



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

Quarterly Report
October - December 2007

Investors First

Regulate, Facilitate & Educate



Table of Contents

Chief Executive Officer's Message	1
Operational Overview	1
Regulation	1
Facilitation	3
Education	4
Organisational Matters	5
Financial Statements	6
Securities and Futures Commission	
Condensed Consolidated Financial Statements	6
Investor Compensation Fund	
Condensed Financial Statements	14
Unified Exchange Compensation Fund	
Condensed Financial Statements	21
Appendix	28

This is the Securities and Futures Commission's third 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

Facilitating the market is one of our important roles in supporting Hong Kong's continued development as an international financial centre. The SFC has continued to facilitate the introduction of new financial products and has introduced various measures to address market needs without compromising investor protection.

This quarter saw the authorisation of the first retail UCITS III fund which may seek significant exposure to the performance of hedge funds primarily via financial derivative instruments. We also worked with market participants in approving the first retail Islamic fund in Hong Kong.

While we continue to carry out our regulatory responsibilities, we believe compliance should not pose unnecessary burden to market players or hinder development. In this regard, the SFC introduced greater flexibility in position limits for HSI and HSCEI futures and options contracts, by up to 50%, and in fund managers' delegation of their investment management functions overseas. The SFC also allowed issuers of listed structured products to apply for annual waivers from certain disclosure obligations.

I am pleased to set out below the major initiatives in October - December in our three main areas of work: Regulation, Facilitation and Education.

Martin Wheatley
Chief Executive Officer

Operational Overview

Regulation

Market standards

The SFC together with HKEx launched a pilot scheme for the posting of a web proof information pack (WPIP) by a new listing applicant on HKEx website no later than the time when information about the listing applicant is first provided to institutional investors. The WPIP should be in the nature of a near-final draft prospectus omitting pricing and related financial and offer size information. This is to address the apparent inequality of the timing of information dissemination between institutional and retail investors in an IPO, and will also help bring the IPO regime in Hong Kong more in line with other leading international jurisdictions. The pilot scheme came into effect on 1 January 2008.

On 30 November 2007, we published a consultation paper on a proposal to make electronic submission of disclosure of interests notices mandatory. The consultation period ended on 11 January 2008 and we are studying the submissions.

In November 2007, the SFC and the Financial Reporting Council entered into a Memorandum of Understanding to facilitate co-ordination of effort and exchange of information between the two organisations.

Regulatory actions

The SFC continued to monitor the return of assets to clients in relation to Tiffit Securities (HK) Limited and Man Lung Hong Securities Limited, two failed brokerage businesses.

On 12 November 2007, we served a restriction notice on Great Honest Investment Company Limited following the discovery of prima facie evidence of unauthorised dealings and other irregularities with respect to client accounts and the records maintained by Great Honest. We acted quickly to protect the firm's clients and immediately applied to the Court to appoint administrators to take over the firm. To further protect the client's interests, we applied to the Court for Mareva Injunctions against the majority shareholder of Great Honest and her brother-in-law, as well as a prohibition order against the majority shareholder prohibiting her from leaving Hong Kong.

Enforcement actions

During the quarter, we successfully prosecuted 14 entities for unlicensed activities, providing false or misleading information, false trading, unlawful short selling and disclosure of interests breaches. The 14 entities were convicted of 89 summonses which resulted in fines totalling \$278,500, orders for investigation costs of \$135,521, and one person being sentenced to immediate six months' imprisonment. This was the first time the Court has imposed an immediate custodial sentence for an offence under the Securities and Futures Ordinance.

Three individuals lodged challenges against the SFC's investigation powers to compel compliance with the SFC's notice to attend investigation interviews, to audio record investigation interviews and to execute search warrants. The court ruled in favour of the SFC in all of these challenges. In addition, the SFC successfully applied for an interim injunction that froze the assets of a person under investigation in relation to suspected insider dealing.

The SFC took disciplinary action against 27 entities for various breaches. The penalties included licence revocation (two entities), prohibition from re-entering the industry from four months to life (ten entities), suspension (seven entities), fines and public reprimands (six entities), and the imposition of suspended penalties (two entities).

The licences of two persons were revoked for: (i) a licensee's failure to familiarise himself with the internal control structures of the company and failing to supervise diligently (this person's approval as a responsible officer was revoked and he was suspended from carrying on one type of regulated activity as a representative), and (ii) procuring persons to engage in unlicensed activities.

