

the hong kong society of
financial analysts limited

香港財經分析師學會

ANNUAL REPORT 2006

A MEMBER SOCIETY OF CFA INSTITUTE

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MISSION STATEMENT

- * To raise the standards of practice of financial analysis and investment advice and uphold ethical standards in the financial services industry in Hong Kong.
- * To promote the CFA® designation in Hong Kong and the rest of China and to assist CFA® candidates.
- * To provide a convenient communication channel among our members and with CFA Institute, other investment practitioners, Hong Kong authorities and securities market regulators.

Cover Photo:

“2006 was a year of rises. Not only did the Hang Seng Index reach a record high and the Hong Kong Stock Exchange had record level of capital raising, but your society also experienced strong growth with number of members exceeding 4,000 by October 2006.”

REPORT OF THE PRESIDENT

Dear Society Members,

On behalf of the Board, I am pleased to report to you that the Society has continued with its successful development in FY2006. With 3,319 members at the end of the year, we are now the 5th largest member society of CFA Institute, and probably also the largest as well as the longest established association for investment professionals in Hong Kong. To achieve our main mission of raising the standards of practice of the financial services industry in Hong Kong, the Society remains active in advocacy issues and continuing education.

Our advocacy efforts have become more proactive in recent years. In addition to responding to consultation papers, the Society, as the official sponsor of the GIPS Standards in Hong Kong, also took an active role in promoting the GIPS Standards. We also raise awareness of issues in the industry, and participate in various types of investor education events.

On continuing education, we introduced formal training programmes in FY2006. Speakers of these programmes are all professional trainers, such as consultants and/or professors, and the contents are well structured. With our focus on quality, our education events are well received and many are full houses. Despite the popularity of our programmes, we maintain a low fee structure for our members with the aim of facilitating access to these programmes to those members who may have difficulties in getting sponsorship from their employers.

In FY2006, we organised our second University Investment Research Competition to promote the practice of professional research and analysis among university students. Participants included all seven universities from Hong Kong as well as Shanghai Jiaotong University. The third competition is currently underway with the addition of Fudan University. We also offered talks in universities on ethics and professional practice and career opportunities to students. These efforts helped train and prepare students to enter the finance industry and raise their awareness of the CFA programme.

The Membership Services Committee continued to provide a wide variety of social activities to facilitate the building of a members' community. In addition to the monthly happy hour gathering at the Society office on the second Thursday of each month, there are also events like the CFA Charter Award Ceremony and Forecast Dinner, dragon boat racing, dolphin watching, wine tasting, post-summer BBQ, etc. We also keep our support to the community and our participation in the 2005 Oxfam Trailwalker and Matilda Sedan Chair Race has raised more than HK\$170,930 for charity purpose.

In the coming year, our biggest challenge is the growing number of members who are based in mainland China. We have formed committees in both Shanghai and Beijing so we are able to organise more continuing education and social events and provide better services to our members there. We are also working closely with CFA Institute to evaluate the possibility of forming local societies in mainland China.

I would like to take this opportunity to thank my fellow board members and all the committee members for their invaluable contribution to the Society. With the strong pick-up in business momentum, the time of our volunteers is becoming even more precious. I would like to show our deep appreciation to the volunteers who helped the society in various ways. Many of them spent their lunchtime for Committee meetings and worked hours in their private time helping the society. Their contribution is critical for the success of the Society. I would also like to thank the staff office for their hard work in organising Society events and maintaining the administrative work.

The Society's future counts on your continuous support. Please feel free to contact us for any feedback on our work or should you have any interest to join our various committees. I look forward to meeting you soon in our upcoming events!

Yours sincerely,

Karl Lung, CFA
President

REVIEW OF OPERATIONS

CONTINUING EDUCATION

The Continuing Education Committee, together with HKSFA staff and board members, worked diligently in the year, bringing a total of 25 continuing education events to members. For the first time, the Society organised formal training programmes for our members. There were three such programmes with eleven classes organised in the year. Response to the new product was quite encouraging, boosting member participation and society revenues. We expect the workshop format to stay and more resources allocated to it. One breakfast meeting was organised, and again, response was also encouraging. The luncheon format that we launched two years ago was getting more popular with a rise in participants.

Generally, we noticed there was an increasing trend of participation from both members and non-members in our CE events. Part of this rise was due to the upsurge of membership, but to a larger extent, it was also a result of our increased efforts to offer more programme formats as well as a variety of subjects to suit different attendees. Over the year, booking speakers and venues were the two major challenges that the Society faced. We expect the problems to remain acute as both business and educational activities remain buoyant in the year ahead.

Most of the events held were well received. The notable ones were Equity Valuation, Basel II, New Accounting Regime, Performance Measurement Workshop, Financial Analysis Workshops, a Critique of Pure Alpha, Private Equity and China Financial Market seminars. A total of 36 guest speakers took part in our activities and 76 hours of PD/CPT were offered to participants, as compared with 27 speakers and 28 hours the previous year.

Last but not least, we thank the members of the CE Committee and support from the Board and HKSFA staff for bringing a fruitful CE programme in the past year, and are looking forward to more exciting events ahead.

Continuing Education Programmes (July 05 - June 06)

Date	Seminar Topic	Speaker / Panelist	CPT/PDP -Credit Hours	No. of Attendants
Year 2005				
30 Jul 05 (half-day seminar)	GIPS Standards Implementation & Performance Attribution Standardization	Mr. Tony Leung, CFA Northern Trust Mr. Frankie Tai, CFA Invesco Asia Limited	2.5 CPT/PD/SER	48
6 Aug 05 (half-day seminar)	Equity Valuation	Mr. Rafael Resendes The Applied Finance Group Mr. Benoit Descourtioux, CFA Calypso Capital Limited	2.5	118
20 Aug 05 (half-day seminar)	Basel II	Mr. Walter Y. Yao, CFA Federal Reserve Bank of San Francisco Mr. Patrick Ip, CFA Hang Seng Bank Ltd Mr. Simon Ho, CFA ABN AMRO	2.5	119
6 Oct 05 (luncheon)	Growth in the Credit Derivative Markets and New Products	Mr. How-Chih Lee Barclays Capital Asia Limited	1	47
29 Oct 05 (half-day seminar)	New Accounting Regime - Implications On Users	Speaker: Mr. Ian Farrar PricewaterhouseCoopers Panel Chair: - Mr. Paul F. Winkelmann PricewaterhouseCoopers Panelists: (in alphabetical order) - Mr. Kevin C.W. Chen Hong Kong University of Science and Technology - Mr. Raphael Ding Moore Rowland Mazars - Mr. Charles Lo, CFA Allianz Global Investors - Mr. Eymon Tsang, CFA The Hongkong and Shanghai Hotels, Limited - Mr. Eric Wong UBS Investment Research Moderator: - Mr. Karl Lung, CFA The Hong Kong Society of Financial Analysts	2.5	127
5 Nov 05 (half-day seminar)	The Role of Hedge Funds and Behavioral Finance in Strategic Asset Allocation	Mr. Jean L.P. Brunel, CFA Brunel Associates	2.5	97
18 Nov 05 (luncheon)	Financial Market Integrity - Rebuilding Trust	Mr. Kurt N. Schacht, JD, CFA Centre for Financial Market Integrity of CFA Institute	1 CPT/PD/SER	32
29, 30 Nov & 1 Dec 05 (3 whole-day workshops)	Performance Measurement Workshop	Mr. Carl Bacon StatPro	6 (per workshop)	76

