



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

Quarterly Report  
April - June 2007

# Investors First

Regulate, Facilitate & Educate



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This is the Securities and Futures Commission's first Quarterly Report for the financial year from 1 April 2007 to 31 March 2008. The report aims to enhance the transparency and accountability of the Commission.

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# Chief Executive Officer's Message

In the first quarter of the 2007-08 financial year, we introduced various initiatives to facilitate the development of the market, especially the fund management industry. We signed an MOU with the China Banking Regulatory Commission in April, enabling Hong Kong to play a more active role in the development of the overseas wealth management business of Mainland commercial banks on behalf of their clients, generally known as the banks' QDII business.

We also streamlined our licensing processes for overseas hedge fund managers as the first step of our commitment to streamlining the licensing processes more generally for other types of intermediaries. We are delighted that the number of licenses granted at the period-end has for the first time exceeded 30,000.

In May, we consulted the market on proposals to introduce greater flexibility to the limits on Hang Seng Index and H-share Index futures and options contracts. We are now analysing the responses.

I am pleased to set out further details below of the major initiatives in April - June 2007 in our three main areas of work: Regulation, Facilitation and Education.

Martin Wheatley  
Chief Executive Officer

## Operational Overview

### Regulation

#### Market standards

We continued to work with the Government and various parties on the draft legislative provisions for consultation in relation to giving statutory backing to major listing requirements.

The SFC, the Federation of Share Registrars, the Hong Kong Monetary Authority and the Hong Kong Association of Banks jointly introduced a new measure, effective from 2 April, to discourage investors from making multiple subscription applications for IPO shares.

On 31 May, we published a report of our inspection of 10 investment advisers. We found some deficiencies concerning selling practice. These issues included insufficient knowledge of clients, lack of proper due diligence on the products sold and lack of justification to illustrate suitability of advice. Investigations have commenced on the more serious breaches and deficiencies. We have also issued guidance on requirements relating to the suitability of advice in the Code of Conduct.

#### Regulatory actions

The SFC continued to monitor the return of assets to clients in relation to the three brokers that defaulted last year. The Investor Compensation Fund and the administrators have been making good progress in processing claims and

returning client assets.

The SFC has continued to closely monitor the financial position of intermediaries. Some industry statistics are set out in Table 1 of the Appendix.

## Enforcement action

During the quarter, the SFC successfully prosecuted 26 entities in relation to unlicensed activities, disclosure of interests breaches, restriction on substantial shareholding, giving false and misleading information, and market manipulation. The 75 summonses incurred total fines of \$350,200 and costs of \$264,027. One person was ordered to perform community service and we offered no evidence on two entities for three summonses in the quarter.

On discipline, the SFC took actions against 12 entities for various breaches. The penalties included suspensions of up to eight months, fines of up to \$450,000 and reprimands. One former licensed representative was banned from re-entering the industry for seven months for procuring his subordinates to make unsolicited calls and other misconduct. Another was banned for one year for concealing his personal trading and misleading the SFC and his employer.

Our enforcement statistics are summarised in Table 2 of the Appendix.

During the quarter, the Securities and Futures Appeals Tribunal (SFAT) upheld the SFC's decision to sanction two entities for failures to supervise staff and breaching the financial resources rules. In another appeal case, the SFAT shortened the suspension of a licensee from four months and one week to nine weeks as it ruled that one of the SFC's allegations could not be sustained. The SFAT also dismissed an appeal by a licensed corporation against an SFC decision to impose a licensing condition to restrict it from acting as a sponsor.

On 30 May, for the first time, the SFC obtained a court order disqualifying a former director of a listed company from being a director or being directly/indirectly involved in the management of any listed company for four years. The person had failed to act in the best interests of the company and to properly inform the market.

During the quarter, we referred one case to the Financial Secretary for consideration to institute proceedings before the Market Misconduct Tribunal.

