



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

Quarterly Report
July - September 2007

Investors First

Regulate, Facilitate & Educate



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This is the Securities and Futures Commission's second 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

Since August we have seen an exceptionally buoyant market marked by considerable volatility. As a regulator, we have been closely monitoring the stability of the market and ensuring participants comply with regulations so as to help maintain an orderly trading environment for investors.

In the second quarter of the 2007-08 financial year, we introduced further measures that facilitate development of the market. We proposed increases in the positions that Exchange Participants and their clients can take in the derivatives market, and participated in initiatives to support the CEPA IV arrangements which enable Mainland asset managers to operate in Hong Kong and capture the opportunities of QDII. We also authorised the first retail 130/30 UCITS III fund - a newer style of UCITS III fund which allows limited use of derivative products.

Under the streamlined licensing process for overseas fund managers, the number of licences granted to hedge fund managers in the first nine months of 2007 has already exceeded the total number granted in 2006. Continued growth of the overall market has also lifted the number of licensed intermediaries at the end of September to another record of 32,208.

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

Martin Wheatley
Chief Executive Officer

Operational Overview

Regulation

Market standards

We continue to review the proposal to give statutory backing to major listing requirements and consider that further soft consultation may be necessary. On completion of the review, we will work with the Financial Services and the Treasury Bureau and the Department of Justice to draft the legislative provisions.

On 19 September, we issued a consultation paper on proposed amendments to The Codes on Takeovers and Mergers and Shares Repurchases to enhance fair treatment of shareholders and to meet market needs for greater clarity. The proposed amendments related to (i) securities borrowing and lending, (ii) dealings by connected discretionary fund managers and principal traders before and during an offer period, and (iii) privatisations and delistings. The consultation period ended on 9 November 2007 and we are studying the submissions.

We have been working closely with HKEx on a proposal to mandate electronic submission of disclosure of interests notices required to be filed by substantial shareholders or directors. A soft consultation has been conducted with some interested parties. We aim to consult the public before the end of 2007.

Regulatory actions

We continued to monitor the final stages of the return of assets to clients in relation to the three brokers that defaulted last year. In August, Mr Kwok Wood Yan, the owner of Tiffit Securities (HK) Limited, was convicted of laundering stolen client assets and sentenced to 40 months' imprisonment.

On 31 August, we issued a restriction notice on Man Lung Hong Securities Limited following a report of misappropriation of client assets by a licensed representative. We immediately applied to the Court to appoint administrators to take over the firm. To further protect the interests of its clients, we also applied to the Court for Mareva Injunctions against the licensed representative and his wife.

Enforcement actions

During the quarter, we successfully prosecuted 20 entities for unlicensed activities, disclosure of interests breaches, issuing unauthorised advertisements, market manipulation and unlawful short selling. The 91 summonses resulted in fines totaling \$401,600, costs of \$210,944 and three persons were given suspended sentences of imprisonment. During the quarter, we offered no evidence on two entities for three summonses and a person who was prosecuted for unlicensed dealing in the previous quarter appealed against the fine imposed. The High Court set aside the fine and ordered that he be conditionally discharged on his own recognisance for the sum of \$3,000 for 12 months.

On discipline, the SFC took actions against 19 entities for various breaches. The penalties included prohibition from re-entering the industry, suspensions of up to 18 months, fines and public reprimands. Two former responsible officers were banned for life for selling clients' securities without clients' instruction and transferring the proceeds to another person's account, and for operating secret accounts and conducting unauthorised trades respectively. Three firms were reprimanded and fined a total of \$680,000 for internal control failures.

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

During the quarter, the Securities and Futures Appeals Tribunal (SFAT) upheld our decision to suspend three licensees for window dressing the financial position of subsidiary companies.

The Financial Secretary announced that two cases had been referred to the Market Misconduct Tribunal. Substantive hearing of one of the cases is expected to commence in mid-April 2008.

We received a total of 353 complaints during the quarter - of which 36 were related to boiler room operations and we acted on 17 of those boiler room complaints.