Date	Seminar Topic	Speaker / Panelist	CPT/PDP Credit Hours	No. of Attendants
Year 2006				
8 Feb 06 (luncheon)	Outlook for Major World Financial Markets	Dr. Michael Ivanovitch MSI Global Inc	1	56
10, 11 & 15 Feb 06 (7 half-day workshops)	Financial Analysis Series 1. Basic Financial Modeling with Excel 2. Trading Comps Analysis 3. Mergers & Acquisitions Deal Structuring 4. Merger Modeling 5. Advance Excel Analysis+Intro to Macros	Mr. Hamilton Lin, CFA Wall St. Training	3.5 (per workshop)	45
16 Feb 06 (breakfast)	A Critique of Pure Alpha	Mr. Alexander Ineichen, CFA, CAIA UBS AG	1	78
25 Feb 06 (half-day seminar)	China Retail Seminar	Ms. Freda Tong Li & Fung Research Centre Mr. Curt Lam, CFA GOME Ms. Marisa Ho CSFB	2.5	105
25 Mar 06 (half-day seminar)	Private Equity - Status & Trends Seminar	Mr. Michael Thorneman Bain & Company Mr. Marcus Thompson HSBC Private Equity (Asia) Ltd. Mr. Vincent Chan, CFA JAFCO Asia	2.5	124
29 Apr 06 (half-day seminar)	Business Valuation Seminar	Mr. Yu Kam-Hung CB Richard Ellis Mr. Trackie Lam CB Richard Ellis Mr. Keith C.C. Yan Grant Sherman Appraisal Ltd	2.5	117
3 May 06 (joint workshop w/ HKUST)	The State of the Art in Fund of Hedge Funds Management	Prof. Francois-Serge Lhabitant University of Lausanne	6	26
27 May 06 (half-day seminar)	China Financial Market	Mr. Ryan Tsang, CFA Standard & Poor's Ms Nicole Yuen UBS Securities Asia Ltd. Mr. Yiping Huang Citigroup	2.5	123
22 Jun 06 (luncheon) (joint workshop with HKUST)	Luncheon on Securitization / Structured Finance	Ms. Ann Rutledge	1	78

ADVOCACY

The Advocacy activities of the Society continue to expand in the last year, and the list of our contributions to the local financial industry is now becoming truly impressive. We attended 6 Legco panel meetings and have been very active in providing input to the government on many key policy issues. In particular, we believe that we have had a key role in drafting certain provisions in the legislation regarding the taxation of offshore funds that we believe will benefit locally established investment management companies. While the preparation work for these meetings can be tedious, the payoff in terms of improving securities market regulation is very rewarding.

Advocacy is not just about high profile efforts with the government and regulators, however, through the efforts of many board members, we take time to educate the broader community on the benefits of more rigorous standards of practice. We have been doing regular talks at universities on financial market ethics, attempting to imbue future generations of practitioners with a sense of ethical behaviour. In addition, we give media interviews on the subject of ethics and advocacy issues so that our views can reach a wider audience. We also continue to serve on committees such as The Hong Kong Management Association's Best Annual Reports Awards, to help promote improvements in shareholder reporting and transparency. Many of these efforts are undertaken by a small number of board directors while we are delighted to have added help from some newer board members. We continue to welcome the input and assistance from all of our members.

HKSFA GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) COMMITTEE

In 2004, the current GIPS Committee (formerly the GIPS Task Force) was formed within the HKSFA to promote GIPS® in Hong Kong. By September 2005, the HKSFA became the official local sponsor of GIPS®.

In 2006, this GIPS Committee continued its efforts by conducting regular stakeholder communications such as speaking at a luncheon hosted by the Hong Kong Retirement Scheme Association and conducting an educational seminar on performance measurements. As the local sponsor, HKSFA contributed to the formation of the GIPS Council whose meeting took place in London earlier this year. Several of our GIPS Committee members have been selected to participate at the global level of the council, in the areas of Verifier/Practitioner, Interpretation, and Promotion and Awareness. Within the Asia Pacific, we are moving ahead with a Regional Investment Performance Sub-committee (RIPS).

In our third year of operation, we have transformed from ad hoc attempts of rallying support to an ongoing effort, which educates the public about general performance measurements and GIPS®, more specifically. We are also working with CFA institute to provide a Chinese translation of the GIPS Standards for use in China. We believe this is an important move to introduce and raise awareness of this industry best practice to the investment industry in China, an area in which we will continue our efforts in the future. Our goal is to build a long-term organisation to support GIPS®. Our involvement helps to ensure that HKSFA stays at the forefront of the investment management and research industry.

UNIVERSITY INVESTMENT RESEARCH COMPETITION

With the success of our first University Investment Research Competition, the HKSFA continued the effort and organised the second competition. The objective of the competition was to promote the practice of professional investment research and analysis among university students in Hong Kong and raise awareness of the CFA programme and the HKSFA. In addition to the seven universities in Hong Kong, we also



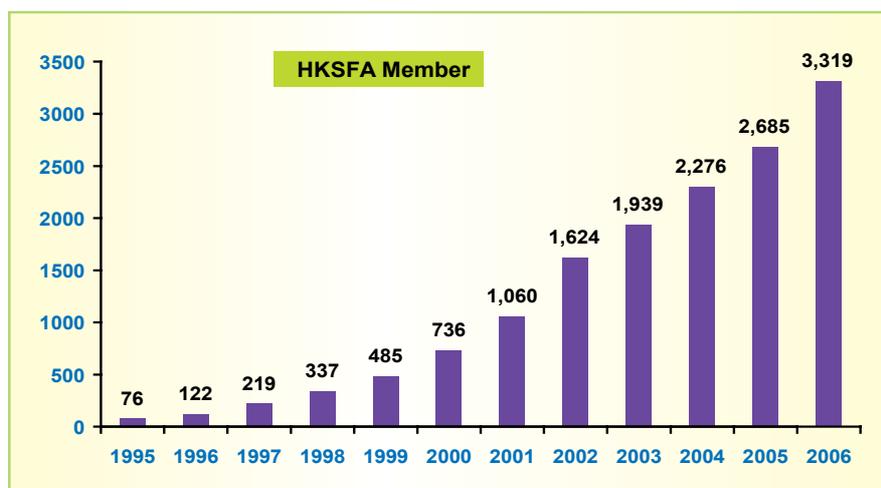
have the pleasure to have Shanghai Jiaotong University to participate.