Out of a total of 10 entities who were prohibited from re-entering the industry for various periods: (i) one former responsible officer was banned from re-entering the industry for life for selling clients' securities without clients' instructions and transferring the proceeds to her husband's account, (ii) another former responsible officer was prohibited from becoming a responsible officer for life for failing to implement and maintain adequate internal control policies and procedures, (iii) one former substantial shareholder and director of a company was banned for life for misappropriation and failing to ensure compliance with FRR, and (iv) seven other former representatives were also prohibited from re-entering the industry from four months to life for a variety of breaches.

Out of a total of six entities who were fined and publicly reprimanded, three firms were reprimanded and fined a total of \$1,650,000 for failing to comply with various rules and for internal control failures.

We adopted a new approach to resolving a number of outstanding disciplinary proceedings by entering into an agreement with two entities. The two entities agreed to an independently conducted review of their systems and controls at a time to be set by the SFC, without prior notice, within a three-year period. The formal disciplinary sanctions were suspended and will only be imposed if the two entities fail to prevent a repetition of the original misconduct during the three-year period.

During the quarter, the Securities and Futures Appeals Tribunal (SFAT) upheld our decision to ban one licensee from re-entering the industry for deceiving his employer and operating secret accounts. However, the period of prohibition was reduced from a life ban to 18 months.

We received a total of 341 complaints during the quarter of which 24 were related to boiler room operations and we acted on 15 of those boiler room complaints.

Our full enforcement statistics are summarised in Table 1 in the Appendix.

Facilitation

Products

During the quarter, we authorised the first retail UCITS III fund which may seek significant exposure (over 50% of the fund's net asset value) to the performance of hedge funds primarily via financial derivative instruments. In view of the nature of investments, the SFC has required enhanced disclosures regarding hedge fund indices / market and the related risks in the fund's offering documents and marketing materials.

Following a public consultation, the Securities and Futures (Contracts Limits and Reportable Positions) Rules and the SFC's Guidance Note on Position Limits and Large Open Position Reporting Requirements were amended. The amendments enable the SFC to authorise Exchange Participants and their affiliates to exceed the position limits for HSI and HSCEI futures and options contracts by up to 50% where the limits are not sufficient to enable them to serve their clients' needs. The amendments were approved by the Legislative Council and took effect on 21 December 2007.

In October 2007, we issued a public circular to REIT managers on acquisitions by REITs. The circular in particular clarified that there are no additional licensing or authorisation requirements for REITs planning to expand their operations into other markets or jurisdictions or different property types.

The SFC's application to be an Observer Member of The Islamic Financial Services Board (IFSB) was accepted in December 2007 and took effect on 1 January 2008. The IFSB is an international standard-setting body of regulatory and supervisory agencies that have interest in enhancing the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and insurance.

In November 2007, we authorised the first retail Islamic fund, an index tracking fund that tracks the Dow Jones Islamic Market China/Hong Kong Titans Index. We worked closely with the fund manager in respect of disclosures in the offering document and marketing materials to provide easy-to-understand descriptions of the risk factors and special features of the fund e.g. selection of Islamic permitted stocks and donation of "impure" income to charities etc. The size of this Islamic fund reached US\$62 million as at 31 December 2007.

For information about SFC-authorized collective investment schemes, please see Table 2 in the Appendix.

Intermediaries

In October 2007, the SFC introduced greater flexibility for managers of authorised funds to delegate their investment management functions overseas. The SFC implemented this initiative in response to the globalisation of fund management firms and the growing trend for fund houses to set up local affiliates close to the markets in which they invest.

From 21 December 2007, issuers of listed structured products may apply for annual waivers from the disclosure obligations as to the ownership of the issuer rather than applying for waivers in respect of each individual structured product that an issuer lists. The new measure will reduce the compliance burden and costs of issuers of structured products, including derivative warrants.

The number of persons licensed by us continued to scale new heights, with a 3.3% increase to 33,274 as at 31 December. There were 3,466 new licence applications during the quarter, 21% less than the previous quarter.

During this quarter, the SFC received 23 licence applications from hedge fund managers compared with 11 applications in same quarter of the previous year.

Co-operation with Mainland authorities

The SFC continues to work closely with the Mainland regulators and industry players on the development of QDII programmes to strengthen the attractiveness of Hong Kong's platform. The SFC representative sits on the CSRC's QDII expert committee which approves QDII funds. During the quarter, our staff attended three committee meetings.