We received a total of 258 complaints during the quarter, of which 22 were related to boiler room operations and we acted on 12 of them. Please see Table 3 of the Appendix for further information.

## Facilitation

### Futures exchange

On 18 May, the SFC proposed rule amendments to relax the holding limits of Hang Seng Index and H-share Index futures and options contracts, so that Exchange Participants or their affiliates may exceed existing position limits by up to 50%. The consultation ended on 18 June and the SFC is analysing the responses.

### Products and intermediaries

During the quarter, the SFC authorised seven Exchange Traded Funds (ETFs) including the first ETF that tracks an

index of commodities futures, bringing the total number of authorised ETFs to 16. As at the end of June, the total assets under management of these 16 ETFs amounted to US\$10.2 billion.

The first Real Estate Investment Trusts (REITs) in Hong Kong managed by an experienced international REIT manager was listed on HKEx in June following the SFC's approval. As at 30 June, the capitalisation of the seven REITs listed was US\$8.8 billion.

For information about SFC-authorised collective investment schemes, please see Table 4 of the Appendix.

The number of persons licensed by the SFC continued to rise, with a 4.7% increase during the quarter to 30,394 as at 30 June. There were 3,556 new licence applications during the quarter, 28.7% more than the previous quarter. There were a further 633 applications for additional regulated activities from existing intermediaries wishing to diversify into other business.

On 11 June we announced initiatives to streamline and simplify certain licensing processes. Firms that are licensed/registered in the US/UK as investment managers/advisers, who serve professional investors and have good compliance records, will benefit from an expedited licensing process. In addition, persons nominated to be the Responsible Officers (ROs) of hedge fund managers can be exempted from the local regulatory examination if they fulfil the necessary criteria. We will also recognise a broader range of past industry experience for RO qualification. We also clarified policies concerning office premises and the need for ROs to be physically present in Hong Kong.

### Co-operation with Mainland authorities

On 10 April, the SFC signed an MOU with the China Banking Regulatory Commission (CBRC) for co-operation and information sharing regarding the QDII business of Mainland commercial banks. The CBRC issued a notice on 11 May allowing Mainland commercial banks to invest in a wider range of investment products. Our MOU with the CBRC makes Hong Kong the first and so far the only market to benefit from the revised bank QDII scheme.

Another boost to the Hong Kong market came on 20 June when the China Securities Regulatory Commission (CSRC) announced new rules that allow QDII fund management companies and securities firms to invest in overseas stocks and other specified securities that are listed in markets regulated by an authority with which it has a formal regulatory co-operation relationship. Hong Kong has had a long standing MOU with the CSRC.

On 29 June, the Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in Hong Kong. Under the supplement, qualified Mainland fund management companies are allowed to set up subsidiaries in Hong Kong. Together with other prior commitments under CEPA, Mainland securities and futures companies and fund management companies can now participate in the Hong Kong market through their subsidiaries. The SFC will co-ordinate with the CSRC on the implementation details of this commitment.

### International co-operation and external relations

During the quarter, the SFC received 10 requests from regulators outside Hong Kong, of which two sought non-public information, one sought public information and the remaining seven sought investigatory assistance. Responses have been provided to eight requests and the remaining two requests are being processed. There were also 38 requests concerning licensing information. The SFC made six requests to regulators outside Hong Kong for investigatory assistance. Two boiler room operations were referred to overseas regulators during the quarter.

## Communication with the market

In June we published our Annual Report for the financial year 2006-07 to inform the public of our work progress during the year ended 31 March. We also published the Enforcement Reporter, which has since been re-designed to provide more useful information, and the first Takeovers Bulletin, which aims to increase public understanding of the application of the codes relating to takeovers, mergers and share repurchases.

## Education

As part of our investor education initiatives for 2007, under the theme "Know Your Risk", we launched a weekly radio programme series on Commercial Radio One on 3 May. The 30-minute show aims to enhance the public's risk awareness of IPOs and structured products etc. It is our first full-length radio programme.