Facilitation

Products

On 14 September, we published the consultation conclusions on the proposals to relax the holding limits of Hang Seng Index and H-share Index futures and options contracts. Respondents were largely supportive of the proposals, and we will adopt the original proposals with certain amendments in light of the comments received. The changes are subject to the Legislative Council's negative vetting.

UCITS III funds form the majority of SFC authorised funds and we take a flexible and pragmatic approach to their authorisation, including those with innovative product features. During the quarter, we authorised the first retail 130/30 UCITS III fund - a type of funds that may use financial derivative instruments to achieve a combination of long and short positions of up to 130% and 30% of its asset value respectively.

During the quarter, we authorised the second Exchange Traded Fund in Hong Kong that tracks a PRC A-shares index.

To facilitate development of the Real Estate Investment Trusts market, two industry working groups were formed to consider streamlining of the listing process of new REITs and study how REITs might expand by acquisition.

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

Intermediaries

The number of persons licensed by us continued to scale new heights, with a 6% increase to 32,208 as at 30 September. There were 4,390 new licence applications during the quarter, 24% more than the previous quarter.

Under our streamlined licensing process for overseas fund managers, we granted approval in principle within four weeks to a US hedge fund manager and a UK group, which managed assets of US\$11 billion and US\$6.7 billion respectively. In the first nine months of 2007, we had approved or approved in principle the licence application of 37 hedge fund managers, which exceeds the total of 29 approvals granted in the whole of 2006.

Co-operation with Mainland authorities

On 11 September, a high-level seminar was organised in Hong Kong for senior representatives from 30 of the Mainland's largest fund management and securities companies. This was held to support the CEPA IV arrangements which enable Mainland asset managers to operate in Hong Kong, and to discuss how Hong Kong's expertise can help them package their investment products to tap the opportunities presented by the QDII scheme. The delegation exchanged views with more than 60 senior representatives of major international fund and securities houses, investment banks and law firms operating in Hong Kong. The seminar, the first such event held in Hong Kong, was organised by Hong Kong Investment Funds Association and sponsored by us. On the following day we organised a half-day seminar for the Mainland delegates to explain the Hong Kong regulatory environment and our licensing requirements.

International co-operation and external relations

During the quarter, we received 15 requests from overseas regulators, of which one sought non-public information, 13 sought investigatory assistance and one sought other assistance. Responses have been provided to 13 requests and two requests are being processed. The SFC made 16 requests to regulators outside Hong Kong for investigatory assistance. Three boiler room operations were referred to overseas regulators during the quarter.

Communication with the market

During the quarter, we continued to review our publications to enhance our communication with external parties. We reviewed and redesigned the SFC Alert, which has been renamed as the SFC Bulletin, with a new layout and a focus on regulatory and market development issues relevant to intermediaries and market practitioners. We also adopted a new presentation style for the Enforcement Reporter. All the publications are available on the SFC website and offer

an electronic subscription service.

Education

We launched our first cross-media financial knowledge quiz on 18 September to enhance investors' knowledge of investment and the risks associated with different financial products and services. We aimed to reach a wider spectrum of investors through this collaboration with the Hong Kong Economic Times, Radio Television Hong Kong and Cable TV. Hundreds of investors had participated in the competition which will conclude in a television finale in January 2008.

In light of the Man Lung Hong case, we posted tips on the InvestEd website to help investors guard against misappropriation. Articles were also published in our weekly investor education column in *Headline Daily* and our monthly e-newsletter for investors.

We issued two public alerts regarding an investment scam and a boiler room website. In the first case, an unlicensed company invited the public to invest in an unauthorised investment plan offering a return of 25% per month. In the second case, a suspected boiler room operator put up a false notice on its website that the SFC and Police had raided its offices and frozen its bank accounts.

During the quarter, we published two investor leaflets, providing investors with a list of questions to ask before investing in funds, and reminding investors that hedge funds are only suitable for those who can understand and bear the risk involved. In addition, *Dr Wise's Column* ran three articles covering index tracking ETFs, boiler room scams, and investment-linked assurance schemes.

Following our authorisation of the 130/30 UCITS III fund, we published Frequently Asked Questions on the InvestEd website on the risks related to the use of the 130/30 strategy.

