

REVIEW OF OPERATIONS BY THE CHIEF EXECUTIVE OFFICER



Mr Raymond Li, JP
Chief Executive Officer

The launch of the DPS in 2006 marked the end of the start-up phase of the Scheme's implementation. After the Scheme became fully operational, the Board's focus shifted to its maintenance and enhancement.

Under the guidance of the Board, the Management Team was able to meet the new challenges confidently and achieve all the operational targets set for the year. Highlights of the achievements in 2007-08 include:

ADMINISTRATION OF THE DPS

The collection of contributions from Scheme members was completed on schedule. The Board collected a total of HK\$328 million in contributions for 2008, which brought the total assets of the DPS Fund up to HK\$661 million by the end of March 2008. Despite the fact that the DPS Fund can only be invested in short term government bills and Exchange Fund deposits, the Fund achieved an investment return of 3.8% for 2007-08.

During the year, the Board streamlined the contribution collection and rebate processes. It developed a system for requiring Scheme members to submit auditor's reports to certify the accuracy of the returns of relevant deposits submitted by them for the purpose of contribution determination.

The Board developed a self-assessment mechanism for monitoring and promoting Scheme members' compliance with the requirements of the DPS (Representation on Scheme Membership and

Protection of Financial Products under Scheme) Rules, which govern how Scheme members should disclose their membership status and the protection status of their financial products to their customers.

ENSURING ADEQUACY OF THE COVERAGE OF THE DPS

The Board continued to monitor the coverage of the DPS by collecting and analysing statistics from simulation tests with retail Scheme members. The percentage of depositors fully covered by the DPS as observed from the tests completed in 2007-08 remained above 80%.

The Board also conducted a survey to monitor the popularity of structured deposits and the practice of offering credit facilities under an integrated banking service package, and their impacts on the coverage of the DPS.

IMPROVING THE READINESS OF THE DPS TO PAYOUT

The Board conducted four simulation tests on the readiness of the information systems of the Board and Scheme members to make a payout. In the fourth quarter of 2007, a payout rehearsal was held to test the payout procedures of the Board and the readiness of the network of service

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providers for assisting the Board in a payout. Based on the experience gained from these exercises, the Board identified and initiated refinements to its systems and processes to further improve payout efficiency.

The Board has also developed a compliance review programme to monitor and promote Scheme members' compliance with the requirements in a guideline on how members should maintain customer information, and provide such information to the Board. This will help the Board to determine and pay compensation to depositors in a payout. The Board also conducted a survey to gather information on certain technical aspects of Scheme members' information systems crucial to ensuring payout efficiency.

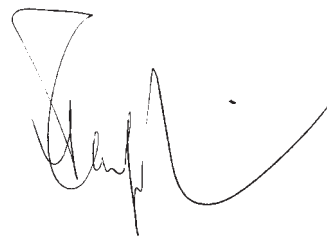
ENHANCING PUBLIC AWARENESS, UNDERSTANDING AND CONFIDENCE IN THE DPS

The Board continued to initiate educational and promotional activities to maintain and improve public awareness and understanding of the DPS. To monitor the effectiveness of the publicity campaign and identify areas of improvement, the Board commissioned an independent research agency to conduct two opinion surveys to measure the level of public awareness and understanding of the DPS. According to their findings, about 70% of the people in Hong Kong were aware of the DPS, and of these, about 77% knew of the Scheme's HK\$100,000 protection limit.

The Board conducted a comprehensive review of its corporate governance structure to ensure it continues to adhere to sound practices in administering the DPS.

In the coming year, the Management Team will continue to assist the Board in improving the operation of the DPS. As set out in the Board's 2008-09 business plan, priorities will be given to implementing the various surveillance mechanisms developed last year, refining the payout systems and processes to further enhance the readiness of the DPS to make payments during a payout, and improving public understanding of the DPS' key features.

I also take this opportunity to thank members of the Board for their support and advice over the past year, as well as my colleagues for their outstanding performance in assisting the Board in discharging its duties.



Raymond Li
Chief Executive Officer