International co-operation and external relations

During the quarter, we received 23 requests from overseas regulators, of which six sought non-public information and 15 sought other assistance. Responses have been provided to 16 requests and seven requests are being processed. The SFC made 20 requests to overseas regulators for investigatory assistance.

Communication with the market

During the quarter, we published a research paper on the growth of the stock options market in Hong Kong. The report found that during the first nine months of 2007, the average daily trading volume was 168,392 contracts, 129% higher than 2006 and Hong Kong has overtaken Australia to become the most active stock options market in Asia.

We also released statistics regarding the securities industry as of September 2007. The statistics showed that the overall net profit of all stock exchange participant brokers for the quarter ended 30 September 2007 was \$12.08 billion, 85% higher than the previous quarter.

Education

Our first cross-media financial knowledge quiz, "Investment Triathlon", was launched in September 2007 and was well received by the public and drew around 600 contestants. The final of the three-stage quiz took place on 26 January

2008 and was broadcast by Cable TV in early February.

We established a new "Overseas Investors" section on our InvestEd website. Through providing an overview of the Hong Kong securities market, the section aims to help non-Hong Kong investors understand the stock and warrant markets, trading and settlement process and information sources available in Hong Kong. We have also included on our InvestEd website additional investor education materials, written in Mainland Simplified Chinese style, to help Mainland investors in the Hong Kong market.

During the quarter, we published an investor leaflet on index tracking ETFs, explaining to investors the key features, benefits and risks of authorised ETFs, and the major differences between ETFs and unlisted index funds. In addition, Dr Wise's Column ran three articles covering investing in volatile market, 130/30 investment funds and IPO information packs.

We continued to handle enquiries from the public on wide ranging topics. Details can be found in Table 3 in the Appendix.

Organisational Matters

The total number of staff as at 31 December was 434, as compared to 445 a year ago.

Total revenue for the quarter increased 31% from \$650 million in the previous quarter to \$851 million as a result of increased levy income derived from robust market activities. Expenditure was \$141 million, 5% below our approved budget. As a result, the SFC recorded a surplus of \$710 million for the quarter, compared with the \$516 million in the previous quarter. Our reserves stood at \$3.5 billion at the end of December.

Securities and Futures Commission

Consolidated Income and Expenditure Account

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited Nine Months Ended		Unaudited Three Months Ended	
		31 Dec 2007	31 Dec 2006 (Restated)	31 Dec 2007	31 Dec 2006 (Restated)
		\$'000	\$'000	\$'000	\$'000
Income					
Levies		1,611,960	717,078	732,792	295,046
Fees and charges		229,669	160,267	79,993	56,406
Investment income		89,901	47,972	36,803	18,717
Less: custody and advisory expenses		(945)	(602)	(372)	(219)
Investment income net of third party expenses		88,956	47,370	36,431	18,498
Recoveries from the Investor Compensation Fund		2,839	2,756	914	1,100
Other income		3,152	7,285	1,103	447
		<u>1,936,576</u>	<u>934,756</u>	<u>851,233</u>	<u>371,497</u>
Expenses					
Staff costs and directors' emoluments	8	330,349	298,037	109,937	104,193
Premises rent		15,938	15,986	5,352	5,293
other		12,557	11,323	4,229	3,752
Other expenses		38,904	44,092	18,463	15,425
		<u>397,748</u>	<u>369,438</u>	<u>137,981</u>	<u>128,663</u>
Depreciation		8,736	9,187	3,359	3,519
		<u>406,484</u>	<u>378,625</u>	<u>141,340</u>	<u>132,182</u>
Surplus	2	<u>1,530,092</u>	<u>556,131</u>	<u>709,893</u>	<u>239,315</u>

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

The notes from pages 10 to 13 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Consolidated Balance Sheet