Participating universities formed teams consisting of four full-time undergraduate students. Each team was then required to research and analyse a Hong Kong listed company. To facilitate their work, each team had the help of an experienced investment professional as mentor and the opportunity to visit the company. Each team was then required to submit a written research report followed by presentation to the judges, who were either fund managers or heads of research. The judging criteria were based on the quality of the analysis, justification of the recommendation and ability to handle questions. This year, the competition was once again won by the team from the University of Science and Technology, and each team member received a CFA scholarship plus HK\$2,000 of book coupons.

The third competition is currently underway. In addition to the eight universities from last year, we have the pleasure of Fudan University from Shanghai joining as well. The increased participation of mainland universities will further enhance the value of the competition by offering the students from Hong Kong and China an opportunity to exchange their ideas, thoughts and experiences.

MEMBERSHIP

Last year, the Society experienced the highest membership growth since its establishment in 1992, adding 634 new members during the year to reach 3,319 by the end of the period. The SOCIETY is now ranked the 5th largest Society among all the local societies of the CFA Institute and it is the largest Society in Asia.



Top Ten Societies of CFA Institute as at 3 July 2006.

Society:	Member count:	Growth (from 2004)
1. New York	10,555	+ 326
2. Toronto	6,021	+ 408
3. United Kingdom	4,975	+ 575
4. Boston	4,468	+ 166
5. Hong Kong	3,319	+ 634
6. Chicago	3,229	+ 234
7. San Francisco	2,624	+ 218
8. Singapore	1,907	+ 83
9. Los Angeles	1,815	+ 77
10. Philadelphia	1,700	+ 82

The record growth is fueled partly by the expansion of our membership base in mainland China (+171% yoy this year). The Society has added 237 new members who reside in China, representing 37% of the net additions during the year. A total of 375 of our members, or 11%, are now residing in mainland China with another 4% in other overseas locations.

At the CFA examination in the past June, China has outnumbered Hong Kong in both the candidate population and the number of candidates passing Level III examination. With the surge in Passed-III candidates (nearly 800 in China and over 700 in Hong Kong from the 2006 June examination) and the absence of local societies in mainland China, the strong growth of our membership base is likely to sustain in the next few years.

While enjoying tremendous growth in membership, the Society is faced with the increasing challenge in the approval process of the membership applications. As the CFA Programme attracts more candidates from outside the traditional investment professions, the number of applicants with their working experience falling under the “grey area” like accountants, corporate financial analysts, IT professionals and back-office specialists of financial institutions has been rising rapidly in the past few years.

Though encouraged by the strong growth in the CFA Programme, the Society is, at the same time, concerned with the dilution of the value of the CFA designation should the charter be granted to people without the proper working experience. The revisions of the membership experience requirements by the CFA Institute in 2003 were adopted to address these concerns. The Society has been working closely with the CFA Institute to safeguard this gate-keeping function with fairness and transparency.

Despite tightening the requirements for regular membership, the Society has, by no means, any intention to restrict itself to be a private club for CFA charterholders only. On the contrary, we have introduced a new membership class, the Senior Associates, to recruit senior investment professionals outside the coverage of the CFA Programme who share the HKSFA’s mission in raising the standards of practice of financial analysis and investment advice and upholding ethical standards in the financial services industry in Hong Kong.

MEMBERSHIP SERVICES

2006 marked another year of success for the Membership Services Committee. Leveraging on the platform developed in previous years, we continue to offer a wide range of activities to our members. We are constantly trying to come up with new ideas to serve our membership base, and are not afraid to take the risk that some of them may not be widely accepted. The aim of this process is to increase membership participation, which remains relatively narrow. We are happy to report that the following activities were held during the year:

Happy Hour Gathering

Free drink and food is provided for our happy hour gathering held in our office on the second Thursday of each month. During the happy hour session, we always try to bring in new concepts. In addition to usual mingling functions, we had face-to-face gathering with Mr. Jeffrey Diermeier, CFA, President & CEO of CFA Institute, new member orientation and other special topics. We believe the monthly happy hour will continue to be one of the most popular activities among our members with minimal costs.

CFA® Charter Award Ceremony and Forecast Dinner 2005

The annual CFA® Charter Award Ceremony was held on 19th November 2005 to allow more members to attend this spectacular event. More than 111 members, graduates, and guests attended the event. This was the second year where we put together the CFA® Charter Award Ceremony with the Forecast Dinner.

Dr. Jan R. Squires, D.B.A, CFA, Managing Director, Asia Pacific, CFA Institute, presented the CFA® Charter Awards and gave his keynote speech to the 2005 graduates. At the Forecast Dinner, we were honoured to have Ms. Amy Yip, Member of Advisory Council, CFA Centre for Financial Market Integrity, CFA Institute, giving the keynote speech. Prizes from various sponsors were also given away at the Dinner. We believe the CFA® Charter Award Ceremony and Forecast Dinner is a show-case activity for the Society.

The Annual Forecast Event draws lots of attention when panelists were using their crystal balls to make the forecast. We are glad to have three panelists from different investment professions to present their outlook on major indexes, interest rates, and exchange rates. Mr. Tim Moe, CFA, Chief Asia Pacific Regional Equity Strategist, Goldman Sachs (Asia) LLC, was the one who had made the most accurate view in the 2004 Forecast Event and was invited back on the strength of his prediction of markets last year as well as his prediction that bird flu would become a major issue for financial markets.

In addition to listening advice from experts, the audience also had the opportunity to test their investment instinct by providing their targets for the Hang Seng Index.

Post CFA Examination Party

The Membership Services Committee continued their efforts to bring in new members to the Society. For a third year in a row, CFA candidates were able to relax at the Post Examination Party. We had more candidates attend the party than we did last year as the candidates' recognition of the HKSFA brand name has been raised, thanks to the hard work of the staff office and the Committee.



Left to right: Mr. Paul Pong Po Lam, Managing Director, Pegasus Financial Services Limited, Mr. Timothy Moe, Chief Asia Pacific Regional Equity Strategist, Goldman Sachs (Asia) LLC, Mr. Amar Gill, Head of Hong Kong Research, CLSA.



Dr. Jan R. Squires, D.B.A, CFA, Managing Director, Asia Pacific, CFA Institute.



Ms. Amy Yip, Member of Advisory Council, CFA Centre for Financial Market Integrity, CFA Institute.

Post-Summer BBQ Party

The annual Post-Summer BBQ is one of the legendary events for the HKSFA. More than sixty members and guests attended the BBQ and enjoyed a night at the poolside where they met some new contacts and caught up with their old friends. We will continue to host the BBQ Party as a regular event for our members.



