund.

## 3 RISK MANAGEMENT (Continued)

### (b) Investment management and control

Investment activities of the Fund are conducted in accordance with the requirements set out in the Ordinance and the policies endorsed by the Investment Committee. Under section 21 of the Ordinance, the Fund or any part of it may be invested in the following investment instruments:

- deposits with the MA for the account of the Exchange Fund;
- Exchange Fund Bills; and
- US Treasury Bills.

Investment reports showing the latest market values, rate of return, maturity profile and types of financial instruments held are regularly submitted to the Investment Committee for control purposes.

### (c) Financial risk management

#### *Market risk*

Market risk is the risk that changes in market variables such as interest rates, equity prices and exchange rates which may affect the fair value or cash flows of a financial instrument. Market risk to the Fund is mainly comprised of interest rate risk and foreign currency risk.

#### (i) Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in market interest rates. Since the tenor of the Exchange Fund Bills and US Treasury Bills held by the Fund do not exceed 12 months, any impact of interest rate fluctuations on the Fund are considered minimal.

#### (ii) Currency risk

Currency risk is the risk of loss arising from changes in foreign exchange rates. The investments held by the Fund are denominated either in Hong Kong dollars or US dollars. Because of the linked exchange rate with the US dollar, the exchange risk to the Fund is considered minimal.

### 3 RISK MANAGEMENT (Continued)

#### (c) Financial risk management (continued)

##### *Liquidity risk*

Liquidity risk refers to the risk that the Fund may not have sufficient funds available to meet its liabilities as they fall due. In addition, the Fund may not be able to liquidate its financial assets at a price close to the fair value within a short period of time.

Given that the Fund can only make deposits with the MA for the account of the Exchange Fund or invest in the highly liquid Exchange Fund Bills and US Treasury Bills, the liquidity of the Fund is maintained at a high level at all times.

##### *Credit risk*

The Fund is exposed to credit risk as a borrower or a counterparty may not be able or willing to perform its contractual obligations in full when due. The credit risk of the Fund can be broken into (i) counterparty risk from placement activities; (ii) counterparty risk from investment transactions; (iii) issuer risk arising from debt securities holdings; and (iv) country risk.

Counterparty credit exposures arise mainly from the Fund's deposit placements with the MA for the account of the Exchange Fund and securities transactions with financial institutions. In this respect, the Fund will only conduct securities transactions with counterparty approved by the Investment Committee. Issuer risk arises from investments in debt securities. The types of investment securities of the Fund are limited to Exchange Fund Bills and US Treasury Bills, both with minimal default risk. In addition to the counterparty and issuer risk, the Fund is exposed to country risk, which is confined to the sovereign risk of Hong Kong and the US given the Fund's limited types of investments. The Fund's credit exposures of the Fund are reported regularly to the Investment Committee based on its delegated authority from the Board.

##### *Fair value of financial assets and financial liabilities*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid price. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, with inputs based on market conditions existing at the balance sheet date.

## 3 RISK MANAGEMENT (Continued)

### (c) Financial risk management (Continued)

The fair values of financial assets and liabilities not presented on the Fund's balance sheet at their fair value are estimated as follows:

- (i) Bank balances and balances with the Exchange Fund

The fair values of bank balances and balances with the Exchange Fund are their carrying amounts.

- (ii) Other receivables

The estimated fair value of other receivables, which are non-interest bearing balances, is their carrying value.

- (iii) Other payables

The estimated fair value of other payables, which are non-interest bearing balances, is their carrying value.

## 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions made in the preparation of these accounts do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 5 TAXATION

No provision for Hong Kong Profits Tax has been made as the Board is exempt from Hong Kong Profits Tax pursuant to section 10 of the Ordinance.



## 6 CONTRIBUTIONS

The Fund began collection of contributions from 25 September 2006. Contributions are calculated based on the amount of relevant deposits and the respective supervisory rating of each non-exempted bank applicable at a specified date. Contributions are calculated and collected annually and received in advance for each calendar year.

