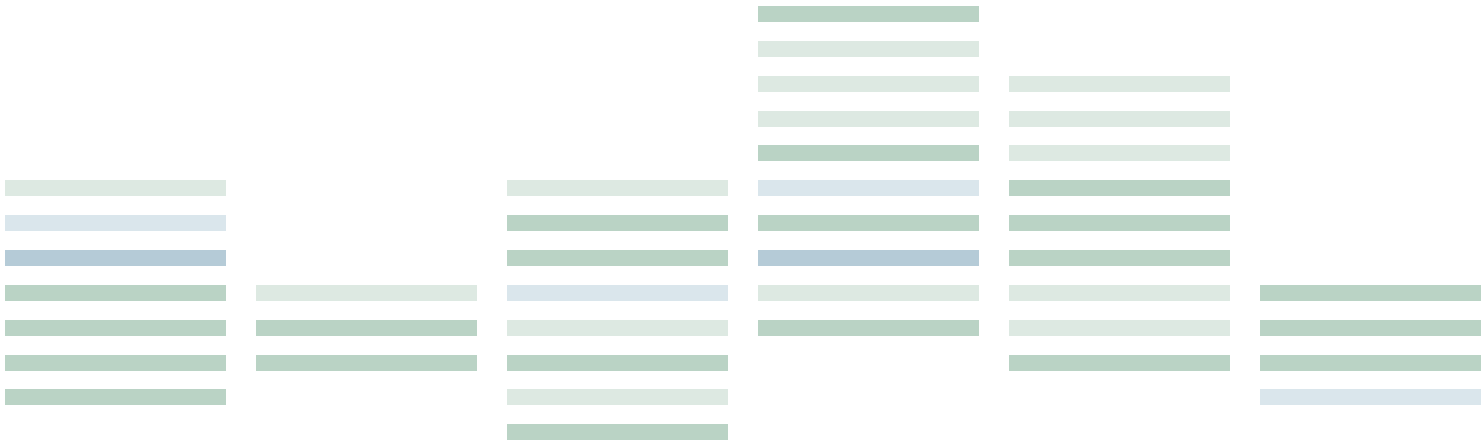




Informed Investors Quality Markets



Contents

Messages

- 02 Chairman's statement
- 04 Chief Executive Officer's statement

About Us

- 08 Who we are and what we do
- 12 Directors of the Commission
- 16 Corporate governance

Our People

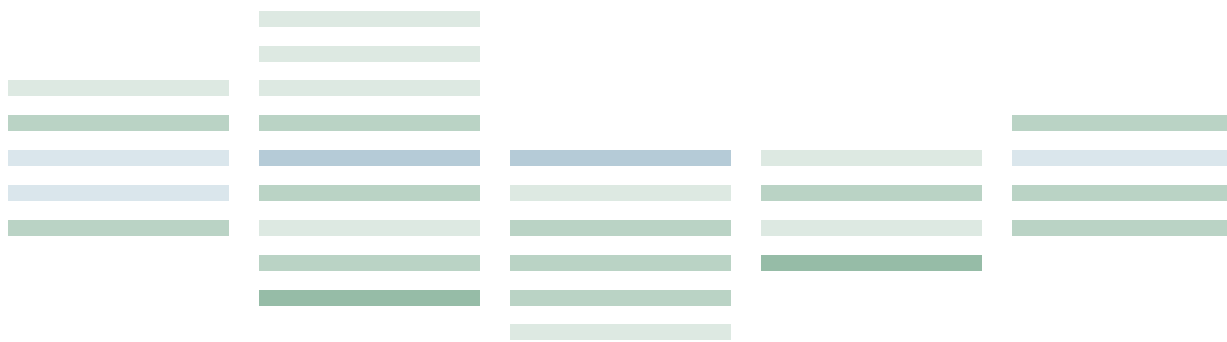
- 24 Care for employees
- 27 Life at the SFC
- 30 Helping the community



Informed Investors – Quality Markets

Through regulating, facilitating and educating, the SFC helps the public make informed decisions and also promotes a fair and efficient market – complementary qualities which are fundamental to Hong Kong's success as an international financial centre.

Like a well-established orchestra where musicians perform in unison, our financial services market is built on market participants conducting their business in a complementary manner in accordance with a set of rules and regulations. Through appropriate regulation and partnership, the SFC plays a guiding role and helps to maintain a high quality, orderly and harmonious market environment.