Dragon Boat Team

The past season has been a success for the HKSFA Dragon Boat Team, as we won our first championship trophy at the Stanley Dragon Boat Short Course Races. Yet aside from our moment of glory, it was also a period of learning as we debuted in the invitational International Hong Kong Dragon Boat Races held in Shatin.

We participated in a total of 5 races this season, commencing with the highly popular Deep Water Bay Dragon Boat Races in May, followed by races at Discovery Bay, the International Races, Stanley Short Course and finally concluded with the Repulse Bay Races in July.



Thanks to all the team members who generously donated their time to training and their enthusiasm for the sport. Rain, hail or shine, the shout of “paddles up!”, the concentration to keep in sync, and the total team coordination in stand up paddling was executed with relentless passion and professional precision.

Trailwalker

Three teams consisting of the HKSFA members participated in the 2005 Oxfam Trailwalker charity walk. The 12 people in our teams battled the 100km MacLehose Trail within the limit of 48 hours. Over HK\$130,000 was raised for Oxfam, making HKSFA one of the major fund raisers of the event. The money will be used to support their long-term development and humanitarian relief programmes to help people in Hong Kong, China, other parts of Asia and Africa. This year also marked another record for HKSFA. Out of the 12 walkers, 6 could not finish the whole journey due mainly to the unexpected hot weather. As with events in the investment world, we have to expect the unexpected.

Nevertheless, we would like to take this opportunity to whole-heartedly thank those who participated in the hike, the supporters, as well as those who generously make donations.



Wine Tasting

The Society organised a wine tasting dinner for our members in February 2006 hosted by wine specialist, Mr. Louis Lee. A total of 24 people enjoyed a fabulous evening of fine wine and food with other fellow members.

Dolphin Watching

To get the families of our members involved in the HKSFA activities, a Dolphin Watching trip was arranged in October. The trip, led by Mr. Samuel Hung, the Chairman of Hong Kong Dolphin Conservation Society, was overbooked. Needless to say, we had no problem spotting the dolphins as they totally surrounded our boat and played games with us. Everyone, especially the kids, enjoyed this event tremendously.

Matilda Sedan Chair

The inaugural year of HKSFA's participation in the annual Matilda Sedan Chair Race was a combination of enjoyment and success. The team consisting of 8 strong males and one petite female, all dressed in ripped white dress shirts and red ties, negotiated the 2.2 km race course on the Peak with much strength and will power.



Membership Services Functions

Date	Programme Topic	No. of Attendants
16 Aug 05	New Member Orientation	17
10 Sep 05	Post-Summer BBQ 2005	78
16 Oct 05	Dolphin Watching Boat Trip	36
25 Oct 05	New Member Orientation	18
11-13 Nov 05	Trailwalker	12
13 Nov 05	Matilda Sedan Chair Race	9
19 Nov 05	CFA Chater Award Ceremony & Forecast Dinner 2005	111
10 Feb 06	Wine Tasting Dinner	24
7 Mar 06	New Member Orientation	15
7 May 06	2006 Deep Water Bay Dragon Boat Race	22
31 May 06	Discovery Bay Dragon Boat Race	21
3 Jun 06	Hong Kong International Dragon Boat Races 2006	24
4 Jun 06	Post CFA Examination Party	121
11 Jun 06	Stanley Dragon Boat Short Course Races 2006	20
22 Jun 06	New Member Orientation	20
27 Jun 06	Meet the President & CEO of CFA Institute	34
16 Jul 06	Repulse Bay Dragon Boat Races	20

CHINA AFFAIRS

The number of HKSFA members located in mainland China has been steadily growing over the past decade. With many of our local members being re-located to mainland China on a part-time and permanent basis, as well as the growth of mainland Chinese candidates passing their CFA Exams and achieving their CFA status, the number of HKSFA members in China has ballooned to 375 members as of 30 June 2006.

The Board has exerted a great amount of effort in coming up with a variety of ways to service these members. The final decision is to have HKSFA form separate Committees in Shanghai and Beijing to plan and organise events, and the administration of the events outsourced to a firm in Shanghai who also services CFA Institute's events in China. This outsourcing method has not only assisted HKSFA to deliver the types of quality programming activities in China, but also kept the costs of servicing HKSFA members located in the mainland at a minimum.

This year, the Society has organised and sponsored a total of 7 events in mainland China (Beijing and Shanghai combined): 3 evening seminars, 2 membership network gatherings, and the annual CFA® Charter Award Ceremonies in Beijing and Shanghai.

With the strong growing members in China, we will organise more events for our members there. We will also try to identify and search for more members located in mainland China to assist our Committee there. Meanwhile, we believe that it is in the best interest of the members in mainland China to have their own local societies. We are working closely with CFA Institute to evaluate such possibility.



Member Gathering in Shanghai

Events in China - July 2005 to June 2006

Beijing

Date	Programme Topic	No. of Attendants
12 Jul 05	“America, China and the Realities of Global Competition”* By Dr. Donald H. Straszheim, President, Straszheim Global Advisors Inc	28
8 Dec 05	CFA Charter Award Ceremony*	33

Shanghai

Date	Programme Topic	No. of Attendants
19 Aug 05	Member Gathering*	102
2 Nov 05	“Psychological Influences on Investor Decisions” ~ A Behavioural Finance Approach to Strategic Asset Allocation* By Mr. Jean L/P. Brunel, CFA, Managing Principal, Brunel Associates	45
6 Dec 05	CFA Charter Award Ceremony*	152
16 Mar 06	“Considerable Challenges and Investment Opportunities of the Unfolding Changes in Monetary Policies” By Dr. Michael Ivanovitch, President of MSI Global	90
15 Jun 06	Member Gathering	83

* Events organised by CFA Institute and sponsored by HKSFA.

MEMBER COMMUNICATION

The Society has experienced another good year of expansion in terms of number of events organised and new members. The Board has tried every means to communicate the useful information to over 3,000 members located in Hong Kong and China.

E-mail blast remains the most effective way to alert members of our latest developments. Our policy is to limit these e-mails to no more than twice weekly to avoid overloading our members. Monthly E-Newsletter is another effective way to keep in touch with our members. Each edition contains a good update on the past and upcoming seminars and events with additional information on member benefits. Our annual report helps provide more detailed information on the activities of the Society. The content of our website has also been enhanced to make it more user-friendly. There are more postings in our Jobline and selected consultation papers are uploaded to our website.

The Board has considered outsourcing some of the work done by Member Communication Committee to external parties in order to make our publications even more professional. The decision will not be made until a careful balance between the quality and cost is assessed. Hope this move may relieve the workload of our volunteers.

The big challenge for us is to make the communication process with members more effective. This is not a one way street. It is important to gather more feedback from our members on various issues. Please send to us your invaluable comments via E-mail or visit the Society's office at The Hong Kong Club Building.