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2007 \$'000	Audited At 31 Mar 2007 \$'000
Non-current assets			
Fixed assets		16,488	18,076
Held-to-maturity debt securities	3	<u>2,187,047</u>	<u>1,285,072</u>
		<u>2,203,535</u>	<u>1,303,148</u>
Current assets			
Held-to-maturity debt securities	3	1,168,250	624,828
Debtors, deposits and prepayments		242,694	53,642
Bank deposits		70,272	135,592
Cash at bank and in hand		<u>2,732</u>	<u>3,509</u>
		<u>1,483,948</u>	<u>817,571</u>
Current liabilities			
Fees received in advance		57,035	52,225
Creditors and accrued charges		<u>73,983</u>	<u>34,304</u>
		<u>131,018</u>	<u>86,529</u>
Net current assets		<u>1,352,930</u>	<u>731,042</u>
Total assets less current liabilities		3,556,465	2,034,190
Non-current liabilities	4	<u>46,419</u>	<u>54,236</u>
Net assets		<u>3,510,046</u>	<u>1,979,954</u>
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	<u>3,467,206</u>	<u>1,937,114</u>
		<u>3,510,046</u>	<u>1,979,954</u>

The notes from pages 10 to 13 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Balance Sheet

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2007 \$'000	Audited At 31 Mar 2007 \$'000
Non-current assets			
Fixed assets		16,466	18,025
Held-to-maturity debt securities	3	2,187,047	1,285,072
		<u>2,203,513</u>	<u>1,303,097</u>
Current assets			
Held-to-maturity debt securities	3	1,168,250	624,828
Debtors, deposits and prepayments		242,330	53,642
Bank deposits		70,272	135,431
Cash at bank and in hand		1,978	2,797
		<u>1,482,830</u>	<u>816,698</u>
Current liabilities			
Fees received in advance		57,035	52,225
Creditors and accrued charges		72,843	33,380
		<u>129,878</u>	<u>85,605</u>
Net current assets		<u>1,352,952</u>	<u>731,093</u>
Total assets less current liabilities		3,556,465	2,034,190
Non-current liabilities	4	<u>46,419</u>	<u>54,236</u>
Net assets		<u>3,510,046</u>	<u>1,979,954</u>
Funding and reserves			
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Accumulated surplus	2	3,467,206	1,937,114
		<u>3,510,046</u>	<u>1,979,954</u>

The notes from pages 10 to 13 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Consolidated Cash Flow Statement

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	1,530,092	556,131
Adjustments for :		
Depreciation	8,736	9,187
Investment income	(88,956)	(47,370)
Interest received	53,989	29,853
Gain on sale of fixed assets	(1)	(18)
	<u>1,503,860</u>	<u>547,783</u>
Increase in debtors, deposits and prepayments	(77,973)	(9,850)
Increase in creditors and accrued charges	39,679	23,089
Increase / (decrease) in fees received in advance	4,810	(2,871)
Decrease in non-current liabilities	(7,817)	(6,680)
Net cash generated from operating activities	<u>1,462,559</u>	<u>551,471</u>
Cash flows from investing activities		
Held-to-maturity debt securities bought	(1,866,599)	(811,653)
Held-to-maturity debt securities redeemed	427,041	276,180
Fixed assets bought	(7,149)	(8,818)
Fixed assets sold	1	18
Net cash used in investing activities	<u>(1,446,706)</u>	<u>(544,273)</u>
Net decrease in cash and cash equivalents	15,853	7,198
Cash and cash equivalents at beginning of the nine months period	<u>57,151</u>	<u>49,883</u>
Cash and cash equivalents at end of the nine months period	<u>73,004</u>	<u>57,081</u>
Analysis of the balance of cash and cash equivalents :		
	Unaudited	Unaudited
	At 31 Dec 2007	At 31 Dec 2006
	\$'000	\$'000
Bank deposits	70,272	53,681
Cash at bank and in hand	<u>2,732</u>	<u>3,400</u>
	<u>73,004</u>	<u>57,081</u>

Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 31 December 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 (ICC) in the SFC's condensed financial statements made up to 31 December 2007. We eliminated 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. We have adopted a revised presentation of investment advisory fees and custodian fees expenses which are now presented as a deduction from net investment income as disclosed on the face of the consolidated income and expenditure account. During the previous periods these expenses were recorded in other expenses. The previous period comparatives have been restated above and amounted to \$47,972,000 (investment income for the nine months ended 31 December 2006) and \$47,010,000 (other expenses for the nine months ended 31 December 2006). There is no change to the surplus of the period or comparative period and no change in net assets as at 31 December 2007 nor as at 31 March 2007.

We adopted certain new and revised International Financial Reporting Standards effective 1 January 2007. A description of those changes that are relevant to the SFC is given below:

- IFRS 7 "Financial Instruments: Disclosures": The new standard which replaces IAS 32 will require additional disclosures in the 2007 annual financial report. There are no additional disclosure requirements in the interim financial report.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2007.

Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

2. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the nine months ended 31 December 2007 are as follows :

	Unaudited \$'000
Balance at 31 March 2007	1,937,114
Surplus	<u>1,530,092</u>
Balance at 31 December 2007	<u><u>3,467,206</u></u>

3. Held-to-maturity debt securities

As of 31 December 2007, the total market value of held-to-maturity debt securities amounted to \$3,384,572,000 (31 March 2007: \$1,912,447,000), which was above the total carrying cost of \$3,355,297,000 (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 31 December 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 nine months ended 31 December 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 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 31 December 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 operations. The balance sheet of FinNet as at 31 December 2007 and the income and expenditure account for the period 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 nine months ended 31 December 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 amounting to \$2,839,000 (2006 : \$2,756,000), 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 nine months ended	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
Short-term employee benefits	21,293	15,536
Post employment benefits	<u>1,399</u>	<u>510</u>
	<u>22,692</u>	<u>16,046</u>

The total remuneration is included in "staff costs and directors' emoluments" on page 6.

- c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$819,000 (2006: \$1,999,000).

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 nine months ended 31 December 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 15 to 20.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 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 nine months.

On behalf of the Committee

Keith Lui
Chairman

11 February 2008

Investor Compensation Fund

Income and Expenditure Account

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited Nine Months Ended		Unaudited Three Months Ended	
		31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
		\$'000	\$'000	\$'000	\$'000
Income					
Net investment income		99,421	80,641	33,204	36,776
Exchange difference		(1,989)	1,656	3,492	(1,757)
		<u>97,432</u>	<u>82,297</u>	<u>36,696</u>	<u>35,019</u>
Expenses					
ICC expenses	2	2,839	2,756	914	1,099
Compensation (write backs) / made	3	(11,323)	48,447	(6)	1,035
Auditors' remuneration		59	54	20	18
Bank charges		577	560	192	190
Professional fees		2,208	1,983	748	674
Sundry expenses		1	1	-	-
		<u>(5,639)</u>	<u>53,801</u>	<u>1,868</u>	<u>3,016</u>
Surplus for the period		103,071	28,496	34,828	32,003
Accumulated surplus brought forward		<u>629,760</u>	<u>571,528</u>	<u>698,003</u>	<u>568,021</u>
Accumulated surplus carried forward		<u><u>732,831</u></u>	<u><u>600,024</u></u>	<u><u>732,831</u></u>	<u><u>600,024</u></u>

The notes on pages 19 and 20 form part of the condensed financial statements.

Investor Compensation Fund

Balance Sheet

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2007 \$'000	Audited At 31 Mar 2007 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,526,105	1,548,070
- Equity securities		207,905	177,925
Interest receivable		30,037	24,516
Due from ICC		819	863
Fixed and call deposits with banks		89,887	27,800
Cash at bank		5,117	263
		<u>1,859,870</u>	<u>1,779,437</u>
Current liabilities			
Provision for compensation	3	22,528	45,214
Accounts payable and accrued charges		870	822
		<u>23,398</u>	<u>46,036</u>
Net current assets		<u>1,836,472</u>	<u>1,733,401</u>
Net assets		<u>1,836,472</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		732,831	629,760
		<u>1,836,472</u>	<u>1,733,401</u>

The notes on pages 19 and 20 form part of the condensed financial statements.

Investor Compensation Fund

Statement of Changes in Equity

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
Compensation fund balance as at 1 April	1,733,401	1,674,206
Surplus for the period	103,071	28,496
Contributions from CECF	-	963
Compensation fund balance as at 31 December	<u>1,836,472</u>	<u>1,703,665</u>

The notes on pages 19 and 20 form part of the condensed financial statements.

Investor Compensation Fund

Cash Flow Statement

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	103,071	28,496
Net investment income	(99,421)	(80,641)
Exchange difference	1,989	(1,656)
Decrease / (increase) in amount due from ICC	44	(273)
(Decrease) / increase in provision for compensation	(22,686)	48,447
Increase in accounts payable and accrued charges	48	25
Net cash used in operating activities	(16,955)	(5,602)
Cash flows from investing activities		
Purchase of debt securities	(983,651)	(1,363,805)
Sale or maturity of debt securities	1,016,826	1,287,669
Sale of equity securities	706	547
Interest received	50,015	42,915
Net cash generated from / (used in) investing activities	83,896	(32,674)
Cash flows from financing activities		
Contributions received from CECF	-	963
Net cash generated from financing activities	-	963
Net increase / (decrease) in cash and cash equivalents	66,941	(37,313)
Cash and cash equivalents at beginning of the nine-month period	28,063	152,350
Cash and cash equivalents at end of the nine-month period	95,004	115,037
Analysis of the balance of cash and cash equivalents:		
	Unaudited At 31 Dec 2007 \$'000	Unaudited At 31 Dec 2006 \$'000
Cash at bank	5,117	39,957
Fixed and call deposits with banks	89,887	75,080
	95,004	115,037