Operational Review

- 32 Event highlights
- 34 Regulation
- 42 Facilitation
- 50 Education
- 56 Statistical comparisons

Financial Review

- 58 Securities and Futures Commission financial statements
- 78 Investor Compensation Fund financial statements
- 93 Unified Exchange Compensation Fund financial statements

Others

- 105 Activity and market data
- 113 Committees, Panels and Tribunal
- 121 Abbreviations and index

Chairman's statement



The SFC has continued to strike a fine balance between the protection of investors' interests and the promotion of market development.




My first full year as Chairman of the SFC has been one of stark contrasts: an atmosphere of optimism and buoyant markets during the first half was swiftly eclipsed by global uncertainty in the latter part of the financial year.

Pessimism brought on by the subprime crisis in the United States extended to a credit crunch and the lack of fund flows in the global economy put pressure on the financial health of many institutions.

The task of managing rosy expectations in the first half of the year quickly shifted to a need for heightened regulatory diligence and I am pleased to say that we steered a steady course through the turbulence.

During the process, the SFC has continued to strike a fine balance between the protection of investors' interests and the promotion of market development. We maintained a favourable regulatory environment for Hong Kong to develop its unique role as a financial platform for both Mainland enterprises seeking to tap into international capital and overseas firms looking for a springboard into the Mainland.



Looking ahead, it is going to be an extremely challenging year. The effect of the US subprime crisis is spreading to the rest of the world and Asia will not be immune, although the effect is likely to be less severe than other regions.

Market confidence will be affected in Hong Kong just as it will in Europe, the US and Asia as investors become more cautious.

As a regulator, our aim continues to be to discharge our role to protect investors' interests during good times and bad. This calls for us to play a balancing act between creating an enabling environment for market innovation and development and ensuring that the interests of investors are not compromised.

We do recognise a need to remain vigilant not only in our own market but absolutely alert to the global picture and to developments across the border. The flow of Mainland enterprises seeking to raise funds in Hong Kong will be affected by their own financial health and the policy priorities of the Mainland.

While remaining cautious, I am confident that Hong Kong will continue to uphold and develop its unique position as a platform for capital movements in and out of the Mainland.

China's economy is poised to overtake Germany's to become the third largest economy in the world. To support their growth, Mainland companies will increasingly turn to the capital markets to raise funds, not only domestically, but also in overseas markets. At the same time, the swift development of the Mainland economy is accompanied by a rapid growth in the deposit savings and foreign exchange reserves, and China is fast growing from a net importer to a net exporter of capital.

Hong Kong has been very fortunate to take a front row seat in participating in and enjoying the success of China's opening up. But we should have something valuable to offer

in return. Apart from remaining the premier fund-raising centre for Mainland enterprises, Hong Kong can also act as an investment platform that exposes Mainland investors to the world. As the Mainland market enters the next stage of development, Hong Kong should keep in step with the market and proactively re-position itself to stay competitive.

We will maintain our traditional role of raising capital for growing investment opportunities in the Mainland, which will enable H-share companies to continue to list here to benefit from our high corporate governance standards.

Hong Kong will always be the first and best stop for Mainland enterprises before they go to the international market: here they can develop new skills and acquire familiarity with global players, from relatively close to home.

In the months ahead, the SFC will continue with our global regulatory efforts and work with the HKSAR government to broaden the base of international companies coming to Hong Kong. We will help policy-makers explore new opportunities such as the development of a commodities exchange and Islamic finance.

Above all, we will continue to fulfil our primary role to ensure Hong Kong remains a fair, transparent and attractive place for businesses and that our market retains a robust edge in the face of volatility and challenges ahead.

Last but not least, I would like to sincerely thank my fellow Directors and my other SFC colleagues for their contributions and dedication over the past year. I look forward to another fruitful year working with them.

Eddy C Fong
Chairman

Chief Executive Officer's statement



A major part of our work during the year has been to reinforce Hong Kong's status as an international financial centre by providing a regulatory backdrop which is fair, efficient and conducive to market development.



Even the most seasoned observers would have found it difficult to watch the past 12 months unfold without a hint of trepidation as Hong Kong's stock market provided an animated year of record highs, high volatility and unprecedented turnover.

Amid global volatility, our market absorbed sudden shocks, fluctuations and growing uncertainties with a resilience characteristic of Hong Kong. Its ability to adapt and unlock opportunities in the face of global challenges is what helps make our city one of the world's top financial centres.

A major part of our work during the year has been to reinforce this status as an international financial centre by providing a regulatory backdrop which is fair, efficient and conducive to market development. We are constantly working to position ourselves to best support the growth of the Hong Kong market as the global environment becomes increasingly competitive.

At the same time, we spent a great deal of time talking to the regulated community about how they manage risks as our concern grew that a healthy scepticism was declining. It became clear early last year that risks were not being properly priced globally – the subsequent seizing up of credit markets has affected both global growth and local markets.

