



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

Quarterly Report
April - June 2008

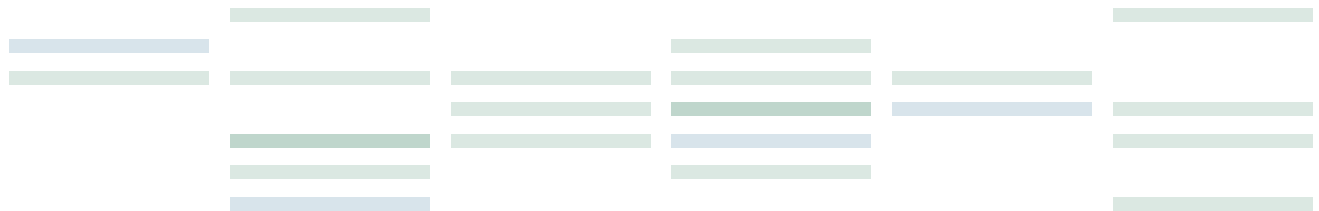


Informed Investors Quality Markets

This first Quarterly Report of the Securities and Futures Commission for financial year 2008-09 covers the period from 1 April to 30 June. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

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Chief Executive Officer's Message

To effectively combat and deter market misconduct, we always make full use of the spectrum of remedies at our disposal, including criminal prosecutions. This quarter saw us commence the second criminal insider dealing prosecution since the inception of the Securities and Futures Ordinance in 2003.

With facilitating market development, we also made further inroads. We streamlined the pre-vetting of notices and advertisements of SFC-authorized collective investment schemes (CISs), having received general support for the proposed changes in an earlier consultation. The new vetting approach will contribute towards enhanced efficiency of the Hong Kong fund industry.

In line with the need to maintain a fine balance between the protection of investors' interests and the promotion of market efficiency, we conducted a thorough review of the securities trading activities during the Closing Auction Session (CAS) on 30 May, which showed significant price fluctuations. We also heightened surveillance over trading during subsequent CASs.

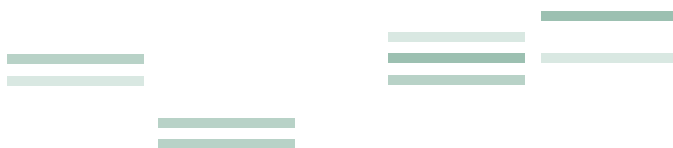
Our partnership with the media in investor education has been fruitful. During the quarter, we launched a story-telling competition inviting contestants to share their investment experiences and to highlight the key lessons learned. The campaign was organised jointly with our media partners to engage a wide cross-section of investors.

Our education efforts have kept pace with market development. During the quarter, we focused on helping investors understand the risks involved in complex structured products.

In the following pages, I am pleased to set forth the major initiatives in our three main areas of work, namely regulation, facilitation and education, in the first quarter of year 2008-09.

Martin Wheatley

Chief Executive Officer



Operational Review

Regulation

Efficiency enhanced in enforcement actions

We believe in continual improvement in our enforcement work. As an indicative measure of our improvement, we are concentrating on completing investigations within seven months and we did so in 76% of all completed investigations during the quarter, up from 58% for the same quarter last year.

At the SFC, one of our objectives is to send a strong message to deter market misconduct. In the quarter, we continued our campaign to use all the tools available to tackle insider dealing, commencing the second criminal insider dealing prosecution since the Securities and Futures Ordinance (SFO) came into effect in 2003 against one person who faced four charges of insider dealing.

During the quarter, 10 parties appeared before the criminal courts on charges brought by the SFC, eight of whom were convicted of 51 various violations, namely market manipulation, unlicensed leveraged foreign exchange trading, unlicensed securities advice business, breach of the Financial Resources Rules, provision of false or misleading information and disclosure offences.

Two parties received jail sentences, each for four months suspended for two years, and the remaining six parties were fined a total of \$138,000. The convictions resulted in orders for investigation costs totalling \$142,435.