We also jointly organised a series of seminars for experienced investors on stock analysis with The Hong Kong Society of Financial Analysts and the Li Ka Shing Institute of Professional and Continuing Education of The Open University of Hong Kong.

We continued to organise courses for secondary school teachers to assist them in teaching the new module "Basics of Personal Financial Management" in the new Senior Secondary Business, Accounting and Financial Studies Curriculum starting in the 2009 academic year. The courses were jointly held with the Education Bureau and the Institute of Financial Planners of Hong Kong.

During the quarter, the SFC published three investor leaflets, advising investors how to make an effective complaint, find a suitable broker, and make informed IPO investment. In addition, our Dr Wise's Column ran three articles covering Callable bull/bear contracts, marking the close, and finding listed company information.

The SFC continued to handle investor enquiries. Details can be found in Table 5 of the Appendix.

## Organisational Matters

The total number of staff as at 30 June was 449, as compared to 438 a year ago.

Total revenue for the quarter increased 17% from \$372 million in the previous quarter to \$435 million as a result of increased levy income derived from robust market activities. Expenditure was \$131 million, 12% below our approved budget but 4% higher than same quarter last year because of higher staff costs which were partially offset by lower legal fees and the non-recurring IOSCO 2006 Annual Conference expenses of approximately \$5 million incurred in June last year. As a result, the SFC recorded a surplus of \$304 million for the quarter, compared with the \$209 million in the previous quarter. Our reserves stood at \$2.3 billion at the end of June.

## Securities and Futures Commission

Consolidated Income and Expenditure Account

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
<b>Income</b>			
Levies		341,862	230,368
Fees and charges		67,923	47,725
Investment income		24,002	13,082
Recoveries from Investor Compensation Fund		837	765
Other income		654	5,558
		<u>435,278</u>	<u>297,498</u>
<b>Expenses</b>			
Staff costs and directors' emoluments		109,090	96,681
Premises			
rent		5,293	5,358
other		4,198	3,788
Other expenses		10,233	17,695
Depreciation		2,540	2,600
		<u>131,354</u>	<u>126,122</u>
<b>Surplus</b>	2	<u><u>303,924</u></u>	<u><u>171,376</u></u>

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

The notes on pages 9 to 12 form part of the condensed consolidated financial statements.

## Securities and Futures Commission

Consolidated Balance Sheet

At 30 June 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2007 \$'000	Audited At 31 Mar 2007 \$'000
<b>Non-current assets</b>			
Fixed assets		17,682	18,076
Held-to-maturity debt securities	3	1,365,824	1,285,072
		<u>1,383,506</u>	<u>1,303,148</u>
<b>Current assets</b>			
Held-to-maturity debt securities	3	787,928	624,828
Bank deposits		70,095	53,642
Debtors, deposits and prepayments		183,816	135,592
Cash at bank and in hand		2,891	3,509
		<u>1,044,730</u>	<u>817,571</u>
<b>Current liabilities</b>			
Fees received in advance		46,032	52,225
Creditors and accrued charges		46,314	34,304
		<u>92,346</u>	<u>86,529</u>
<b>Net current assets</b>		<u>952,384</u>	<u>731,042</u>
<b>Total assets less current liabilities</b>		2,335,890	2,034,190
<b>Non-current liabilities</b>	4	52,012	54,236
<b>Net assets</b>		<u>2,283,878</u>	<u>1,979,954</u>
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	2,241,038	1,937,114
		<u>2,283,878</u>	<u>1,979,954</u>

The notes on pages 9 to 12 form part of the condensed consolidated financial statements.