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

Organisational Matters

The total number of staff as at 30 September was 446, as compared to 441 a year ago.

Total revenue for the quarter increased 49% from \$435 million in the previous quarter to \$650 million as a result of increased levy income derived from robust market activities. Expenditure was \$134 million, 12% below our approved budget. As a result, the SFC recorded a surplus of \$516 million for the quarter, compared with the \$304 million in the previous quarter. Our reserves stood at \$2.8 billion at the end of September.

Securities and Futures Commission

Consolidated Income and Expenditure Account

For the three months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited and Unreviewed	
	Three Months Ended	
	30 Sep 2007	30 Sep 2006
		(Restated)
	\$'000	\$'000
Income		
Levies	537,305	191,664
Fees and charges	81,754	56,137
Investment income	28,835	16,123
Less: custody and advisory expenses	(306)	(199)
Investment income net of third party expenses	28,529	15,924
Recoveries from the Investor Compensation Fund	1,088	892
Other income	1,395	1,278
	<u>650,071</u>	<u>265,895</u>
	-----	-----
Expenses		
Staff costs and directors' emoluments	109,560	95,559
Premises		
rent	5,293	5,336
other	4,130	3,783
Other expenses	11,973	12,711
	<u>130,956</u>	<u>117,389</u>
Depreciation	2,837	3,069
	<u>133,793</u>	<u>120,458</u>
	-----	-----
Surplus	<u>516,278</u>	<u>145,437</u>

Securities and Futures Commission

Consolidated Income and Expenditure Account

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited Six Months Ended	
		30 Sep 2007	30 Sep 2006 (Restated)
		\$'000	\$'000
Income			
Levies		879,167	422,032
Fees and charges		149,677	103,861
Investment income		53,054	29,345
Less: custody and advisory expenses		(573)	(383)
Investment income net of third party expenses		52,481	28,962
Recoveries from the Investor Compensation Fund		1,925	1,657
Other income		2,049	6,838
		<u>1,085,299</u>	<u>563,350</u>
Expenses			
Staff costs and directors' emoluments	8	218,651	192,241
Premises			
rent		10,586	10,694
other		8,328	7,571
Other expenses		22,157	30,362
		<u>259,722</u>	<u>240,868</u>
Depreciation		5,377	5,667
		<u>265,099</u>	<u>246,535</u>
Surplus	2	<u>820,200</u>	<u>316,815</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 on pages 10 to 13 form part of the condensed financial statements.

Securities and Futures Commission

Consolidated Balance Sheet

At 30 September 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2007 \$'000	Audited At 31 Mar 2007 \$'000
Non-current assets			
Fixed assets		17,002	18,076
Held-to-maturity debt securities	3	<u>1,869,846</u>	<u>1,285,072</u>
		<u>1,886,848</u>	<u>1,303,148</u>
Current assets			
Held-to-maturity debt securities	3	786,983	624,828
Bank deposits		43,108	53,642
Debtors, deposits and prepayments		238,681	135,592
Cash at bank and in hand		<u>2,307</u>	<u>3,509</u>
		<u>1,071,079</u>	<u>817,571</u>
Current liabilities			
Fees received in advance		53,087	52,225
Creditors and accrued charges		<u>54,897</u>	<u>34,304</u>
		<u>107,984</u>	<u>86,529</u>
Net current assets		<u>963,095</u>	<u>731,042</u>
Total assets less current liabilities		2,849,943	2,034,190
Non-current liabilities	4	<u>49,789</u>	<u>54,236</u>
Net assets		<u>2,800,154</u>	<u>1,979,954</u>
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	<u>2,757,314</u>	<u>1,937,114</u>
		<u>2,800,154</u>	<u>1,979,954</u>