We successfully sought from the High Court an interim worldwide injunction on an ex parte basis to freeze assets of up to \$43 million held by two individuals, who were suspected of insider dealing to avoid possible losses stemming from the imminent forced liquidation of Asia Telemedia Limited, a Hong Kong-listed company. The injunction serves to prevent the dissipation of assets while investigation continues and to ensure assets are available to satisfy any possible future court order. This was the third injunction the SFC has obtained in the past year to freeze the profits of suspected insider dealers.

A Market Misconduct Tribunal inquiry into alleged market manipulation in the shares of Mobicon Group Limited was commenced in the quarter. Although the SFC is not conducting the proceedings, the inquiry is the result of its investigation.

We further took disciplinary action against 19 people and firms for various breaches. As a result, five people were banned from the industry for life for market manipulation, theft or facilitating theft. The licence of one individual was suspended

following the dismissal of an appeal by the Securities and Futures Appeal Tribunal (SFAT), which confirmed the SFC's decision. The remainder were fined, banned or suspended for various periods and/or reprimanded.

During the quarter, four separate appeals were lodged with the SFAT and 52 disciplinary proceedings were in progress.

Compliance encouraged

Our regulatory action should encourage good compliance and deter wrongdoing. This is reflected in the agreement reached in two enforcement cases. Under the agreements, repeated material breaches of the same kind will trigger an accelerated enforcement response.

In June, we resolved certain compliance issues with ICEA Capital Limited and ICEA Securities Limited. Under the resolution, the two entities were fined a total of \$38 million, the highest-ever fine imposed, and undertook to engage an independent audit firm to review their compliance systems. Similar material breaches in the next three years could lead to licence revocation.

Earlier in April, we adopted the same approach in resolving compliance issues with three Core Pacific-Yamaichi entities. The outcome indicated the concerned entities' willingness to embrace good remedial compliance practices and to forestall future misconduct.

Keeping an eye on orderly markets

In view of significant price fluctuations on 30 May during the CAS, an extended trading period introduced just earlier in the week, we conducted a thorough review immediately after the market closed on that day. Subsequently, we reminded Exchange Participants and investors of possible increases in trading activities and the risk of unusual price movements ahead of the half-year-end trading session. We also heightened surveillance in the interest of fairness and transparency.

Market standards maintained

We try to strike an optimum balance between market efficiency and investor protection. We consulted the market on proposed changes to the current practice in a bid to improve the regulatory regime. These proposals received general support from the market.

We released on 25 June the Consultation Conclusions paper in relation to certain proposed amendments to the

Codes on Takeovers and Mergers and Share Repurchases. The amendments, one of which helps plug loopholes in privatisation and delisting exercises, were to become effective on 1 August.

On 3 April, we released the Consultation Conclusions paper on mandating the electronic submission of Disclosure of Interests Notices, which aims to improve the timeliness of information dissemination to the public and thus raise market transparency. Submissions were received from a wide range of respondents who, on the whole, supported the proposal. We are working with Hong Kong Exchanges and Clearing Limited (HKEx) on implementation details.

HKEx's proposal to shorten by one month the deadline for listed companies to publish annual and half-year financial reports was approved on 16 June. We take this as a welcomed step forward in promoting timely disclosure by main board-listed companies.

International regulatory co-operation sought

During the quarter, we received 12 requests from overseas regulators, two of which sought non-public information and 10 sought other assistance. We responded to nine requests and continue working on three other requests. Meanwhile, we made 18 requests to overseas regulators for investigatory assistance. One boiler-room operation was referred to a regulatory body.

Addressing public concerns

Some misconceptions about certain structured investment products, notably accumulators, came to our attention during the quarter. We helped clarify them and addressed the concerns expressed by some of the investors. We once again urged investors to contact the SFC if they suspect that regulations were breached.

During the quarter, we received 329 complaints, compared with 258 in the same period a year ago. Of the total, 35 complaints were related to boiler-room operations and we acted on 20 of them.