Investor Compensation Fund

Notes to the Condensed Financial Statements
For the nine months ended 31 December 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.

We adopted certain new and revised International Financial Reporting Standards effective 1 January 2007. A description of those changes that are relevant to the Fund is given below :

- IFRS 7 "Financial Instruments : Disclosures" : The new standard which replaces IAS 32 will require additional disclosures in the 2007 annual financial report. There are no additional disclosure requirements in the interim financial report.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2007.

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 nine months ended 31 December 2007, ICC incurred \$2,839,000 for its operation (For the nine months ended 31 December 2006: \$2,756,000).

Investor Compensation Fund

Notes to the Condensed Financial Statements
For the nine months ended 31 December 2007
(Expressed in Hong Kong dollars)

3. Provision for compensation

	Unaudited \$'000
Balance as at 31 March 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 nine months ended 31 December 2007	(11,363)
Less : provision reversed during the nine months ended 31 December 2007	(17,323)
Add : provision made during the nine months ended 31 December 2007	<u>6,000</u>
Balance as at 31 December 2007	<u><u>22,528</u></u>

We maintained provision for liabilities arising from claims received resulting from two default cases 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 both cases is set at \$150,000 per claimant.

4. Related party transactions

The Fund has related party relationships with the SFC, the ICC, the SEHK, the HKFE and the UECF. During the nine months, there were no significant related party transactions other than those disclosed in the financial statements.

5. Contingent liabilities

As at the date of this report, in addition to the two cases for which provision has been made as described in note 3, the fund has received other claims where it believes that payment of compensation is unlikely. The maximum contingent liability of the Fund to these claims is \$23,448,000 (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 nine months ended 31 December 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 22 to 27.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 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 nine months.

On behalf of the Committee

Keith Lui
Chairman

15 February 2008

Unified Exchange Compensation Fund

Income and Expenditure Account

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited Nine Months Ended		Unaudited Three Months Ended	
		31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
		\$'000	\$'000	\$'000	\$'000
Income					
Net Interest income		2,736	1,945	730	653
Recoveries	2	26,949	7,377	(16)	(63)
		<u>29,685</u>	<u>9,322</u>	<u>714</u>	<u>590</u>
Expenses					
Compensation expenses (reversed) / made		1,643	1,667	-	1,796
Recoveries re-distributed	3	33,210	-	-	-
Auditor's remuneration		27	25	9	9
Professional fees		359	11	347	-
Sundry expenses		3	1	2	-
		<u>35,242</u>	<u>1,704</u>	<u>358</u>	<u>1,805</u>
(Deficit) / Surplus		(5,557)	7,618	356	(1,215)
Accumulated surplus brought forward		<u>19,210</u>	<u>9,584</u>	<u>13,297</u>	<u>18,417</u>
Accumulated surplus carried forward		<u>13,653</u>	<u>17,202</u>	<u>13,653</u>	<u>17,202</u>

The notes on pages 26 and 27 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Balance Sheet

At 31 December 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2007 \$'000	Audited At 31 Mar 2007 \$'000
Current assets			
Equity securities received under subrogation	2	816	560
Interest receivable		127	113
Fixed and call deposits with banks		59,014	66,324
Cash at bank		316	13
		<u>60,273</u>	<u>67,010</u>
Current liabilities			
Accounts payable and accrued charges		4,649	4,306
Recoveries to be re-distributed		73	-
Provision for compensation	4	27	1,823
		<u>4,749</u>	<u>6,129</u>
Net current assets		<u>55,524</u>	<u>60,881</u>
Net assets		<u>55,524</u>	<u>60,881</u>
Representing:			
<u>Compensation fund</u>			
Contributions from the SEHK		46,300	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		13,653	19,210
		<u>1,050,242</u>	<u>1,055,599</u>
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		<u>55,524</u>	<u>60,881</u>