## Securities and Futures Commission

Balance Sheet

At 30 June 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2007 \$'000	Audited At 31 Mar 2007 \$'000
<b>Non-current assets</b>			
Fixed assets		17,642	18,025
Held-to-maturity debt securities	3	1,365,824	1,285,072
		<u>1,383,466</u>	<u>1,303,097</u>
<b>Current assets</b>			
Held-to-maturity debt securities	3	787,928	624,828
Bank deposits		70,095	53,642
Debtors, deposits and prepayments		183,505	135,431
Cash at bank and in hand		2,172	2,797
		<u>1,043,700</u>	<u>816,698</u>
<b>Current liabilities</b>			
Fees received in advance		46,032	52,225
Creditors and accrued charges		45,244	33,380
		<u>91,276</u>	<u>85,605</u>
<b>Net current assets</b>		<u>952,424</u>	<u>731,093</u>
<b>Total assets less current liabilities</b>		2,335,890	2,034,190
Non-current liabilities	4	<u>52,012</u>	<u>54,236</u>
<b>Net assets</b>		<u>2,283,878</u>	<u>1,979,954</u>
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	<u>2,241,038</u>	<u>1,937,114</u>
		<u>2,283,878</u>	<u>1,979,954</u>

The notes on pages 9 to 12 form part of the condensed consolidated financial statements.

## Securities and Futures Commission

Consolidated Cash Flow Statement  
For the quarter ended 30 June 2007  
(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
<b>Cash flows from operating activities</b>		
Surplus	303,924	171,376
Adjustments for :		
Depreciation	2,540	2,600
Investment income	(24,002)	(13,082)
	<u>282,462</u>	<u>160,894</u>
Increase in debtors, deposits and prepayments	(38,588)	(13,543)
Increase in creditors and accrued charges	11,826	7,394
Decrease in fees received in advance	(6,193)	(7,693)
Decrease in non-current liabilities	(2,224)	(2,228)
	<u>247,283</u>	<u>144,824</u>
<b>Cash flows from investing activities</b>		
Interest received	12,663	9,997
Held-to-maturity debt securities bought	(361,253)	(311,984)
Held-to-maturity debt securities redeemed	119,100	167,600
Fixed assets bought	(1,958)	(1,805)
	<u>(231,448)</u>	<u>(136,192)</u>
Net increase in cash and cash equivalents	15,835	8,632
Cash and cash equivalents at beginning of the quarter	57,151	49,883
Cash and cash equivalents at end of the quarter	<u>72,986</u>	<u>58,515</u>
<b>Analysis of the balance of cash and cash equivalents :</b>		
	Unaudited At 30 Jun 2007 \$'000	Unaudited At 30 Jun 2006 \$'000
Bank deposits	70,095	55,871
Cash at bank and in hand	2,891	2,644
	<u>72,986</u>	<u>58,515</u>

## Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2007 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of Investor Compensation Company Limited in the SFC's condensed financial statements made up to 30 June 2007. We eliminate all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2007 to the interim financial report.

There were no significant changes in the operation of the SFC for the quarter ended 30 June 2007.

### 2. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the quarter ended 30 June 2007 are as follows :

	Unaudited \$'000
Balance at 31 March 2007	1,937,114
Surplus for the quarter	303,924
Balance at 30 June 2007	<u>2,241,038</u>

## Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 3. Held-to-maturity debt securities

The Group and the SFC

As of 30 June 2007, the total market value of held-to-maturity debt securities amounted to \$2,146,161,000 (31 March 2007 : \$1,912,447,000), which was below the total carrying cost of \$2,153,752,000 (31 March 2007 : \$1,909,900,000).

### 4. Non-current liabilities

The Group and the SFC

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

### 5. Ageing analysis of debtors and creditors

There was no material debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 June 2007. Therefore we do not provide an ageing analysis of debtors and creditors.

### 6. Exchange fluctuation

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

## **Securities and Futures Commission**

Notes to the Condensed Consolidated Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 7. Investments in subsidiaries

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

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 30 June 2007, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the balance sheet which is expressed in thousands of dollars.

FinNet has not commenced operation. The balance sheet of FinNet as at 30 June 2007 and the income and expenditure account for the quarter then ended were immaterial. Therefore, we have not accounted for its result in the condensed consolidated financial statements.