Facilitation

Promoting market diversification and new products

The SFC streamlined the pre-vetting of notices and advertisements of SFC-authorized CISs by revising the relevant product codes and advertising guidelines. The new approach, which will facilitate the marketing process of the fast-growing fund industry, is detailed in the Consultation Conclusions paper released on 26 June.

On 1 April, a joint Consultation Paper with HKEx was launched to gauge public feedback on allowing paper application forms to be handed out for public offers of shares, debentures as well as interests in SFC-authorized CISs, without also having to hand out paper offer documents if electronic offer documents are available on the prescribed websites. Made possible by technological advancement and the prevalence of the Internet, the proposal will help protect the environment and reduce transaction costs. The consultation ended on 30 May; comments are being reviewed.

Companies can now list in Hong Kong by way of depositary receipts after we approved proposed changes to the main board listing rules. Other changes to the listing rules for both the main board and the Growth Enterprise Market were approved to facilitate HKEx's re-positioning of the latter as a secondary board and a stepping stone to the main board.

We have commenced the review of the Code on Unit Trusts and Mutual Funds (UT Code), kicking it off with the formation of workgroups comprising stakeholders from various disciplines for discussions on the appropriate framework to be adopted. Our aim is to further enhance the introduction of new investment products in the retail market.

The HKEx proposal to introduce gold futures on the Hong Kong Futures Exchange was approved in June. Trading of gold futures is expected to start in October 2008.

A consultation on the proposal to exempt exchange traded funds (ETFs) from interest disclosure requirements ended on

Statistics of public complaints

Nature of complaints	Q1 2008-09	Q1 2007-08	% change
Conduct of licensed intermediaries and registered institutions	72	64	13%
Listing related matters & disclosure of interests	103	84	23%
Market misconduct	76	46	65%
Products	7	4	75%
Other financial activities	66	58	14%
Miscellaneous	5	2	150%
Total	329	258	28%

6 June. The initiative to expedite the listing of ETFs in different forms while aligning Hong Kong's approach with international practices is meant to sharpen Hong Kong's competitive edge as a regional ETF hub.

With the same objective in mind, we are studying the feasibility of mutual recognition and cross-listing of ETFs between Taiwan and Hong Kong. We also began working with the Australian Securities and Investments Commission (ASIC) on mutual recognition of cross-border offering of CISs to facilitate the sale of retail funds to investors in each other's market.

During the quarter, we authorised six ETFs, bringing the total number authorised to 23. At quarter-end, these 23 ETFs had under management total assets of more than US\$14.4 billion, reaffirming HK's position as the largest ETF market in Asia (ex-Japan) in terms of market capitalisation.

We also actively pursued opportunities to fulfil Hong Kong's ambition in becoming an Islamic finance centre. The quarter witnessed a flurry of activities. We were part of the Hong Kong delegation to Kuala Lumpur, Malaysia, in April and attended meetings on Islamic finance with regulatory counterparts and industry participants. In May, we joined an Islamic finance road show staged in Dubai and Jordan. For our own staff and representatives of other regulatory bodies and government agencies, we organised a workshop on 20 May, featuring speakers from the Islamic banking team of Malaysia's OSK Group. The workshop covered the latest developments in Islamic capital markets as well as case studies on issuance of *Sukuk* or an Islamic equivalent of a bond.

On 18 and 19 June, we participated in the Malaysia Islamic Capital Market Conference organised by Bursa Malaysia. We also met with the Malaysia Securities Commission and Bursa Malaysia to explore mutual co-operation and the development of Islamic funds and ETFs in Hong Kong.

Catering to changing market demands

During the quarter, we approved HKEx's proposed amendments to relax the tick rule. HKEx will further consult the market on the proposal.

Two teams have been assigned the role of handling licensing applications by Mainland fund managers. A number of Mainland fund managers have expressed interest in setting up operations in Hong Kong after the China Securities Regulatory Commission (CSRC) announced measures allowing such arrangements under Supplement IV to the Closer Economic Partnership Arrangement (CEPA IV).

During the quarter, we received 3,564 licence applications, slightly more than the same quarter last year. The number of licensees stood at 35,759 as at 30 June, up 18% from the previous year.