Hong Kong's position as the gateway to the Mainland was likewise affected by developments across the border and we have been working very closely with our counterparts at the China Securities Regulatory Commission to understand their needs and to exchange views on some of the issues we are each dealing with.

As more Mainland enterprises seek to raise capital in our markets, it has been a core part of our work to make sure our standards are understood, respected and suitable to a continuous flow of Mainland IPOs into Hong Kong. We have also worked hard to explain our system to Mainland financial institutions as they stretch their wings globally, using Hong Kong as their first port of call.

An active year

Against the backdrop of the United States subprime crisis and uncertainty over monetary policies in the Mainland, Hong Kong's securities and futures markets faced a challenging operating environment, with the Hang Seng Index experiencing its biggest-ever point loss and gain in January 2008.

Turnover was unprecedented, totalling \$24,309 billion to the end of March 2008, with listing applications remaining healthy at 134 and the number of products authorised reaching 2,881. 442 Mainland enterprises (including H-shares, red chips and mining companies) have now been listed in Hong Kong and in total account for 57% and 52% respectively of market capital and turnover. Hong Kong also saw healthy growth in newcomers to the market, with 8,615 licences issued this year, up 44% over the previous year.

Facilitating growth

To meet the challenge of increasingly competitive markets in New York and London, products and services are becoming more complex. The SFC has been reviewing regulatory rules, structures and procedures to identify any barriers to market innovation and growth.

A decade after the Asian financial crisis, it is clear that some of the measures brought in during those times may have lost their benefit in today's markets. We have made changes where we believed the market had moved on, such as the introduction of flexibility to the derivative position limits regime. We are also studying the feasibility of suspending the application of the tick rule in normal market situations.

Our approval processes have been made more efficient, enabling more diverse types of entities and products to enter the market. This streamlined regulatory framework has been achieved without dropping standards.

It has been a process which involved being close to the market to identify and understand any blocks to development, and conducting a cost and benefit analysis where there are apparent hindrances. This has helped encourage a steady flow of players into our market. As we were able to streamline licensing processes and promote a more market-friendly operating environment, a number of hedge fund managers have approached us to discuss expansion plans in Hong Kong.

Regulating the market

As we continue with our efforts to make it easier and more economical for market players and intermediaries to set up in Hong Kong and carry out their business, the SFC remains vigilant in protecting investors' interests.

The monitoring of the market and intermediaries took on increasing significance amid fierce volatility, with particular attention paid to possible strains on the players and their financial operations.

Chief Executive Officer's statement

A pragmatic shift in our enforcement activities over the past 12 months saw us become more resourceful in the type of actions we took to address unacceptable behaviour in the market. At the same time our aim has been to send a potent message when breaches occur.

Our Enforcement team took strong action where we felt misconduct was significant and particularly harmful to the market. Our objective is to take action which drives changes in behaviour. During the year we invoked a wider range of legal remedies to further this goal. It was a year where we saw the first criminal insider dealing prosecution launched and the first immediate custodial sentence for market misconduct secured.

Educating the public

Keeping the public alert to potential areas of concern is a critical part of our education role and the SFC made full use of the mass media and internet resources to encourage investors to make informed investment choices.

Through a variety of investor education programmes developed along the theme 'Know Your Risk', we emphasised the need to take greater responsibility for investment decisions in a volatile environment and to fully understand the risks involved. We took a proactive approach in providing investors with information and timely advice on new types of investment funds and complex structured products as they were introduced to the retail market. We also issued public warnings when we noticed suspicious practices or misdeeds that warranted attention.

Our InvestEd website targeting both local and overseas investors recorded a 30% increase in hits last year. We have started a revamp of the website to give it a new look and to prepare for the launch of more interactive features.

Keeping close ties with the Mainland

As the Mainland continues to open up its financial markets, Hong Kong is well positioned to benefit. The past 12 months have seen opportunities presented by the entry of Mainland brokers into Hong Kong and by Mainland regulators' decision to allow asset managers set up a presence here.

To explain our regulatory framework and ensure the process is as smooth as possible, we brought together our Mainland focused activities and established a new division, with a specific focus on the Mainland as well as the regulation and approval of investment products.

We will continue our close ties with the Mainland and will deepen co-operation with our counterparts across the border and broaden existing exchanges in relation to regulation and future market development.

The Memorandum of Understanding (MOU) signed with the Mainland's insurance regulator is an important recent development, which provides another opportunity for our financial markets.