The notes on pages 26 and 27 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Statement of Changes in Equity

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
Compensation fund balance as at 1 April	60,881	51,255
Net contribution from the SEHK	200	-
(Deficit) / surplus for the period	<u>(5,557)</u>	<u>7,618</u>
Compensation fund balance as at 31 December	<u><u>55,524</u></u>	<u><u>58,873</u></u>

The notes on pages 26 and 27 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Cash Flow Statement

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	(5,557)	7,618
Net investment income	(2,736)	(1,945)
(Increase) / decrease in equity securities received under subrogation	(256)	255
Increase in accounts payable and accrued charges	343	44
Increase in recoveries to be re-distributed	73	-
Decrease in provision for compensation	(1,796)	(730)
Net cash (used in) / generated from operating activities	(9,929)	5,242
Cash flows from investing activities		
Interest received	2,722	1,951
Net cash generated from investing activities	2,722	1,951
Cash flows from financing activities		
Contributions from the SEHK	450	-
Contributions refunded to the SEHK	(250)	-
Net cash generated from financing activities	200	-
Net (decrease) / increase in cash and cash equivalents	(7,007)	7,193
Cash and cash equivalents at beginning of the nine-month period	66,337	57,250
Cash and cash equivalents at end of the nine-month period	59,330	64,443

Analysis of the balance of cash and cash equivalents:

	Unaudited At 31 Dec 2007	Unaudited At 31 Dec 2006
	\$'000	\$'000
Cash at bank	316	10
Fixed and call deposits with banks	59,014	64,433
	59,330	64,443

Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 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.

We adopted certain new and revised International Financial Reporting Standards effective 1 January 2007. A description of those changes that are relevant to the Fund is given below :

- IFRS 7 "Financial Instruments: Disclosures": The new standard which replaces IAS 32 will require additional disclosures in the 2007 annual financial report. There are no additional disclosure requirements in the interim financial report.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2007.

2. 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 payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 December 2007 after deducting relevant processing fees and charges for collecting and selling the securities received.

3. Recoveries re-distributed

The Fund received recovery by virtue of the SFC's subrogation rights in respect of claimants who received compensation payments from the Fund. During the period, the Fund returned the excess amount and the relevant interest amount to some of the claimants of C.A. Pacific case. The excess amount for each claimant represents the excess of total recovered amount from the liquidators over the compensation amount paid to the claimant.

Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the nine months ended 31 December 2007

(Expressed in Hong Kong dollars)

4. 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	1,667
Balance as at 31 March 2007	<u>1,823</u>
Less : amount paid during the nine-month ended 31 December 2007	(3,443)
Add : provision made	1,647
Balance as at 31 December 2007	<u><u>27</u></u>

We maintain provision for claim in respect of one SEHK exchange participant.

5. Related party transactions

The Fund has related party relationships with the ICF, the SFC and the SEHK. During the nine months, there were no significant related party transactions other than those disclosed in the financial statements.

6. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund (As at 31 March 2007: \$16 million).

Appendix

Table 1

Statistics of Enforcement Actions			
	Oct - Dec 2007	Jul - Sep 2007	Oct - Dec 2006
Successful prosecutions	14	20	12
Actions against entities (Note 1)	27	19	22
Cases under investigation (Notes 2 and 3)	112	322	447
Disciplinary inquiries in progress (Note 3)	77	95	119
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 2

Number of SFC-Authorised Collective Investment Schemes			
	31 Dec 2007	30 Sep 2007	31 Dec 2006
Unit trusts and mutual funds	2,040	2,014	1,973
Investment-linked assurance schemes	221	218	194
Pooled retirement funds	36	36	37
MPF master trust / industry schemes	36	36	38
MPF pooled investment funds (Note 1)	285	290	282
Real Estate Investment Trusts	7	7	6
Other schemes (Note 2)	145	144	138
Total	2,770	2,745	2,668
Note 1: There are 128 funds included in this category (30 September 2007: 128; 31 December 2006: 123) that are offered both as retail unit trusts as well as pooled investment funds for MPF purposes.			
Note 2: These included equity-linked deposits and paper gold schemes.			

Table 3

Statistics of Investor Enquiries and Public Complaints			
	Oct - Dec 2007	Jul - Sep 2007	Oct - Dec 2006
Enquiries	1,653	1,720	1,308
Complaints	341	350	239