## 7 STAFF COSTS

	2007	2006
Salaries	<b>\$ 3,620,007</b>	\$ 3,219,884
Gratuity	<b>313,440</b>	313,440
Payment In lieu of leave	<b>115,621</b>	63,321
Other employee benefits	<b>160,865</b>	104,950
	<b>\$ 4,209,933</b>	\$ 3,701,595

# NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## 8 FIXED ASSETS

	Office equipment, furniture and fixtures	Computer hardware/ software	Total
<b>Cost</b>			
As at 1 April 2006	\$ 34,800	\$ 100,690	\$ 135,490
Additions	802,169	2,950,660	3,752,829
As at 31 March 2007	\$ 836,969	\$3,051,350	\$3,888,319
<b>Accumulated depreciation</b>			
As at 1 April 2006	\$ 6,380	\$ 28,432	\$ 34,812
Charge for the year	76,501	159,564	236,065
As at 31 March 2007	\$ 82,881	\$ 187,996	\$ 270,877
<b>Net book value</b>			
As at 31 March 2007	\$ 754,088	\$2,863,354	\$3,617,442
As at 31 March 2006	\$ 28,420	\$ 72,258	\$ 100,678

## 9 INTANGIBLE ASSETS

	<b>Development costs of Payout System</b>
<b>Cost</b>	
As at 1 April 2006	\$ 93,000
Additions	10,008,000
As at 31 March 2007	\$ 10,101,000
<b>Accumulated amortisation</b>	
As at 1 April 2006	\$ –
Charge for the year	333,600
As at 31 March 2007	\$ 333,600
<b>Net book value</b>	
As at 31 March 2007	\$ 9,767,400
As at 31 March 2006	\$ 93,000

## 10 OTHER RECEIVABLES

	2007	2006
Deposit paid (Note)	\$ –	\$ 5,291,200
Prepayment	250,693	31,179
Interest receivables	32,022	–
Others	20,341	–
	\$ 303,056	\$ 5,322,379

Note – The deposit paid in respect of the development costs for the Payout System of HK\$5,291,200 was recognised and classified as intangible assets as at 31 March 2007.

# NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## 11 AVAILABLE-FOR-SALE SECURITIES

	2007	2006
Debt securities:		
– Unlisted US Treasury Bill	\$ 30,975,635	\$ –

## 12 OTHER PAYABLES

	2007	2006
Hire of services	\$ 7,276,684	\$ 30,000
Staff expenses	418,954	470,858
Others	2,018,570	70,265
	\$ 9,714,208	\$ 571,123

### 13 MATERIAL RELATED PARTY TRANSACTIONS

Pursuant to section 6 of the Ordinance, the Board shall perform its functions through the MA unless indicated otherwise by the Financial Secretary. The Hong Kong Monetary Authority (HKMA) has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources, and information technology.

The related party transactions with the HKMA are as follows:

		2007	2006
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund (a)		<b>\$ 329,238,768</b>	\$ –
Loan (b)		–	10,600,000
Interest income from balances with the Exchange Fund (a)		<b>\$ 2,593,189</b>	\$ –
Operating expenses reimbursed to the HKMA including hire of services and other premises costs (c)		<b>\$ 6,961,240</b>	–

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$329,238,768 (2006: Nil) and earned interest amounting to HK\$2,593,189 (2006: Nil) at a rate which makes reference to the market interest rates.

### 13 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (b) During the year, the HKMA provided a committed, interest-free credit facility to the Board for the purpose of meeting the establishment and initial operating costs of the Board. The maximum amount which may be drawn under the facility is \$30,000,000, of which HK\$9,100,000 (2006: HK\$6,900,000) was drawn during the year. The facility was fully repaid during the year. The HKMA also provided the Board a standby facility from the Exchange Fund for meeting the necessary liquidity required for payment of compensation in the event of a bank failure.
- (c) Certain operating expenses are reimbursed to the HKMA based on the provisions set out in the Ordinance.