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

## Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 8. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund, the Investor Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions :

- a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounted to \$837,000 (2006 : \$765,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- b) Remuneration for key management personnel (including all directors) comprised:

	Unaudited three months ended	
	30 Jun 2007	30 Jun 2006
	\$'000	\$'000
Short-term employee benefits	6,512	5,495
Post employment benefits	<u>466</u>	<u>30</u>
	<u>6,978</u>	<u>5,525</u>

The total remuneration is included in "staff costs and directors' emoluments" on page 5.

- c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounted to \$1,050,000 (2006 : \$863,000).

## **Investor Compensation Fund (the Fund)**

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2007.

### 1. Establishment of the Fund

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

### 2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 14 to 19.

### 3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2007 and up to the date of this report were:-

Mr. Keith Lui (Chairman)  
Mr. Gerald Greiner  
Mrs. Alexa Lam  
Mr. Kenneth H W Kwok, BBS, SC

### 4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the quarter.

On behalf of the Committee

Keith Lui  
Chairman

1 August 2007

## Investor Compensation Fund

Income and Expenditure Account  
For the quarter ended 30 June 2007  
(Expressed in Hong Kong dollars)

	Note	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
<b>Income</b>			
Net investment income		25,691	11,194
Exchange difference		434	587
		<u>26,125</u>	<u>11,781</u>
<b>Expenses</b>			
Provision for compensation reversed	3	(16,932)	-
ICC expenses	2	837	765
Auditor's remuneration		20	18
Bank charges		191	185
Professional fees		713	641
Sundry expenses		1	1
		<u>(15,170)</u>	<u>1,610</u>
Surplus		41,295	10,171
Accumulated surplus brought forward		<u>629,760</u>	<u>571,528</u>
Accumulated surplus carried forward		<u>671,055</u>	<u>581,699</u>

The notes on pages 18 and 19 form part of the condensed financial statements.

## Investor Compensation Fund

Balance Sheet

At 30 June 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2007 \$'000	Audited At 31 Mar 2007 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,425,726	1,548,070
- Equity securities		194,341	177,925
Interest receivable		19,458	24,516
Due from ICC		1,050	863
Fixed and call deposits with banks		160,115	27,800
Cash at bank		560	263
		<u>1,801,250</u>	<u>1,779,437</u>
<b>Current liabilities</b>			
Provision for compensation	3	25,682	45,214
Accounts payable and accrued charges		867	822
Other payable		5	-
		<u>26,554</u>	<u>46,036</u>
<b>Net current assets</b>		<u>1,774,696</u>	<u>1,733,401</u>
<b>Net assets</b>		<u>1,774,696</u>	<u>1,733,401</u>
Representing:			
<u>Compensation fund</u>			
Contributions from UECF		994,718	994,718
Contributions from CECF		108,923	108,923
Accumulated surplus		671,055	629,760
		<u>1,774,696</u>	<u>1,733,401</u>

The notes on pages 18 and 19 form part of the condensed financial statements.

## Investor Compensation Fund

Statement of Changes in Equity

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
Compensation fund balance as at 1 April	1,733,401	1,674,206
Surplus for the quarter	41,295	10,171
Contributions from CECF	-	963
Compensation fund balance as at 30 June	<u>1,774,696</u>	<u>1,685,340</u>

The notes on pages 18 and 19 form part of the condensed financial statements.