During this quarter, the SFC received 16 licence applications from hedge fund managers. At quarter-end, Hong Kong counted 208 licensed hedge fund managers / advisers, 28% more than the previous year.

Number of authorised investment products

	As at 30/06/2008	As at 30/06/2007
Unit trusts and mutual funds	2,210	2,001
Investment-linked assurance schemes	232	214
Pooled retirement funds	36	36
MPF master trust schemes	36	36
MPF pooled investment funds	296 ¹	293
Others	147 ²	150
Total	2,957	2,730

¹ In this category, 128 of the funds were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

² Other schemes comprised 127 investment-linked deposits, 13 paper gold schemes and seven REITs.

Number of licensees as at 30 June 2008 (30 June 2007 in brackets)

	Corporations		Representatives		Responsible Officers		Total		% Change
Stock Exchange participants	419	(411)	9,965	(8,619)	1,345	(1,268)	11,729	(10,298)	14%
Futures Exchange participants	109	(111)	379	(416)	69	(64)	557	(591)	-6%
Stock Exchange and Futures Exchange participants	36	(25)	2,086	(1,317)	182	(138)	2,304	(1,480)	56%
Non-participants	912	(816)	17,879	(14,982)	2,378	(2,132)	21,169	(17,930)	18%
Grand total	1,476	(1,363)	30,309	(25,334)	3,974	(3,602)	35,759	(30,299)	18%

Co-operation with Mainland increased

Following the signing of the Regulatory Co-operation Agreement of Understanding with the China Insurance Regulatory Commission (CIRC), we met with the CIRC on 27 June in Beijing. During the meeting, we exchanged information and updates regarding our organisations and discussed the regulation of investment-linked assurance schemes. It was agreed at the meeting to hold a high-level seminar in Hong Kong in late 2008 for those Mainland insurance companies seeking to set up fund management activities in Hong Kong.

An SFC representative also attended a Qualified Domestic Institutional Investor (QDII) Experts Committee meeting for product review held by the CSRC during the quarter. At the QDII seminar organised by the CSRC in Qingdao on 16 May, we shared our views and observations from the perspective of a regulator of foreign entities advising Mainland financial authorities, fund managers and their custodians on QDII investments. We also explained to the Mainland audience Hong Kong's licensing regime.

Reaching out overseas

The SFC signed a memorandum of understanding (MOU) with the Dubai Financial Services Authority on 3 April for mutual co-operation on capacity building and human capital development in Islamic finance, as well as the promotion and development of their respective Islamic capital market segments. The MOU offers Hong Kong a wider platform to develop itself into an active international Islamic finance market.

Getting in touch with the public

During the quarter, we published the Annual Report for the year 2007-08. A media conference was held to unveil the report officially, during which we highlighted enforcement successes in the prior fiscal year and the SFC's strategic priorities for the following year.

Apart from the Annual Report, three other publications were

released to help our stakeholders keep abreast of our policies and initiatives in various areas. The three publications were the 'SFC Bulletin', 'Enforcement Reporter' and 'Takeovers Bulletin'.

During the quarter, 1,167 enquiries were received from the general public.

Education

Our approach to investor education is both proactive and innovative. We try to anticipate market developments and design our education programmes accordingly, focusing our efforts on areas of need.

During the quarter, we focused our investor education resources on the risks of structured products. Apart from newspaper articles on equity-linked instruments (ELIs), we also carried additional features on the subject in our InvestEd website. In his column in April, Dr Wise highlighted the fact that many structured products are of high risk and have complex features.

We invited member banks of the Hong Kong Association of Banks to distribute the SFC's leaflets on ELIs to achieve a broad readership. We also encouraged the banks to incorporate into their own marketing materials SFC information on structured products.

In May, we launched an investor education initiative, "My Investment Story", directed at promoting a healthy investment attitude. Members of the public were invited to share their investment experiences. The winning entries were to be publicised through media partners and on the SFC's InvestEd website.