Existing MOUs with the securities and banking regulators in the Mainland likewise allow us to co-operate on a number of fronts, providing a strong regulatory backdrop for further initiatives. We were also pleased to see the Mainland becoming a full signatory of the International Organization of Securities Commissions (IOSCO) MOU which signifies its mature status in terms of global regulatory co-operation.

Finances

The SFC's revenue reached \$2,546 million on the back of robust market activities, an increase of 95 per cent from a year ago. Operating expenditure was \$585 million, marginally below our approved budget for the year, leaving a surplus of \$1,961 million.

The SFC is forecasting income of \$2,776 million for 2008-09. Total operating expenses are budgeted at \$780 million, reflecting a need for personnel increases to deal with increasing workload brought about by higher volumes and increased complexity of market activities, as well as increased premises expenses.

We continue to tightly monitor expenditure to ensure that our costs stay within budget commitments.

Our team

The achievements we made during the course of the year would not be possible without the dedication and hard work

of our staff. It has been our aim to reward high performance with competitive salaries and benefits and we place emphasis on individual career development within the SFC, promoting internally whenever possible.

Employees have been given the chance to advance both upwards and laterally as they explore a wide range of opportunities and experiences at the SFC.

Our performance appraisal system has been overhauled to make sure that staff members benefit fairly and predictably from their endeavours. We emphasise clear and effective communication to keep staff well informed of what we are doing and exactly how much we value their contribution.

Looking ahead

The year ahead will be full of challenges brought by the growing competitiveness of the global market, current economic uncertainties and the ever increasing complexity of market activities. As a management team we will focus on four main areas.

Facilitating Hong Kong's evolution as an international financial centre and a key financial market in China is a priority for the SFC. We will further develop ties with Mainland regulators and other stakeholders. The SFC will help build the Hong Kong platform to support the flow of funds from the Mainland and the setting up of offices for Mainland brokers and asset managers. The growth of products and markets will be a top priority in the year ahead and without compromising investor protection, we will work with the industry and Hong Kong Exchanges and Clearing Limited to respond to the needs and challenges of the market.

Promoting an efficient, fair, and orderly securities market is paramount and the SFC will hone its monitoring tools for regulated entities while allowing ample flexibility for market development. Our enforcement efforts will focus on delivering clear messages to the market on unacceptable behaviour building on the successful changes we introduced this year.

Educating and protecting investors in Hong Kong's securities markets will be a key part of our work as we see more and more complex and sophisticated products being offered to investors. To this end, additional resources will be added to allow us to clearly establish the needs of the investing public and to deliver our education messages most effectively.

Improving our business capacity and effectiveness will be a constant focus. We recognise the need to review our capability against the increasing demands on our resources and the expectations of our stakeholders. To that end we have commenced a review of our own processes and procedures and initiated improvement projects which will bear fruit over the next 12 to 18 months. We will be upgrading our resources and capabilities in a number of areas, in particular the further streamlining of our licensing and product authorisation processes, while ensuring that our regulatory priorities are not compromised or standards lowered.

With the challenges we face in the coming year, the volume and complexity of our work will increase further. I take this opportunity to thank all my colleagues for their commitment and hard work and I look forward to working closely with them to contribute to the continuous success of Hong Kong's financial markets.

Martin Wheatley

Chief Executive Officer



Who we are and what we do



Hong Kong's financial services market relies on efficiency, innovation and a level playing field to help it attract capital, fuel investor confidence, boost activity, maintain integrity and ultimately thrive. The Securities and Futures Commission plays a crucial role in this process as regulator of the Hong Kong securities and futures markets.

Armed with functions and powers under the Securities and Futures Ordinance (SFO), we operate as an independent statutory body. We are accountable to the Government for the performance of our functions, but operate outside of the civil service.

The SFC has been self-funded for more than a decade through market transaction levies and fees charged to participants.

We regulate three main groups:

Intermediaries : Brokers, investment advisers, asset managers and investment bankers subject to a licensing regime. They must first satisfy our criteria before dealing in securities or futures or giving investment advice. Their business must then comply with conduct and financial position obligations.

Issuers of securities : Listed companies and investment funds who must meet disclosure and other rules to sell securities to the investing public. Offering documents and marketing materials of products offered to retail clients (other than for listed securities) are subject to SFC approval.

Market operators : Hong Kong Exchanges and Clearing Limited (HKEx), the holding company of the Stock Exchange of Hong Kong Limited (Stock Exchange), Hong Kong Futures Exchange Limited (Futures Exchange) and their related clearing houses, is directly overseen by the SFC.

The SFC shares some of its regulatory responsibilities with the Stock Exchange, which oversees non-statutory rules relating to listed companies. Where banks conduct securities and futures business, the Hong Kong Monetary Authority oversees their compliance with SFO regulations.