## Investor Compensation Fund

Cash Flow Statement

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the quarter	41,295	10,171
Net investment income	(25,691)	(11,194)
Exchange difference	(434)	(587)
(Increase) / decrease in amount due from ICC	(187)	19
Decrease in provision for compensation	(19,532)	-
Increase / (decrease) in accounts payable and accrued charges	45	(45)
<b>Net cash used in operating activities</b>	<u>(4,504)</u>	<u>(1,636)</u>
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(377,566)	(533,951)
Sale or maturity of debt securities	491,133	448,124
Sale of equity securities	215	179
Interest received	23,334	17,133
<b>Net cash generated from / (used in) investing activities</b>	<u>137,116</u>	<u>(68,515)</u>
<b>Cash flows from financing activities</b>		
Contributions received from CECF	-	963
<b>Net cash generated from financing activities</b>	<u>-</u>	<u>963</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>132,612</b>	<b>(69,188)</b>
Cash and cash equivalents at beginning of the quarter	28,063	152,350
Cash and cash equivalents at end of the quarter	<u>160,675</u>	<u>83,162</u>
<b>Analysis of the balance of cash and cash equivalents:</b>		
	Unaudited At 30 Jun 2007 \$'000	Unaudited At 30 Jun 2006 \$'000
Fixed and call deposits with banks	160,115	83,152
Cash at bank	560	10
	<u>160,675</u>	<u>83,162</u>

## Investor Compensation Fund

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2007 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2007 to the interim financial report.

### 2. ICC expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the quarter ended 30 June 2007, ICC incurred \$837,000 for its operation (Quarter ended 30 June 2006 : \$765,000).

### 3. Provision for compensation

	Unaudited \$'000
Balance as at 1 April 2006	-
Add : provision made during the year ended 31 March 2007	48,570
Less : compensation paid during the year ended 31 March 2007	<u>(3,356)</u>
Balance as at 31 March 2007	45,214
Less : compensation paid during the quarter ended 30 June 2007	(2,600)
Less : provision reversed during the quarter ended 30 June 2007	<u>(16,932)</u>
Balance as at 30 June 2007	<u><u>25,682</u></u>

We made provision for liabilities arising from claims received resulting from a default case, Tiffit Securities (Hong Kong) Limited, for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.

## **Investor Compensation Fund**

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 4. Contingent liabilities

As at the date of this report, the Fund has 15 outstanding claims in respect of two intermediaries. The validity of these claims is under investigation. SFC or ICC has not yet published any notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules in respect of these cases. We have not made any provision for these claims. The maximum contingent liability of the Fund to these claims is \$1,233,000 (As at 31 March 2007 : \$7,784,000).

## Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2007.

### 1. Establishment of the Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Fund. However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After reserving sufficient money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

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

### 2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 21 to 26.

### 3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2007 and up to the date of this report were: -

Mr. Keith Lui (Chairman)

Mr. Gerald Greiner

Mrs. Alexa Lam

Mr. Kenneth H W Kwok, BBS, SC

Mr. Eric Yip

[appointed on 1 April 2007]

Mr. Roger Lee

[resigned on 1 April 2007]

### 4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the quarter.

On behalf of the Committee

Keith Lui  
Chairman

1 August 2007

## Unified Exchange Compensation Fund

Income and Expenditure Account  
For the quarter ended 30 June 2007  
(Expressed in Hong Kong dollars)

	Note	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
<b>Income</b>			
Interest income		989	626
Recoveries	2	27,037	2,447
		<u>28,026</u>	<u>3,073</u>
		-----	-----
<b>Expenses</b>			
Compensation expenses		1,647	-
Auditor's remuneration		9	8
Sundry expenses		1	1
		<u>1,657</u>	<u>9</u>
		-----	-----
Surplus		26,369	3,064
Accumulated surplus brought forward		<u>19,210</u>	<u>9,584</u>
Accumulated surplus carried forward		<u>45,579</u>	<u>12,648</u>

The notes on pages 25 and 26 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