In May and June, we broadcast 18 time check messages on Commercial Radio One to drive home important educational messages.

Workshops were held for 200 secondary school teachers in a seminar organised with the Institute of Financial Planners of Hong Kong and the Education Bureau to prepare teachers for a module in the new curriculum to be introduced in the coming academic year.

We continued to handle enquiries from retail investors on wide ranging topics. There were 1,119 enquiries in the quarter, compared with 1,536 in the same period a year ago.

Organisational Matters

We counted 447 staff members as at 30 June, compared with 449 a year ago.

Total revenue for the quarter was \$501 million, compared with \$435 million in the same period last year and \$610 million in the previous quarter. Expenditure was \$154 million, 19% below our approved budget. This resulted in a surplus of \$348 million for the quarter, compared with \$304 million in the same quarter last year and \$431 million in the previous quarter. As of 30 June, our reserves stood at \$4.3 billion.

The SFC announced new appointments and re-appointments to the following committees with effect from 1 April: Academic and Accreditation Advisory Committee, Committee on Investment-Linked Assurance and Pooled Retirement Funds, Committee on Unit Trusts, Dual Filing Advisory Group, Investor Compensation Fund Committee, Investor Education Advisory Committee, Securities Compensation Fund Committee, SFC (HKEC Listing) Committee, Takeovers and Mergers Panel, Takeovers Appeal Committee and Nominations Committee.

Securities and Futures Commission

Consolidated income and expenditure account

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 June 2008	30 June 2007
		\$'000	\$'000 (restated)
Income			
Levies		407,495	341,862
Fees and charges		51,015	67,923
Investment income		41,427	24,002
Less: custody and advisory expenses		(475)	(267)
Investment income net of third party expenses		40,952	23,735
Recoveries from Investor Compensation Fund		1,079	837
Other income		728	654
		501,269	435,011
Expenses			
Staff costs and directors' emoluments		122,047	109,090
Premises			
rent		8,648	5,293
other		5,219	4,198
Other expenses		13,827	9,966
Depreciation		3,821	2,540
		153,562	131,087
Surplus	2	347,707	303,924
Accumulated surplus brought forward		3,898,361	1,937,114
Accumulated surplus carried forward		4,246,068	2,241,038

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

Securities and Futures Commission

Consolidated balance sheet

At 30 June 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2008	At 31 Mar 2008
		\$'000	\$'000
Non-current assets			
Fixed assets		31,432	15,749
Held-to-maturity debt securities	3	2,663,797	2,123,610
		2,695,229	2,139,359
Current assets			
Held-to-maturity debt securities	3	1,463,988	1,646,043
Bank deposits		135,440	85,612
Cash at bank and in hand		3,791	2,725
Debtors, deposits and prepayments		195,214	225,211
		1,798,433	1,959,591
Current liabilities			
Fees received in advance		49,968	57,185
Creditors and accrued charges		110,021	53,533
		159,989	110,718
Net current assets		1,638,444	1,848,873
Total assets less current liabilities		4,333,673	3,988,232
Non-current liabilities	4	44,765	47,031
Net assets		4,288,908	3,941,201
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	4,246,068	3,898,361
		4,288,908	3,941,201

Securities and Futures Commission

Balance sheet

At 30 June 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2008	At 31 Mar 2008
		\$'000	\$'000
Non-current assets			
Fixed assets		31,431	15,737
Held-to-maturity debt securities	3	2,663,797	2,123,610
		2,695,228	2,139,347
Current assets			
Held-to-maturity debt securities	3	1,463,988	1,646,043
Bank deposits		135,440	85,612
Cash at bank and in hand		3,088	2,334
Debtors, deposits and prepayments		194,925	225,016
		1,797,441	1,959,005
Current liabilities			
Fees received in advance		49,968	57,185
Creditors and accrued charges		109,028	52,935
		158,996	110,120
Net current assets		1,638,445	1,848,885
Total assets less current liabilities		4,333,673	3,988,232
Non-current liabilities	4	44,765	47,031
Net assets		4,288,908	3,941,201
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	4,246,068	3,898,361
		4,288,908	3,941,201