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

Securities and Futures Commission

Balance Sheet

At 30 September 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2007 \$'000	Audited At 31 Mar 2007 \$'000
Non-current assets			
Fixed assets		16,970	18,025
Held-to-maturity debt securities	3	1,869,846	1,285,072
		<u>1,886,816</u>	<u>1,303,097</u>
Current assets			
Held-to-maturity debt securities	3	786,983	624,828
Bank deposits		43,108	53,642
Debtors, deposits and prepayments		238,205	135,431
Cash at bank and in hand		1,868	2,797
		<u>1,070,164</u>	<u>816,698</u>
Current liabilities			
Fees received in advance		53,087	52,225
Creditors and accrued charges		53,950	33,380
		<u>107,037</u>	<u>85,605</u>
Net current assets		<u>963,127</u>	<u>731,093</u>
Total assets less current liabilities		2,849,943	2,034,190
Non-current liabilities	4	<u>49,789</u>	<u>54,236</u>
Net assets		<u>2,800,154</u>	<u>1,979,954</u>
Funding and reserves			
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Accumulated surplus	2	2,757,314	1,937,114
		<u>2,800,154</u>	<u>1,979,954</u>

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

Securities and Futures Commission

Consolidated Cash Flow Statement

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited Six Months Ended	
	30 Sep 2007	30 Sep 2006
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	820,200	316,815
Adjustments for :		
Depreciation	5,377	5,667
Investment income	(53,054)	(29,345)
Interest received	35,384	22,478
Gain on sale of fixed assets	<u>-</u>	<u>(16)</u>
	807,907	315,599
Increase in debtors, deposits and prepayments	(89,480)	(2,445)
Increase in creditors and accrued charges	20,594	13,219
Increase / (decrease) in fees received in advance	862	(1,851)
Decrease in non-current liabilities	<u>(4,447)</u>	<u>(4,456)</u>
Net cash generated from operating activities	<u>735,436</u>	<u>320,066</u>
Cash flows from investing activities		
Held-to-maturity debt securities bought	(1,095,848)	(533,724)
Held-to-maturity debt securities redeemed	352,980	213,560
Fixed assets bought	(4,304)	(5,295)
Fixed assets sold	<u>-</u>	<u>17</u>
Net cash used in investing activities	<u>(747,172)</u>	<u>(325,442)</u>
Net decrease in cash and cash equivalents	(11,736)	(5,376)
Cash and cash equivalents at beginning of the six months period	<u>57,151</u>	<u>49,883</u>
Cash and cash equivalents at end of the six months period	<u>45,415</u>	<u>44,507</u>
Analysis of the balance of cash and cash equivalents :		
	Unaudited	Unaudited
	At 30 Sep 2007	At 30 Sep 2006
	\$'000	\$'000
Bank deposits	43,108	39,851
Cash at bank and in hand	<u>2,307</u>	<u>4,656</u>
	<u>45,415</u>	<u>44,507</u>

Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 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 30 September 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 \$29,345,000 (investment income for the six months ended 30 September 2006) and \$30,745,000 (other expenses for the six months ended 30 September 2006). There is no change to the surplus of the period or comparative period and no change in net assets as at 30 September 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 six months ended 30 September 2007.

Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

2. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the six months ended 30 September 2007 are as follows :

	Unaudited \$'000
Balance at 31 March 2007	1,937,114
Surplus	<u>820,200</u>
Balance at 30 September 2007	<u><u>2,757,314</u></u>

3. Held-to-maturity debt securities

As of 30 September 2007, the total market value of held-to-maturity debt securities amounted to \$2,661,374,000 (31 March 2007 : \$1,912,447,000), which was above the total carrying cost of \$2,656,829,000 (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 September 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 six months ended 30 September 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 30 September 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 30 September 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 six months ended 30 September 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 \$1,925,000 (2006 : \$1,657,000), 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 six months ended	
	30 Sep 2007	30 Sep 2006
	\$'000	\$'000
Short-term employee benefits	14,196	9,645
Post employment benefits	931	63
	<u>15,127</u>	<u>9,708</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 \$707,000 (2006: 863,000).

Securities and Futures Commission

Independent review report to the board of directors of the
Securities and Futures Commission (the SFC)
(Established in Hong Kong under the Securities and Futures Ordinance)

Introduction

We have been instructed to review the interim financial report set out on pages 6 to 13 which comprises the consolidated balance sheet of the Securities and Futures Commission (SFC) as of 30 September 2007 and the related consolidated statements of income and expenditure, changes in equity and cash flows for the six month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

4 December 2007

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 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 16 to 22.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 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 six months.