### 14 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 11 July 2007.

## LIST OF SCHEME MEMBERS AS OF 31 MARCH 2007

ABN AMRO BANK N.V.  
 AGRICULTURAL BANK OF CHINA  
 AIG PRIVATE BANK LIMITED  
 ALLAHABAD BANK  
 AMERICAN EXPRESS BANK LIMITED  
 AUSTRALIA AND NEW ZEALAND BANKING  
 GROUP LIMITED  
 BANCA DI ROMA, SOCIETA' PER AZIONI  
 BANCA MONTE DEI PASCHI DI SIENA S.P.A.  
 BANCA NAZIONALE DEL LAVORO S.P.A.  
 BANCO BILBAO VIZCAYA ARGENTARIA S.A.  
 BANCO DE ORO – EPCI, INC.  
 BANGKOK BANK PUBLIC COMPANY LIMITED  
 BANK OF AMERICA, NATIONAL ASSOCIATION  
 BANK OF BARODA  
 BANK OF CHINA (HONG KONG) LIMITED  
 BANK OF CHINA LIMITED  
 BANK OF COMMUNICATIONS CO., LTD.  
 BANK OF EAST ASIA, LIMITED (THE)  
 BANK OF INDIA  
 BANK OF MONTREAL  
 BANK OF NEW YORK (THE)  
 BANK OF NOVA SCOTIA (THE)  
 BANK OF TAIWAN  
 BANK OF TOKYO-MITSUBISHI, UFJ LTD.(THE)  
 BANK SINOPAC  
 BARCLAYS BANK PLC  
 BAYERISCHE HYPO-UND VEREINSBANK  
 AKTIENGESELLSCHAFT  
 BAYERISCHE LANDESBANK  
 BNP PARIBAS  
 BNP PARIBAS PRIVATE BANK  
 CALYON  
 CANADIAN IMPERIAL BANK OF COMMERCE  
 CANARA BANK  
 CATHAY UNITED BANK COMPANY, LIMITED  
 CHANG HWA COMMERCIAL BANK, LTD.  
 CHIBA BANK, LTD (THE)

CHINA CONSTRUCTION BANK (ASIA)  
 CORPORATION LIMITED  
 CHINA CONSTRUCTION BANK (ASIA) LIMITED  
 CHINA CONSTRUCTION BANK CORPORATION  
 CHINA MERCHANTS BANK CO., LTD.  
 CHINATRUST COMMERCIAL BANK, LIMITED  
 CHIYU BANKING CORPORATION LIMITED  
 CHONG HING BANK LIMITED  
 CHUGOKU BANK, LTD (THE)  
 CITIBANK (HONG KONG) LIMITED  
 CITIBANK, N.A.  
 CITIC KA WAH BANK LIMITED  
 COMMONWEALTH BANK OF AUSTRALIA  
 COOPERATIEVE CENTRALE RAIFFEISEN-  
 BOERENLEENBANK B.A.  
 COUTTS BANK VON ERNST AG  
 CREDIT SUISSE  
 DAH SING BANK, LIMITED  
 DBS BANK (HONG KONG) LIMITED  
 DBS BANK LTD.  
 DZ BANK AG DEUTSCHE ZENTRAL-  
 GENOSSENSCHAFTSBANK,  
 FRANKFURT AM MAIN  
 E.SUN COMMERCIAL BANK, LTD.  
 EAST WEST BANK  
 EFG BANK  
 ERSTE BANK DER OESTERREICHISCHEN  
 SPARKASSEN AG  
 FAR EASTERN INTERNATIONAL BANK  
 FIMAT INTERNATIONAL BANQUE SA  
 FIRST COMMERCIAL BANK, LTD.  
 FORTIS BANK  
 FUBON BANK (HONG KONG) LIMITED  
 GOVERNOR AND COMPANY OF THE BANK OF  
 SCOTLAND (THE)  
 HACHIJUNI BANK, LTD (THE)  
 HANA BANK  
 HANG SENG BANK, LIMITED