Securities and Futures Commission

Consolidated cash flow statement

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2008	30 June 2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus	347,707	303,924
Adjustments for :		
Depreciation	3,821	2,540
Investment income	(41,427)	(24,002)
Profit on disposal of fixed assets	(54)	-
	310,047	282,462
Decrease / (increase) in debtors, deposits and prepayments	34,682	(38,588)
Increase in creditors and accrued charges	56,487	11,826
Decrease in fees received in advance	(7,217)	(6,193)
Decrease in non-current liabilities	(2,266)	(2,224)
Net cash generated from operating activities	391,733	247,283
Cash flows from investing activities		
Interest received	40,332	12,663
Held-to-maturity debt securities bought	(770,830)	(361,253)
Held-to-maturity debt securities sold	94,798	-
Held-to-maturity debt securities redeemed	314,312	119,100
Fixed assets bought	(19,514)	(1,958)
Fixed assets sold	63	-
Net cash used in investing activities	(340,839)	(231,448)
Net increase in cash and cash equivalents	50,894	15,835
Cash and cash equivalents at beginning of the quarter	88,337	57,151
Cash and cash equivalents at end of the quarter	139,231	72,986
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 30 June 2008	At 30 June 2007
	\$'000	\$'000
Bank deposits	135,440	70,095
Cash at bank and in hand	3,791	2,891
	139,231	72,986

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2008

(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 2008 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of Investor Compensation Company Limited in the SFC's condensed financial statements made up to 30 June 2008. We eliminate all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2008 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 \$24,002,000 (investment income for the three months ended 30 June 2007) and \$10,233,000 (other expenses for the three months ended 30 June 2007). There is no change to the surplus of the period or comparative period and no change in net assets as at 30 June 2008 nor as at 31 March 2008.

There were no significant changes in the operation of the SFC for the quarter ended 30 June 2008.

2. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the quarter ended 30 June 2008 are as follows:

	Unaudited \$'000
Balance at 31 March 2008	3,898,361
Surplus for the quarter	347,707
Balance at 30 June 2008	4,246,068

3. Held-to-maturity debt securities

The Group and the SFC

As of 30 June 2008, the total market value of held-to-maturity debt securities amounted to \$4,138,434,000 (31 March 2008 : \$3,854,146,000), which was above the total carrying cost of \$4,127,785,000 (31 March 2008 : \$3,769,653,000).

Securities and Futures Commission

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 overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 June 2008. 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.

7. Investments in subsidiaries

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

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 30 June 2008, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the balance sheet which is expressed in thousands of dollars.

FinNet has not commenced operation. The balance sheet of FinNet as at 30 June 2008 and the income and expenditure account for the quarter then ended were immaterial. Therefore, we have not accounted for its result in the condensed consolidated financial statements.

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

Securities and Futures Commission

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 \$1,079,000 (2007 : \$837,000), in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all directors) comprised :

	Unaudited three months ended	
	30 June 2008	30 June 2007
	\$'000	\$'000
Short-term employee benefits	6,762	6,512
Post employment benefits	502	466
	7,264	6,978

The total remuneration is included in "staff costs and directors' emoluments" on page 7.

- (c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$772,000 (At 31 March 2008 : \$536,000).

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2008.

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 19.

3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2008 and up to the date of this report were : -

Mr Keith Lui (Chairman)

Mr Gerald Greiner

Mrs Alexa Lam

Mr Kenneth H W Kwok, BBS, SC

4. Interests in contracts

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

On behalf of the Committee

Keith Lui

Chairman

30 July 2008

Investor Compensation Fund

Income and expenditure account

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 June 2008	30 June 2007
		\$'000	\$'000
Income			
Net investment income		(20,441)	25,691
Exchange difference		1,856	434
		(18,585)	26,125
Expenses			
Investor Compensation Company expenses	2	1,079	837
Compensation write backs		(273)	(16,932)
Auditor's remuneration		21	20
Bank charges		201	191
Professional fees		781	713
Sundry expenses		1	1
		1,810	(15,170)
(Deficit) / Surplus		(20,395)	41,295
Accumulated surplus brought forward		756,185	629,760
Accumulated surplus carried forward		735,790	671,055