On behalf of the Committee

Keith Lui
Chairman

4 December 2007

Investor Compensation Fund

Income and Expenditure Account

For the three months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited and Unreviewed	
	Three Months Ended	
	30 Sep 2007	30 Sep 2006
	\$'000	\$'000
Income		
Net investment income	40,526	32,671
Exchange difference	(5,915)	2,826
	<u>34,611</u>	<u>35,497</u>
	-----	-----
Expenses		
ICC expenses	1,088	892
Compensations / (write backs)	5,615	47,412
Auditor's remuneration	19	18
Bank charges	194	185
Professional fees	747	668
	<u>7,663</u>	<u>49,175</u>
	-----	-----
Surplus / (deficit) for the period	26,948	(13,678)
Accumulated surplus brought forward	<u>671,055</u>	<u>581,699</u>
Accumulated surplus carried forward	<u>698,003</u>	<u>568,021</u>

Investor Compensation Fund

Income and Expenditure Account

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited Six Months Ended	
		30 Sep 2007 \$'000	30 Sep 2006 \$'000
Income			
Net investment income		66,217	43,865
Exchange difference		(5,481)	3,413
		<u>60,736</u>	<u>47,278</u>
Expenses			
ICC expenses	2	1,925	1,657
Compensations / (write backs)	3	(11,317)	47,412
Auditor's remuneration		39	36
Bank charges		385	370
Professional fees		1,460	1,309
Sundry expenses		<u>1</u>	<u>1</u>
		<u>(7,507)</u>	<u>50,785</u>
Surplus / (deficit) for the period		68,243	(3,507)
Accumulated surplus brought forward		<u>629,760</u>	<u>571,528</u>
Accumulated surplus carried forward		<u>698,003</u>	<u>568,021</u>

The notes on pages 21 and 22 form part of the condensed financial statements.

Investor Compensation Fund

Balance Sheet

At 30 September 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2007 \$'000	Audited At 31 Mar 2007 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,536,029	1,548,070
- Equity securities		207,393	177,925
Interest receivable		24,608	24,516
Due from ICC		707	863
Fixed and call deposits with banks		55,750	27,800
Cash at bank		535	263
		<u>1,825,022</u>	<u>1,779,437</u>
Current liabilities			
Provision for compensation	3	22,528	45,214
Accounts payable and accrued charges		850	822
		<u>23,378</u>	<u>46,036</u>
Net current assets		<u>1,801,644</u>	<u>1,733,401</u>
Net assets		<u>1,801,644</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		698,003	629,760
		<u>1,801,644</u>	<u>1,733,401</u>

The notes on pages 21 and 22 form part of the condensed financial statements.

Investor Compensation Fund

Statement of Changes in Equity

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited Six Months Ended	
	30 Sep 2007	30 Sep 2006
	\$'000	\$'000
Compensation fund balance as at 1 April	1,733,401	1,674,206
Surplus/(deficit) for the period	68,243	(3,507)
Contributions from CECF	-	963
Compensation fund balance as at 30 September	<u>1,801,644</u>	<u>1,671,662</u>

The notes on pages 21 and 22 form part of the condensed financial statements.

Investor Compensation Fund

Cash Flow Statement

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited Six Months Ended	
	30 Sep 2007	30 Sep 2006
	\$'000	\$'000
Cash flows from operating activities		
Surplus / (deficit) for the period	68,243	(3,507)
Net investment income	(66,217)	(43,865)
Exchange difference	5,481	(3,413)
Decrease / (increase) in amount due from ICC	156	(366)
(Decrease) / increase in provision for compensation	(22,686)	47,412
Increase / (decrease) in accounts payable and accrued charges	28	(4)
Net cash used in operating activities	(14,995)	(3,743)
Cash flows from investing activities		
Purchase of debt securities	(799,090)	(997,772)
Sale or maturity of debt securities	805,326	891,498
Sale of equity securities	454	362
Interest received	36,527	30,559
Net cash generated from / (used in) investing activities	43,217	(75,353)
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	28,222	(78,133)
Cash and cash equivalents at beginning of the six-month period	28,063	152,350
Cash and cash equivalents at end of the six-month period	56,285	74,217
Analysis of the balance of cash and cash equivalents:		
	Unaudited	Unaudited
	At 30 Sep 2007	At 30 Sep 2006
	\$'000	\$'000
Cash at bank	535	1
Fixed and call deposits with banks	55,750	74,216
	<u>56,285</u>	<u>74,217</u>