Balance Sheet

At 30 June 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2007 \$'000	Audited At 31 Mar 2007 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	973	560
Interest receivable		149	113
Fixed and call deposits with banks		92,044	66,324
Cash at bank		24	13
		<u>93,190</u>	<u>67,010</u>
<b>Current liabilities</b>			
Accounts payable and accrued charges		4,316	4,306
Provision for compensation	3	1,674	1,823
		<u>5,990</u>	<u>6,129</u>
<b>Net current assets</b>		<u>87,200</u>	<u>60,881</u>
<b>Net assets</b>		<u>87,200</u>	<u>60,881</u>
Representing:			
<u>Compensation fund</u>			
Contributions from the SEHK		46,050	46,100
Excess transaction levy from the SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from the SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		45,579	19,210
		<u>1,081,918</u>	<u>1,055,599</u>
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		<u>87,200</u>	<u>60,881</u>

The notes on pages 25 and 26 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

Statement of Changes in Equity

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
Compensation fund balance as at 1 April	60,881	51,255
Surplus for the quarter	26,369	3,064
Contributions refunded to the SEHK	(50)	-
Compensation fund balance as at 30 June	<u>87,200</u>	<u>54,319</u>

The notes on pages 25 and 26 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

Cash Flow Statement

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 Jun 2007 \$'000	Unaudited Quarter Ended 30 Jun 2006 \$'000
Cash flows from operating activities		
Surplus for the quarter	26,369	3,064
Net investment income	(989)	(626)
(Increase) / decrease in equity securities received under subrogation	(413)	132
Decrease in provision for compensation	(149)	-
Increase / (decrease) in accounts payable and accrued charges	10	(22)
Net cash generated from operating activities	<u>24,828</u>	<u>2,548</u>
Cash flows from investing activities		
Interest received	953	628
Net cash generated from investing activities	<u>953</u>	<u>628</u>
Cash flows from financing activities		
Contributions refunded to the SEHK	(50)	-
Net cash used in financing activities	<u>(50)</u>	<u>-</u>
Net increase in cash and cash equivalents	25,731	3,176
Cash and cash equivalents at beginning of the quarter	66,337	57,250
Cash and cash equivalents at end of the quarter	<u>92,068</u>	<u>60,426</u>

Analysis of the balance of cash and cash equivalents:

	Unaudited At 30 Jun 2007 \$'000	Unaudited At 30 Jun 2006 \$'000
Cash at bank	24	15
Fixed and call deposits with banks	<u>92,044</u>	<u>60,411</u>
	<u>92,068</u>	<u>60,426</u>

## Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2007 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2007 to the interim financial report.

### 2. Equity securities and recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the sale proceeds and the remaining shares at market value as of 30 June 2007 after deducting relevant processing fees and charges for collecting and selling the securities received. In addition, the Fund received \$26,618,607 from the liquidators in respect of the C.A Pacific case during the quarter.

### 3. Provision for compensation

	Unaudited \$'000
Balance as at 1 April 2006	2,553
Less : amount paid during the year ended 31 March 2007	(2,397)
Add : provision made	<u>1,667</u>
Balance as at 31 March 2007	1,823
Less : amount paid during the three-month ended 30 June 2007	(1,796)
Add : provision made	<u>1,647</u>
Balance as at 30 June 2007	<u><u>1,674</u></u>

We maintain provision for claims in respect of two SEHK exchange participants.

## **Unified Exchange Compensation Fund**

Notes to the Condensed Financial Statements

For the quarter ended 30 June 2007

(Expressed in Hong Kong dollars)

### 4. Contributions from the SEHK

The SEHK advised the SFC of six trading rights in total having been relinquished since December 2006. The SFC had refunded to the SEHK the deposit of \$50,000 in respect of one of these six trading rights during the quarter ended 30 June 2007. The SFC should refund to the SEHK the deposit of \$250,000 in respect of the remaining of these five trading rights at the end of a six-month period after the relinquishment took effect.

### 5. Contingent liabilities

As at the date of this report, the validity of outstanding claims received against one exchange participant is still under investigation by the SEHK. They are subject to the normal \$8 million ceiling pursuant to Section 109 of the repealed Securities Ordinance. We have not made any provision for these claims. The maximum contingent liability of the Fund to these claims is \$8 million (As at 31 March 2007 : \$16 million).