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

Investor Compensation Fund

Balance sheet

At 30 June 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2008 \$'000	Audited At 31 Mar 2008 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,399,883	1,502,130
- Equity securities		194,911	202,926
Interest receivable		16,209	21,411
Unsettled regular purchases of financial assets		-	46,987
Due from Investor Compensation Company		772	536
Fixed and call deposits with banks		238,157	104,916
Cash at bank		14	4,784
		1,849,946	1,883,690
Current liabilities			
Provision for compensation	3	9,643	22,978
Accounts payable and accrued charges		872	886
		10,515	23,864
Net current assets		1,839,431	1,859,826
Net assets		1,839,431	1,859,826
Representing :			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		735,790	756,185
		1,839,431	1,859,826

Investor Compensation Fund

Cash flow statement

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2008	30 June 2007
	\$'000	\$'000
Cash flows from operating activities		
(Deficit) / surplus for the quarter	(20,395)	41,295
Net investment income	20,441	(25,691)
Exchange difference	(1,856)	(434)
Increase in amount due from Investor Compensation Company	(236)	(187)
Decrease in unsettled regular purchase of financial assets	46,987	-
Decrease in provision for compensation	(13,335)	(19,532)
(Decrease) / increase in accounts payable and accrued charges	(14)	45
Net cash used in operating activities	31,592	(4,504)
Cash flows from investing activities		
Purchase of debt securities	(495,894)	(377,566)
Sale or maturity of debt securities	570,410	491,133
Sale of equity securities	253	215
Interest received	22,110	23,334
Net cash from investing activities	96,879	137,116
Net increase in cash and cash equivalents	128,471	132,612
Cash and cash equivalents at beginning of the quarter	109,700	28,063
Cash and cash equivalents at end of the quarter	238,171	160,675
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 30 June 2008	At 30 June 2007
	\$'000	\$'000
Fixed and call deposits with banks	238,157	160,115
Cash at bank	14	560
	238,171	160,675

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2008

(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 2008 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 2008 to the interim financial report.

2. ICC expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the quarter ended 30 June 2008, ICC incurred \$1,079,000 for its operation (For the quarter ended 30 June 2007 : \$837,000).

3. Provision for compensation

	\$'000
Balance as at 1 April 2007	45,214
Add: provision made during the year ended 31 March 2008	6,450
Less: provision reversed during the year ended 31 March 2008	(17,323)
Less: compensation paid during the year ended 31 March 2008	(11,363)
Balance as at 31 March 2008	22,978
Add: provision made during the quarter ended 30 June 2008	2,893
Less: compensation paid during the quarter ended 30 June 2008	(13,062)
Less: provision reversed during the quarter ended 30 June 2008	(3,166)
Balance at 30 June 2008	9,643

We maintained provision for liabilities arising from claims received resulting from three default cases for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for these cases is set at the lower of \$150,000 per claimant or the amount claimed. As at 30 June 2008 all provisions were expected to be paid within one year.

4. Related party transactions

We have related party relationships with the SFC, the ICC, the SEHK, the HKFE and the UECF. During the quarter, there were no significant related party transactions other than those disclosed in the financial statements.

Investor Compensation Fund

5. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$300,000. This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2008.

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 on 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After reserving sufficient money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

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

2. Financial results

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

3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2008 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

4. Interests in contracts

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

On behalf of the Committee

Keith Lui

Chairman

30 July 2008

Unified Exchange Compensation Fund

Income and expenditure account

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 June 2008	30 June 2007
		\$'000	\$'000
Income			
Interest income		239	989
Recoveries	2	(28)	27,037
		211	28,026
Expenses			
Compensation expenses		-	1,647
Auditor's remuneration		9	9
Sundry expenses		1	1
		10	1,657
Surplus		201	26,369
Accumulated surplus brought forward		13,910	19,210
Accumulated surplus carried forward		14,111	45,579