CANDIDATE EDUCATION

A total of 7,904 candidates enrolled for the December 2005 (2,493 Level I) and June 2006 (5,411 Level I, II, and III) CFA examinations compared to 6,983 candidates enrolled in the two examination sessions for fiscal year ending June 2005, representing an increase of 13%. This excludes the number of candidates from mainland China which experienced an explosive growth from 6,560 candidates in Fiscal Year 2005 to current 7,619 candidates in Fiscal Year 2006, representing an increase of 16%. We believe the popularity of the CFA Programme in mainland China and the CFA candidate growth rate will continue to increase in the near future, following a similar growth trend as that of Hong Kong in the late 90's.



Practice examination

For the scholarship programme, we further increased the total number of scholarships given this year to 20 from 10 last year in consideration of the growth rate and we received a total of 102 applications for the scholarships this year. The eligibility criteria were based on (1) school grades (2) financial needs and (3) the candidate's reason for entering the CFA Programme. The scholarship given was a reduction of enrollment fees into the CFA Programme. The Board was happy to grant the scholarships on behalf of CFA Institute to the 20 most eligible candidates residing in Hong Kong and China who sought financial assistance in the pursuit of their CFA designation.



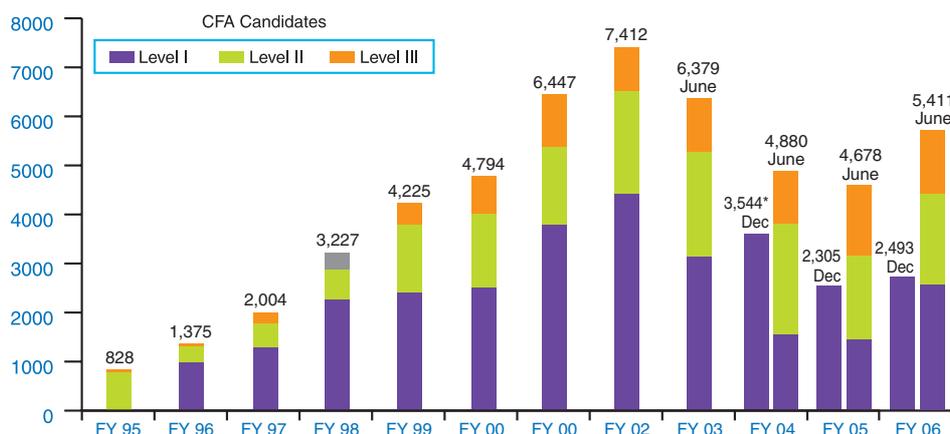
Information Session on CFA Programme

During the year, HKSFSA organised two information sessions to brief the CFA candidates on the examination programme. Several recent CFA graduates were invited to share their experiences of examination preparation strategies with the CFA candidates. The information sessions were held on 7 October 2005 and 20 February 2006 with a total attendance of 122 candidates.

The Society also formed 14 study groups for 78 candidates that registered for December 2005 Level I examination and 49 study groups were formed for 248 Level I, II and III candidates for the June 2006 examination.

We also held a practice examination on 13 May 2005 to give the candidates a chance to practice their examination knowledge and skills under a simulated examination condition. A total of 34 candidates registered the practice examination while another 64 candidates purchased the practice examination paper.

Right after the examination on 4 June 2006, we held our Post Examination Party for all candidates to celebrate their efforts and achievements over the past year. A record number of 121 candidates joined us for the celebration with free food and drinks sponsored by Becker/Stalla Professional Review and comforting words from the board members.



FINANCE

The Society reported a very solid set of financial results in the last fiscal year, with the surplus for the year increasing to HKD1,180,123 from HKD437,766 in 2005. As a result, Members' General Funds grow from HKD2,906,526 to HKD4,086,649.

During the year, membership fees grew at a faster pace of 25% in 2006 from 17% in 2005. Membership growth continued to benefit from the abolishment of the 50 miles rule and addition of members from mainland China. While the surplus from candidate education continued to contribute a steady growth of income, surplus from continuing education posted a larger increase from HKD85,070 in 2005 to HKD300,324 in 2006. Interest income also increased to HKD119,480 in 2006 from HKD46,611 in 2005, benefiting from higher interest rate and larger surplus fund balance. During the year, the Society subscribed to the new share issuance of Link REIT, with the objective of keeping the shares as long term investment as the yield is attractive and also provide hedging against our rental expenditure. Due to a high over-subscription ratio, the allotment to our subscription was less than we expected, representing only a minimal amount in our surplus pool. The share price of Link REIT jumped substantially shortly following the listing, which deterred us from raising our stakes through the secondary market at a reasonable price. After taking account of the immaterial amount of shares in hand, inability to raise our stakes in Link REIT at reasonable price and higher market volatility when share price jumped substantially in short term, we decided to avoid unnecessary market risk and dispose of the current holdings. We would look for long-term investments to safely park our surplus resources.

Total administrative expenses increased moderately by 4% in 2006. Other operating expenses dropped by 19% in 2006 due to reduction in overseas travelling expense as fewer directors were able to attend conference and meetings organized by the CFA Institute due to their increasingly busy schedule at work. Total operating expenses rose a modest 0.1%, allowing virtually all the increase in revenue become additional surplus.

Although we have healthy surplus in the past year and expect strong membership growth in the current

year, we still pay great attention to our budget. Expenditure is expected to rise considerably for three reasons. Firstly, there will be a very substantial increase in office rent as our current lease, which was entered 3 years ago when the Hong Kong economy was negatively affected by SARS, will soon expire. Secondly, our staff has worked busily to their limits and we have hired an additional staff after the year end, thus adding more administrative expenses. Finally, serving our members in China will also increase our expenditure as it has to be done remotely from Hong Kong and there is not yet economy of scale.

CORPORATE GOVERNANCE

The Hong Kong Society of Financial Analysts is a non-profit organisation under the laws of Hong Kong, run for the benefit of its members. While affiliated with CFA Institute, the Society is a separate legal entity.

The affairs of the Society are managed by the Board of Directors, which is elected from among the members of the Society. Directors do not receive remuneration for their office and do not receive any benefits of any kind. According to the Articles of Association of the Society,

Subject to Article 59 and Article 55, at each annual general meeting of the Society, new members of the Board of Directors shall be elected from amongst the Regular Members who by notice under Article 58 have indicated a willingness to be so elected.”

“Not more than sixty days before each annual general meeting of the Society the Board of Directors shall send a notice to each Regular Member requesting such Regular Member to indicate by notice to the Society within fourteen days from the date of such notice whether such Regular Member is willing to be elected as a member of the Board of Directors. Any Regular Member who does not so indicate within fourteen days from the date of such notice shall be deemed not to be willing.”

Directors resign after a two-year term, but are eligible to offer themselves up for re-election.

The Board meets once per month. Each director is required to report on his or her area of responsibilities, and any decision involving a commitment by the Society requires a majority vote of the Board in order to be executed.