## LIST OF SCHEME MEMBERS AS OF 31 MARCH 2007

HONG LEONG BANK BERHAD  
 HONGKONG AND SHANGHAI BANKING  
 CORPORATION LIMITED (THE)  
 HSBC BANK INTERNATIONAL LIMITED  
 HSBC BANK PLC  
 HSBC BANK USA, NATIONAL ASSOCIATION  
 HSBC PRIVATE BANK (SUISSE) SA  
 HSH NORDBANK AG  
 HUA NAN COMMERCIAL BANK, LTD.  
 ICICI BANK LIMITED  
 INDIAN OVERSEAS BANK  
 INDUSTRIAL AND COMMERCIAL BANK OF  
 CHINA (ASIA) LIMITED  
 INDUSTRIAL AND COMMERCIAL BANK OF  
 CHINA  
 ING BANK N.V.  
 INTESA SANPAOLO S.P.A.  
 IYO BANK, LTD. (THE)  
 JPMORGAN CHASE BANK, NATIONAL  
 ASSOCIATION  
 KBC BANK N.V.  
 KOREA EXCHANGE BANK  
 LAND BANK OF TAIWAN CO., LTD.  
 MALAYAN BANKING BERHAD  
 MEGA INTERNATIONAL COMMERCIAL BANK  
 CO., LTD.  
 MELLI BANK PLC  
 MEVAS BANK LIMITED  
 MITSUBISHI UFJ TRUST AND BANKING  
 CORPORATION  
 MIZUHO CORPORATE BANK, LTD  
 NANYANG COMMERCIAL BANK, LIMITED  
 NATIONAL AUSTRALIA BANK, LIMITED  
 NATIONAL BANK OF PAKISTAN  
 NATIXIS  
 OVERSEA-CHINESE BANKING CORPORATION  
 LTD.  
 PHILIPPINE NATIONAL BANK  
 PT. BANK NEGARA INDONESIA (PERSERO) TBK.

PUBLIC BANK (HONG KONG) LIMITED  
 PUBLIC BANK BERHAD  
 ROYAL BANK OF CANADA  
 ROYAL BANK OF SCOTLAND PUBLIC LIMITED  
 COMPANY (THE)  
 SHANGHAI COMMERCIAL BANK LIMITED  
 SHIGA BANK LIMITED (THE)  
 SHINKIN CENTRAL BANK  
 SHIZUOKA BANK, LTD. (THE)  
 SOCIETE GENERALE  
 SOCIETE GENERALE BANK & TRUST  
 STANDARD BANK ASIA LIMITED  
 STANDARD CHARTERED BANK  
 STANDARD CHARTERED BANK (HONG KONG)  
 LIMITED  
 STATE BANK OF INDIA  
 STATE STREET BANK AND TRUST COMPANY  
 SUMITOMO MITSUI BANKING CORPORATION  
 SVENSKA HANDELSBANKEN AB (PUBL)  
 TAI SANG BANK LTD.  
 TAI YAU BANK LTD.  
 TAIPEI FUBON COMMERCIAL BANK CO., LTD.  
 TAISHIN INTERNATIONAL BANK CO., LTD  
 TAIWAN BUSINESS BANK  
 TORONTO-DOMINION BANK (THE)  
 UBS AG  
 UCO BANK  
 UNICREDITO ITALIANO SOCIETA' PER AZIONI  
 UNITED COMMERCIAL BANK  
 UNITED OVERSEAS BANK LTD.  
 UTI BANK LIMITED  
 WELLS FARGO BANK, NATIONAL ASSOCIATION  
 WESTLB AG  
 WESTPAC BANKING CORPORATION  
 WING HANG BANK, LIMITED  
 WING LUNG BANK LIMITED  
 WOORI BANK