## Appendix

Table 1

Statistical Information and Financial Position of the Securities Industry (Note 1)						
	As at 30 Jun 2007	As at 30 Jun 2006				
Total number of securities dealers and securities margin financiers	664	640				
Total number of active cash clients (Note 2)	810,680	688,256				
Total number of active margin clients (Note 2)	90,662	77,819				
Balance Sheet (Note 3)	(HK\$ Million)	(HK\$ Million)				
Cash in hand and at bank (Note 3)	186,515	120,483				
Amounts receivable from margin clients (Note 4)	33,243	17,637				
Amounts receivable from clients and other dealers arising from dealing in securities (Note 5)	357,521	165,822				
Proprietary positions	94,272	94,807				
Other assets	136,948	142,675				
Total assets	808,499	541,424				
Amounts payable to clients and other dealers arising from dealing in securities	333,185	228,901				
Total borrowings from financial institutions (Note 5)	199,118	95,965				
Short positions held for own account	34,322	46,737				
Other liabilities	110,857	77,051				
Total shareholders' fund (Note 6)	131,017	92,770				
Total liabilities and shareholders' fund	808,499	541,424				
<p>Note 1: The above data were extracted from the monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded from the above figures.</p> <p>Note 2: Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statement of accounts in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.</p> <p>Note 3: Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$70,468 million (30/6/2006: \$49,283 million).</p> <p>Note 4: Average collateral coverage (the number of times the aggregate market value of securities collateral deposited by clients covers the amounts receivable from margin clients on a given date on an industry-wide basis):</p> <table border="0"> <tr> <td><u>As at 30 Jun 2007</u></td> <td><u>As at 30 Jun 2006</u></td> </tr> <tr> <td>5.4</td> <td>4.8</td> </tr> </table> <p>Note 5: The significant increases in trade receivable and total borrowings are primarily attributable to the subscription of IPO securities.</p> <p>Note 6: The value of shareholder's fund includes value of redeemable shares.</p>			<u>As at 30 Jun 2007</u>	<u>As at 30 Jun 2006</u>	5.4	4.8
<u>As at 30 Jun 2007</u>	<u>As at 30 Jun 2006</u>					
5.4	4.8					

Table 2

Statistics of Enforcement Action			
	Apr - Jun 2007	Jan - Mar 2007	Apr - Jun 2006
Successful prosecutions	26	4	22
Actions against entities (Note 1)	12	9	38
Cases under investigation (Notes 2 and 3)	358	404	497
Disciplinary inquiries in progress (Note 3)	101	115	122
Note 1: Number of entities may include settlement cases with or without formal sanctions. The number may include current and previously licensed entities.			
Note 2: Some cases are ongoing investigations from the previous quarter.			
Note 3: Number of cases as at the end of quarters.			

Table 3

Statistics of Public Complaints			
	Apr - Jun 2007	Jan - Mar 2007	Apr - Jun 2006
Complaints	258	241	294

Table 4

Number of SFC-Authorised Collective Investment Schemes			
	30 Jun 2007	31 Mar 2007	30 Jun 2006
Unit trusts and mutual funds	2,001	1,980	1,968
Investment-linked assurance schemes	214	201	192
Pooled retirement funds	36	37	37
MPF master trust / industry schemes	36	38	39
MPF pooled investment funds (Note 1)	293	287	281
Real Estate Investment Trusts	7	6	4
Other schemes (Note 2)	143	137	116
Total	2,730	2,686	2,637
Note 1: There are 124 funds included in this category that are offered both as retail unit trusts as well as pooled investment funds for MPF purposes.			
Note 2: These include equity-linked deposits and paper gold schemes.			

Table 5

Statistics of Investor Enquiries			
	Apr - Jun 2007	Jan - Mar 2007	Apr - Jun 2006
Enquiries	1,536 (Note 1)	1,147	1,792
Note 1: Enquiries relating to IPO subscription had increased substantially.			