Investor Compensation Fund

Notes to the Condensed Financial Statements

For the six months ended 30 September 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 six months ended 30 September 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 six months ended 30 September 2007, ICC incurred \$1,925,000 for its operation (For the six months ended 30 September 2006 : \$1,657,000).

Investor Compensation Fund

Notes to the Condensed Financial Statements

For the six months ended 30 September 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 six months ended 30 September 2007	(11,369)
Less : provision reversed during the six months ended 30 September 2007	(17,317)
Add : provision made during the six months ended 30 September 2007	<u>6,000</u>
Balance as at 30 September 2007	<u><u>22,528</u></u>

We maintained provision for liabilities arising from claims received resulting from a default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules and a case which may result in compensation payments from the Fund. The maximum liability of the Fund to claims for both cases is set at \$150,000 per claimant.

4. Related party transactions

We have related party relationships with the SFC, the ICC, the SEHK, the HKFE and the UECF. During the six 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 \$20,458,000 (As at 31 March 2007: \$7,784,000).

Investor Compensation Fund (the Fund)

Independent review report to the board of directors of the
Securities and Futures Commission (the SFC)
(Established in Hong Kong under the Securities and Futures Ordinance)

Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 17 to 22 which comprises the balance sheet of the Investor Compensation Fund (the Fund) as of 30 September 2007 and the related statements of income and expenditure, changes in equity and cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

4 December 2007

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 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 25 to 31.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 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 six months.

On behalf of the Committee

Keith Lui
Chairman

29 November 2007

Unified Exchange Compensation Fund

Income and Expenditure Account

For the three months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited and Unreviewed	
	Three Months Ended	
	30 Sep 2007	30 Sep 2006
	\$'000	\$'000
Income		
Interest income	1,017	666
Recoveries	(72)	4,993
	<u>945</u>	<u>5,659</u>
	-----	-----
Expenses		
Compensation expenses (reversed) / made	(4)	(129)
Recoveries re-distributed	33,210	-
Auditor's remuneration	9	8
Professional fees	12	11
	<u>33,227</u>	<u>(110)</u>
	-----	-----
(Deficit) / Surplus	(32,282)	5,769
Accumulated surplus brought forward	<u>45,579</u>	<u>12,648</u>
Accumulated surplus carried forward	<u>13,297</u>	<u>18,417</u>

Unified Exchange Compensation Fund

Income and Expenditure Account

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited Six Months Ended	
		30 Sep 2007	30 Sep 2006
		\$'000	\$'000
Income			
Interest income		2,006	1,292
Recoveries	2	<u>26,965</u>	<u>7,440</u>
		<u>28,971</u>	<u>8,732</u>
Expenses			
Compensation expenses (reversed) / made		1,643	(129)
Recoveries re-distributed		33,210	-
Auditor's remuneration		18	16
Professional fees		12	11
Sundry expenses		<u>1</u>	<u>1</u>
		<u>34,884</u>	<u>(101)</u>
(Deficit) / Surplus		(5,913)	8,833
Accumulated surplus brought forward		<u>19,210</u>	<u>9,584</u>
Accumulated surplus carried forward		<u>13,297</u>	<u>18,417</u>

The notes on pages 30 and 31 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Balance Sheet

At 30 September 2007

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2007 \$'000	Audited At 31 Mar 2007 \$'000
Current assets			
Equity securities received under subrogation	2	839	560
Interest receivable		106	113
Fixed and call deposits with banks		91,692	66,324
Cash at bank		71	13
		<u>92,708</u>	<u>67,010</u>
Current liabilities			
Accounts payable and accrued charges		4,303	4,306
Recoveries to be re-distributed	3	33,210	-
Provision for compensation	4	27	1,823
		<u>37,540</u>	<u>6,129</u>
Net current assets		<u>55,168</u>	<u>60,881</u>
Net assets		<u>55,168</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		13,297	19,210
		<u>1,049,886</u>	<u>1,055,599</u>
Contributions to Investor Compensation Fund		<u>(994,718)</u>	<u>(994,718)</u>
		<u>55,168</u>	<u>60,881</u>