Unified Exchange Compensation Fund

Balance sheet

At 30 June 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2008	At 31 Mar 2008
		\$'000	\$'000
Current assets			
Equity securities received under subrogation		636	670
Interest receivable		80	100
Fixed and call deposits with banks		59,431	59,223
Cash at bank		644	373
		60,791	60,366
Current liabilities			
Accounts payable and accrued charges		4,282	4,308
Provision for compensation	3	27	27
		4,309	4,335
Net current assets		56,482	56,031
Net assets		56,482	56,031

Representing :

Compensation fund

Contributions from the SEHK		46,800	46,550
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		14,111	13,910
		1,051,200	1,050,749
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		56,482	56,031

Unified Exchange Compensation Fund

Statement of changes in equity

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2008	30 June 2007
	\$'000	\$'000
Compensation fund balance as at 1 April	56,031	60,881
Surplus for the quarter	201	26,369
Contributions received from / (refunded to) the SEHK	250	(50)
Compensation fund balance as at 30 June	56,482	87,200

Unified Exchange Compensation Fund

Cash flow statement

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2008	30 June 2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the quarter	201	26,369
Interest income	(239)	(989)
Decrease / (increase) in equity securities received under subrogation	34	(413)
Decrease in provision for compensation	-	(149)
(Decrease) / increase in accounts payable and accrued charges	(26)	10
Net cash (used in) / from operating activities	(30)	24,828
Cash flows from investing activities		
Interest received	259	953
Net cash from investing activities	259	953
Cash flows from financing activities		
Contributions from / (refunded to) the SEHK	250	(50)
Net cash from / (used in) financing activities	250	(50)
Net increase in cash and cash equivalents	479	25,731
Cash and cash equivalents at beginning of the quarter	59,596	66,337
Cash and cash equivalents at end of the quarter	60,075	92,068
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 30 June 2008	At 30 June 2007
	\$'000	\$'000
Fixed and call deposits with banks	59,431	92,044
Cash at bank	644	24
	60,075	92,068

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2008

(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2008 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 2008 to the interim financial report.

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 sale proceeds and the remaining shares at market value as of 30 June 2008 after deducting relevant processing fees and charges for collecting and selling the securities received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in IAS 39. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

	Quarter ended	
	30 June 2008	30 June 2007
	\$'000	\$'000
Recoveries received in cash (including stock dividend)	6	26,624
Revaluation (loss) / gain on shares received from subrogation	(34)	413
Recoveries recognised during the quarter	(28)	27,037

3. Provision for compensation

	Unaudited
	\$'000
Balance as at 1 April 2007	1,823
Less: amount paid during the year ended 31 March 2008	(3,439)
Add: provision made during the year ended 31 March 2008	1,643
Balance as at 31 March 2008 and 30 June 2008	27

Unified Exchange Compensation Fund

We maintain provision for a determined but unsettled claim in respect of one SEHK exchange participant for which the SEHK has published a notice calling for claims. There is no other outstanding claim against the Fund. As at 30 June 2008 all provisions were expected to be paid within one year.

4. Contributions from the SEHK

During the quarter, deposits of \$350,000 in respect of seven new trading rights were received from the SEHK.

The SEHK also advised the SFC of nine trading rights in total having been relinquished since October 2007. The SFC had refunded to the SEHK the deposit of \$100,000 in respect of two of these nine trading rights during the quarter ended 30 June 2008. The SFC shall refund to the SEHK the deposit of \$350,000 in respect of the remaining seven trading rights at the end of a six-month period after the relinquishment took effect.

5. Related party transactions

The Fund has related party relationships with the ICF, the SFC and the SEHK. During the quarter, 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 except for the claim set out in note 3.

Shares were allocated to the Fund under its subrogation rights in relation to the C.A. Pacific case (refer to note 2). As at 30 June 2008, shares with a market value \$636,000, which are listed on the SEHK, remained unsold. Any excess of recovered amounts (if any) after disposal of these remaining shares will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.