The finances of the Society are the responsibility of the Treasurer, who reports monthly to the Board on the Society’s P&L and Balance Sheet. Cheques drawn on the Society’s account require the signature of two directors, and all expenses of over HK\$ 50,000 require the approval of the Board.

STAFF DEVELOPMENT

In September 2005, we sent our programme specialist to attend the Society Staffed Office Representatives Meeting and Society Leadership Conference with the cost covered by CFA Institute. It gave her an opportunity to learn more about the operation, technological advances, as well as additional products and services of CFA Institute. At the same time, she shared experience with delegates of other societies and collected information from them on some possible and feasible activities that we could consider offering to our members.

We always encourage our staff to develop themselves so as to be better equipped for new challenges. Our administration officer has successfully completed a diploma course which is sponsored by the Society. With the new knowledge acquired and skills developed, she has become a more valuable asset to the Society.

FIVE-YEAR SUMMARY

	2006	2005	2004	2003	2002
No. of Members	3,319	2,685	2,276	1,939	1,624
No. Continuing Education Programmes	25	17	18	12	9
No. of Membership Services Functions	17	10	5	4	2
Income	HK\$	HK\$	HK\$	HK\$	HK\$
Membership Fees	2,230,051	1,785,556	1,524,966	1,342,888	1,165,208
Surplus from Education & Programmes	400,009	216,880	198,355	189,881	158,234
Interest & Sundry Income	167,619	58,283	12,230	18,389	14,496
	2,804,785	2,060,719	1,735,551	1,551,158	1,337,938
Expenditure					
Administrative Expenses	1,400,141	1,344,674	1,090,365	746,797	693,458
Other Operating Expenses	224,521	278,279	248,637	280,778	200,585
Total Operating Expenses	1,624,662	1,622,953	1,339,002	1,027,575	894,043
SURPLUS FOR THE YEAR	1,180,123	437,766	396,549	523,583	443,895
ASSETS					
Total of Non-Current Assets	1,362,301	1,467,903	1,276,315	544,441	104,850
Total of Current Assets	4,006,572	1,630,860	1,285,538	1,560,880	1,809,798
Total of Current Liabilities	1,282,224	192,237	93,093	33,110	366,020
Total of Net Current Assets	2,724,348	1,438,623	1,192,445	1,527,770	1,443,778
Total of Net Assets	4,086,649	2,906,526	2,468,760	2,072,211	1,548,628
TOTAL OF MEMBERS' GENERAL FUNDS	4,086,649	2,906,526	2,468,760	2,072,211	1,548,628

REPORT OF THE BOARD OF DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements of the Society for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Society is an independent non-profit making organisation set up with its primary goal being to promote and raise standards in the practice of financial analysis in Hong Kong through the setting up of codes of conduct and educational programmes. The branch names of the Society are The Hong Kong Society of Financial Analysts (香港財經分析師學會) and HKSFA (香港財經分析師學會).

The Society is a member society of the CFA Institute, a Virginia non-stock and not-for-profit corporation in the United States of America.

RESULTS

The results and cash flows of the Society for the year ended 30 June 2006 and the state of its affairs at that date are set out in the financial statements on pages 19 to 28.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 11 to the financial statements.

MEMBERS OF THE BOARD OF DIRECTORS

The directors who held office during the financial year and up to the date of this report are :-

President	Hak Kau LUNG, CFA	
Vice-president	Wai Kee JIM, CFA	
Treasurer	Sin Man TSANG, CFA	(elected as Treasurer on 30 March 2006)
Secretary	Man HO, CFA	
Members	Pui Leung LO, CFA Richard Kan Chong MAK, CFA Tom Chang WU, CFA Kwok Yuk TSANG, CFA Wallace Chong Keung WOO, CFA James Alexander SOUTAR, CFA Frederick Sui Cheong TSANG, CFA Helen Yuen Yee HO, CFA Yung Chuen CHAN, CFA Raymond Wai Pong YUEN, CFA	(resigned as Treasurer on 30 March 2006) (appointed on 27 April 2006) (resigned on 30 June 2006) (appointed on 6 July 2006)

In accordance with articles 72 and 73 (a), (b) and (c) of the Society's articles of association, one-half of the directors for the time being, who have been longest in office since their last appointment or election, shall retire from office and be eligible for re-election.

Accordingly, Mr. Wai Kee JIM, Mr. Man HO, Mr. Richard Kan Chong MAK, Mr. Tom Chang WU, Mr. Kwok Yuk TSANG, Mr. James Alexander SOUTAR, Ms. Helen Yuen Yee HO and Mr. Raymond Wai Pong YUEN shall retire from office at the forthcoming annual general meeting of the Society and, except for Ms. Helen Yuen Yee HO who will not offer herself for re-election, being eligible, offer themselves for re-election. All other remaining directors shall continue in office.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Society or the CFA Institute was a party and in which a director had a material interest subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Society a party to any arrangements to enable the directors of the Society to acquire benefits by means of the acquisition of shares in or debentures of any body corporate.

AUDITORS

The financial statements were audited by Messrs. Chan, Li, Law & Co., Certified Public Accountants (Practising), who retire and, being eligible, offer themselves for re-appointment.

By order of the Board of Directors

President
Hong Kong, 6 November 2006

***REPORT OF THE AUDITORS TO THE MEMBERS OF
THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS LIMITED
(incorporated in Hong Kong with liability limited by guarantee)***

We have audited the financial statements set out on pages 19 to 28 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of the directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies 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.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Society's affairs as at 30 June 2006 and of its results and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Chan, Li, Law & Co.
Certified Public Accountants (Practising)
Hong Kong, 6 November 2006

THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2006
(Expressed in Hong Kong dollars)

	Note	2006 HK\$	2005 HK\$
INCOME			
Membership fees	6	2,230,051	1,785,556
Surplus from candidate education	6	239,242	199,463
Surplus from continuing education	6	300,324	85,070
Deficit from social functions	6	(93,088)	(56,441)
Deficit from university investment research competition	6	(42,916)	(11,212)
Surplus from business valuation forum	6	3,553	-
		2,637,166	2,002,436
OTHER REVENUE			
Interest income	7	119,480	46,611
Realised gain on disposal of listed securities		47,449	-
Sundry income		690	11,672
		167,619	58,283
		2,804,785	2,060,719
EXPENDITURE			
Administrative expenses			
Depreciation		117,324	123,385
Electricity		10,332	9,832
Personnel costs	8	890,295	843,103
Rent, rates and building management fee		350,223	346,698
Telephone and internet		31,967	21,656
		1,400,141	1,344,674
Other operating expenses			
Accountancy fee		2,500	5,300
Audit fee		10,000	8,000
Bank charges		8,354	5,898
Business registration fee		3,946	3,946
Exchange/translation loss		11,003	370
Insurance		8,783	9,069
Professional fees		5,805	6,785
Local travelling		1,432	2,365
Meeting expenses		13,752	9,993
Overseas travelling		43,396	112,789
Postages, printing and stationery		89,401	73,336
Repairs and maintenance		14,810	30,511
Sundry expenses		11,339	9,917
		224,521	278,279
Total operating expenses		1,624,662	1,622,953
SURPLUS FOR THE YEAR		1,180,123	437,766

The notes on pages 23 to 28 form part of these financial statements.

THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS LIMITED
BALANCE SHEET AS AT 30 JUNE 2006
(Expressed in Hong Kong dollars)

	Note	2006 HK\$	2005 HK\$
ASSETS			
Non-current assets			
Property, plant and equipment	11	14,150	117,911
Investment securities	12	1,348,151	1,349,992
		<u>1,362,301</u>	<u>1,467,903</u>
Current assets			
Accounts and other receivables		144,940	104,143
Rental and utility deposits and prepayments		110,380	109,380
Fixed deposits		2,277,292	507,000
Cash and bank balances		1,473,960	910,337
		<u>4,006,572</u>	<u>1,630,860</u>
Current liabilities			
Accounts payable and accruals		820,841	174,972
Temporary receipts		15,847	17,265
Receipts in advance		445,536	-
		<u>1,282,224</u>	<u>192,237</u>
Net current assets		<u>2,724,348</u>	<u>1,438,623</u>
NET ASSETS		<u>4,086,649</u>	<u>2,906,526</u>
REPRESENTED BY:-			
MEMBERS' GENERAL FUNDS		<u>4,086,649</u>	<u>2,906,526</u>



Hak Kau LUNG, CFA
 President



Sin Man TSANG, CFA
 Treasurer

The notes on pages 23 to 28 form part of these financial statements.

THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS LIMITED
STATEMENT OF CHANGES IN MEMBERS' GENERAL FUNDS
FOR THE YEAR ENDED 30 JUNE 2006
(Expressed in Hong Kong dollars)

	Members' general funds HK\$
Balance at 1 July 2004	2,468,760
Surplus for the year	437,766
Balance at 30 June 2005	<u>2,906,526</u>
Surplus for the year	1,180,123
Balance at 30 June 2006	<u><u>4,086,649</u></u> =====

The notes on pages 23 to 28 form part of these financial statements.

THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006
(Expressed in Hong Kong dollars)

	2006 HK\$	2005 HK\$
Cash flows from operating activities		
Surplus for the year	1,180,123	437,766
Adjustments for :-		
Interest income	(119,480)	(46,611)
Depreciation	117,324	123,385
	1,177,967	514,540
Surplus before changes in working capital		
(Increase) in accounts and other receivables	(40,797)	(11,321)
(Increase) in rental and utility deposits and prepayments	(1,000)	-
Increase in accounts payables and accruals	645,869	81,879
(Decrease)/increase in temporary receipts	(1,418)	17,265
Increase in receipts in advance	445,536	-
	2,226,157	602,363
Investing activities		
Payments to acquire property, plant and equipment	(13,563)	(15,322)
Decrease/(increase) in investment securities	1,841	(299,651)
(Increase) in fixed deposits matured over three months when acquired	(993,000)	(507,000)
Interest received	119,480	46,611
	(885,242)	(775,362)
Net cash (used in) investing activities		
Increase/(decrease) in cash and cash equivalents	1,340,915	(172,999)
Cash and cash equivalents at 1 July	910,337	1,083,336
	2,251,252	910,337
Cash and cash equivalents at 30 June	2,251,252	910,337
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	1,473,960	910,337
Fixed deposits matured within three months when acquired	777,292	-
	2,251,252	910,337
	2,251,252	910,337

The notes on pages 23 to 28 form part of these financial statements.

THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006
(Expressed in Hong Kong dollars)

1. SOCIETY INFORMATION

The Society is a company incorporated and domiciled in Hong Kong and is limited by guarantee with no share capital. Under the provision of the Society's memorandum of association, every member of the Society undertakes to contribute, if required, an amount not exceeding HK\$100 to the assets of the Society in the event of its being wound up. The registered office and principal place of business of the Society are located at Suite 1604, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong. The principal activities of the Society are to promote and raise standards in the practice of financial analysis in Hong Kong.

The maximum number of members which the Society has registered is 10,000. The number of members of the Society as at 30 June 2006 was 3,319 (2005 : 2,685).

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Society have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Companies Ordinance. These financial statements have been prepared under historical cost convention.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Society has adopted the new and revised HKFRSs issued by the HKICPA which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these HKFRSs has affected certain disclosures and presentation of the Society's financial statements but has no material impact on them.

The Society has not early adopted the new and revised HKFRSs issued by the HKICPA which are effective for accounting periods beginning on or after 1 January 2006. The Society is in the process to assess these HKFRSs and therefore is not in a position to identify their impact on its financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any cost directly attributable to bring the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income and expenditure account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment is determined as the difference between the net proceeds from disposal and the carrying

amount of the item and is recognised in the income and expenditure account on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows :-

- Leasehold improvements over 36 months
- Furniture and equipment over 36 months

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(b) Investment securities

Investment securities comprise investment in listed debt securities, other than subsidiary, associated company and jointly-controlled entity, which are intended to be held to maturity and are initially recognised at fair value plus transaction costs and thereafter stated at amortised costs less impairment loss.

(c) Impairment loss

Internal and external sources of information are reviewed at each balance sheet date to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of an asset is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. An impairment loss is recognised in the income and expenditure account whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and which results in an increase in the recoverable amount. A reversal of impairment loss is limited to the carrying amount of the asset that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is credited to the income and expenditure account in the period in which the reversal is recognised.

(d) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment loss for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment loss for bad and doubtful debts.

(e) Accounts and other payables

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(f) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the year end are translated into Hong Kong dollars at approximately the market rates of exchange ruling at the balance sheet date. Non-monetary items denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates at the transaction dates. Foreign currency transactions during the year are translated into Hong Kong dollars at the rates ruling at the transaction dates. Differences on foreign currency translation are dealt with in the income and expenditure account.

(g) Recognition of income

Revenue is recognised when it is probable that the economic benefits will flow to the Society and when the revenue can be measured reliably on the following bases:-

- (i) Membership fee income is recognised on accrual basis when it is due.
- (ii) Income from programme and functions is recognised when the programme and functions are completed.
- (iii) Interest income is recognised on a time apportionment basis on the principal outstanding and at the applicable interest rate.

(h) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to mandatory provident fund retirement benefits scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(i) Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income and expenditure account on the straight line basis over the lease terms.