The notes on pages 30 and 31 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Statement of Changes in Equity

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited Six Months Ended	
	30 Sep 2007	30 Sep 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>(5,913)</u>	<u>8,833</u>
Compensation fund balance as at 30 September	<u><u>55,168</u></u>	<u><u>60,088</u></u>

The notes on pages 30 and 31 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Cash Flow Statement

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Unaudited Six Months Ended	
	30 Sep 2007	30 Sep 2006
	\$'000	\$'000
Cash flows from operating activities		
(Deficit) / surplus for the period	(5,913)	8,833
Interest income	(2,006)	(1,292)
(Increase) / decrease in equity securities received under subrogation	(279)	192
(Decrease) / increase in accounts payable and accrued charges	(3)	46
Increase in recoveries to be re-distributed	33,210	-
Decrease in provision for compensation	(1,796)	(129)
Net cash generated from operating activities	23,213	7,650
Cash flows from investing activities		
Interest received	2,013	1,150
Net cash generated from investing activities	2,013	1,150
Cash flows from financing activities		
Contributions from the SEHK	200	-
Net cash generated from financing activities	200	-
Net increase in cash and cash equivalents	25,426	8,800
Cash and cash equivalents at beginning of the six-month period	66,337	57,250
Cash and cash equivalents at end of the six-month period	91,763	66,050

Analysis of the balance of cash and cash equivalents:

	Unaudited	Unaudited
	At 30 Sep 2007	At 30 Sep 2006
	\$'000	\$'000
Cash at bank	71	67
Fixed and call deposits with banks	91,692	65,983
	91,763	66,050

Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the six months ended 30 September 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 six months ended 30 September 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 30 September 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. On 24 October 2007, the Securities Compensation Fund Committee of the SFC decided to return 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. The excess amount and the relevant interest amount to be returned to the claimants amount to \$33.21 million.

Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the six months ended 30 September 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 six-month ended 30 September 2007	(3,443)
Add : provision made	1,647
Balance as at 30 September 2007	<u><u>27</u></u>

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

5. Related party transactions

We have related party relationships with the ICF, the SFC and the SEHK. During the six 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).

Unified Exchange Compensation Fund (the Fund)

Independent review report to the board of directors of the
Securities and Futures Commission (the SFC)
(Established in Hong Kong under the Securities and Futures Ordinance)

Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 26 to 31 which comprises the balance sheet of the Unified Exchange Compensation Fund (the Fund) as of 30 September 2007 and the related statements of income and expenditure, changes in equity and cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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29 November 2007

Appendix

Table 1

Statistics of Enforcement Actions			
	Jul - Sep 2007	Apr - Jun 2007	Jul - Sep 2006
Successful prosecutions	20	26	13
Actions against entities (Note 1)	19	12	15
Cases under investigation (Notes 2 and 3)	322	358	457
Disciplinary inquiries in progress (Note 3)	95	101	115
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			
	30 Sep 2007	31 Jun 2007	30 Sep 2006
Unit trusts and mutual funds	2,014	2,001	1,955
Investment-linked assurance schemes	218	214	197
Pooled retirement funds	36	36	37
MPF master trust / industry schemes	36	36	39
MPF pooled investment funds (Note 1)	290	293	281
Real Estate Investment Trusts	7	7	4
Other schemes (Note 2)	144	143	127
Total	2,745	2,730	2,640
Note 1: There are 128 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 3

Statistics of Investor Enquiries and Public Complaints			
	Jul - Sep 2007	Apr - Jun 2007	Jul - Sep 2006
Enquiries	1,728	1,536	1,697
Complaints	353 (Note 1)	258	282
Note 1: Complaints relating to trading disputes and boiler rooms increased substantially during the quarter.			