(j) Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of the past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from the past event and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Society. It can also be a present obligation arising from the past event that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities not recognised as the abovementioned are disclosed in notes to the financial statements. Contingent assets are not recognised but disclosed in notes to the financial statements when an inflow of economic benefits is probable.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Society's accounting policies, the directors have to make assumptions, estimates and judgements that have significant impact on the amounts of assets, liabilities, income and expenses recognised in the financial statements. The assumptions, estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, reviewed on a continuous basis and revised when they are significantly different from the actual results. At the balance sheet date, the directors have not noted any of the assumptions, estimates and judgement that have a significant risk of material adjustment in next year.

6. INCOME

	2006 HK\$	2005 HK\$
Membership fees		
New members' joining fee income	310,939	224,827
Members' annual fee income	1,925,040	1,567,176
Uncollected fees recovered	2,028	500
Less : Uncollected fees	(7,956)	(6,947)
	<u>2,230,051</u>	<u>1,785,556</u>
Surplus from candidate education		
Programme income	1,198,170	1,056,640
Less : Programme expenses	(958,928)	(857,177)
	<u>239,242</u>	<u>199,463</u>
Surplus from continuing education		
Programme income	651,030	282,329
Less : Uncollected income	(2,050)	-
Programme expenses	(348,656)	(197,259)
	<u>300,324</u>	<u>85,070</u>
Deficit from social functions		
Functions income	216,849	156,410
Less : Functions expenses	(309,937)	(212,851)
	<u>(93,088)</u>	<u>(56,441)</u>
	<u>2,676,529</u>	<u>2,013,648</u>
Deficit from university investment research competition		
Competition income	50,000	50,000
Less : Competition expenses	(92,916)	(61,212)
	<u>(42,916)</u>	<u>(11,212)</u>
Surplus from business valuation forum		
Forum income	24,000	-
Less : Forum expenses	(20,447)	-
	<u>3,553</u>	<u>-</u>
	<u>2,637,166</u>	<u>2,002,436</u>
	=====	=====

7. INTEREST INCOME

	2006 HK\$	2005 HK\$
Bank interest income	25,055	2,500
Interest on listed debt securities	33,046	32,981
Interest on fixed deposits	61,379	11,130
	<u>119,480</u>	<u>46,611</u>
	=====	=====

8. PERSONNEL COSTS

	2006 HK\$	2005 HK\$
Salaries	849,217	787,866
Mandatory provident fund contributions	34,123	33,953
Staff welfare and allowances	6,955	21,284
	<u>890,295</u>	<u>843,103</u>
	=====	=====

9. DIRECTORS' REMUNERATION

No directors' remuneration was incurred by the Society during the current and preceding years.

10. INCOME TAX

Current tax has not been provided for in the financial statements, as the directors consider that the Society's surplus for the year is exempted from profits tax under Section 24(2) of the Inland Revenue Ordinance. In view of such, no temporary timing differences were existed at the balance sheet date and therefore deferred tax has also not been provided for in the financial statements.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture and equipment HK\$	Total HK\$
At cost :-			
At 1 July 2005	281,212	383,273	664,485
Additions	-	13,563	13,563
	<u>281,212</u>	<u>396,836</u>	<u>678,048</u>
At 30 June 2006	281,212	396,836	678,048
Accumulated depreciation :-			
At 1 July 2005	208,559	338,015	546,574
Charge for the year	72,652	44,672	117,324
	<u>281,211</u>	<u>382,687</u>	<u>663,898</u>
At 30 June 2006	281,211	382,687	663,898
Net book value :-			
At 30 June 2006	1	14,149	14,150
	=====	=====	=====
At 30 June 2005	72,653	45,258	117,911
	=====	=====	=====

12. INVESTMENT SECURITIES

	2006 HK\$	2005 HK\$
Debt securities		
- Listed in Hong Kong	1,348,151	1,349,992
	=====	=====
Market value	1,328,879	1,334,394
	=====	=====

13. LEASE COMMITMENTS

At 30 June 2006, the total future minimum lease payments under a non-cancellable operating lease of properties are payable as follows :-

	2006 HK\$	2005 HK\$
Not later than one year	198,352	297,528
Later than one year but not later than five years	-	198,352
	-----	-----
	198,352	495,880
	=====	=====

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Society is exposed to various kinds of risks in its operation and financial instruments. In general, the Society is exposed to credit, foreign currency and interest rate risks and its principal financial instruments are cash and bank balances and accounts receivables and payables which arise directly from its operating activities. The Society has no written risk management policies and guidelines and its risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Society by closely monitoring and limiting the individual risk exposure.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 6 November 2006.

MEMBERS OF THE BOARD OF DIRECTORS



*Back from left:
Wallace Woo
Joey Y.C. Chan
Karl Lung
James Soutar
Pheona Tsang
Tom Wu
Frederick Tsang*

*Front from left:
Charles Lo
Jacky Tsang
Richard Mak
Alvin Ho
Jimmy Jim*

President	Karl H. K. LUNG, CFA	
Vice President	Jimmy W. K. JIM, CFA	
Treasurer	Charles P. L. LO, CFA	
Secretary	Alvin M. HO, CFA	
Members	Helen Y. Y. HO, CFA	(appointed on 27 April 2006)
	Richard K. C. MAK, CFA	
	Pheona S. M. TSANG, CFA	
	Tom C. WU, CFA	
	Jacky K. Y. TSANG, CFA	
	Wallace C. K. WOO, CFA	
	Joey Y. C. CHAN, CFA	(resigned on 30 June 2006)
	James A. SOUTAR, CFA	
	Frederick S. C. TSANG, CFA	
	Raymond W. P. YUEN, CFA	(appointed on 6 July 2006)

Board Meeting Attendance

July 2005 – June 2006

Board of Directors	7-Jul-05	4-Aug-05	1-Sep-05	6-Oct-05	3-Nov-05	1-Dec-05	5-Jan-06	8-Feb-06	30-Mar-06	27-Apr-06	1-Jun-06
Karl LUNG	Attended	Called in	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Jimmy JIM		Attended		Attended	Attended	Attended		Attended	Attended		
Alvin HO	Attended	Attended			Attended	Attended		Attended	Attended	Called in	
Pheona TSANG	Attended	Called in	Attended	Attended	Attended	Attended	Called in	Attended	Attended	Attended	Attended
Joey Y.C. CHAN	Attended	Attended		Attended		Attended		Attended	Attended	Attended	Attended
Helen HO	Appointed on 27-Apr-06										Called in
Charles LO		Attended	Attended	Attended	Attended	Called in	Attended	Attended	Attended	Called in	Attended
Richard MAK	Attended	Attended	Attended	Attended		Attended	Attended	Attended	Attended		Attended
James SOUTAR	Attended				Attended		Attended	Attended	Attended	Attended	
Frederick TSANG	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Jacky TSANG	Attended		Attended	Attended	Attended	Attended	Attended	Attended		Attended	Attended
Wallace WOO	Attended	Attended			Attended	Attended	Attended	Attended	Attended		Attended
Tom WU	Called in	Called in					Attended	Attended	Attended		Attended

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