Our objectives

The SFO sets out six regulatory goals:

- Keeping the securities and futures industry fair, efficient, competitive, transparent and orderly
- Helping the public understand how the industry operates
- Protecting the investing public
- Minimising crime and misconduct in the markets
- Reducing systemic risks in the industry
- Helping the Financial Secretary maintain financial stability in Hong Kong

We seek to achieve these objectives in three key areas:

Regulation

The SFC believes in putting investors first, while aiming to strike a balance between investor protection and the continuing needs of an efficient market. We are also mindful of keeping our regulatory framework in step with standards in other major financial centres.

The SFC aims to reduce crime and misconduct by fostering a culture of compliance and by raising standards of good conduct and probity. We do this through effective communication, education and where necessary through enforcement. Our enforcement programmes are directed to attack serious abuses threatening harm to investors and the integrity of the market.

Companies looking to list on the Stock Exchange will have their applications reviewed by both the Stock Exchange and the SFC to ensure full and proper disclosure. Companies already listed are subject to action by the SFC for false or misleading information, transactions detrimental to shareholder interests or other misconduct by companies or their officers. Cases involving fraud are referred to the Police. We also ensure that takeovers and mergers of public companies are conducted within a proper regulatory framework.

We keep a close eye on the activities of intermediaries as well as the trading and clearing systems to identify possible risks and make sure on-going regulatory requirements are complied with. The SFC conducts site visits and meets with management of licensed corporations to discuss issues of concern and detect potential misconduct.

Market monitoring and analysis receives considerable emphasis. We take action to combat dishonest market practices including insider dealing, manipulation and other market misconduct.

Criminal proceedings are launched against these abuses where there are good prospects of conviction and the prosecution is in the public interest. In appropriate cases, we will refer cases to the Financial Secretary to consider whether civil proceedings before the Market Misconduct Tribunal should be commenced. A licensee who breaches a non-statutory requirement such as a conduct code provision is subject to our disciplinary proceedings which may result in administrative penalties.

While we do not have legal powers to order an intermediary to pay compensation to victims of market misconduct or malpractices, we work closely with the Investor Compensation Fund which is established to compensate investors who suffer a loss due to the default of an intermediary.

Facilitation

A flourishing financial market needs effective regulation and the SFC strives to support Hong Kong's continued development as an international financial centre and key financial market in China.

As a regulator alert to the evolving nature of markets, we aim to balance innovation with an appropriate level of investor protection.

When reviewing possible new products for sale to retail investors, particularly structured products, we will first consider how this affects investors' interests. However, we recognise that additional products can benefit investors and that it is not our role to create a risk-free market. Innovative retail investment products will therefore not normally be prohibited from being sold if managers and distributors adhere to proper disclosure and maintain sound management and controls.

Who we are and what we do

We oversee the introduction of new products by the Stock Exchange and the Futures Exchange, including derivatives. Again, our objective here is to strike a proper balance in promoting market development, while maintaining investor protection and minimising systemic risks to our markets. We will also work with the two exchanges to consider the impact of new products on market stability in times of stress and ensure the adequacy of trading and clearing systems.

The SFC regularly meets people and firms looking to start business in the financial sector, often jointly with public bodies promoting investment in Hong Kong.

Our role involves taking an active part in the International Organization of Securities Commissions (IOSCO) forum, where industry standards are reviewed and global best practices are proposed. This helps us ensure Hong Kong receives recognition as a leading regulator and that we take part in the development of global regulatory standards.

We devote considerable resources to working with Mainland regulatory authorities. The SFC has focused on knowledge sharing with our regulatory peers and keeping Hong Kong's securities and futures markets well positioned to capitalise on and support national economic growth.

We have regular exchange meetings with our Mainland regulatory counterparts. Research co-operation spans across a number of policy, product and technical issues relating to the markets. The SFC also gives regular briefings to high-level officials during their visits from the Mainland.

The SFC takes a role in the promotion of Supplement IV to the Closer Economic Partnership Arrangement (CEPA) and sits on an expert committee which reviews applications for Qualified Domestic Institutional Investor Scheme (QDII) products. We handle facilitation work on the QDII and the entry of Mainland brokers into Hong Kong.

Education

The SFC strives to keep investors educated, informed and alert to the risks of investing. It is part of our statutory mandate to promote investor education, and we vigorously exercise this role.

We work hard to help the public understand more about the markets, products and investment risks, encourage them to ask the right questions, read the relevant documents and become familiar with products before they invest in them.

It is our aim to help investors make informed choices, particularly as products become more complex. We also emphasise the risk factor when investing and point out other potential pitfalls.

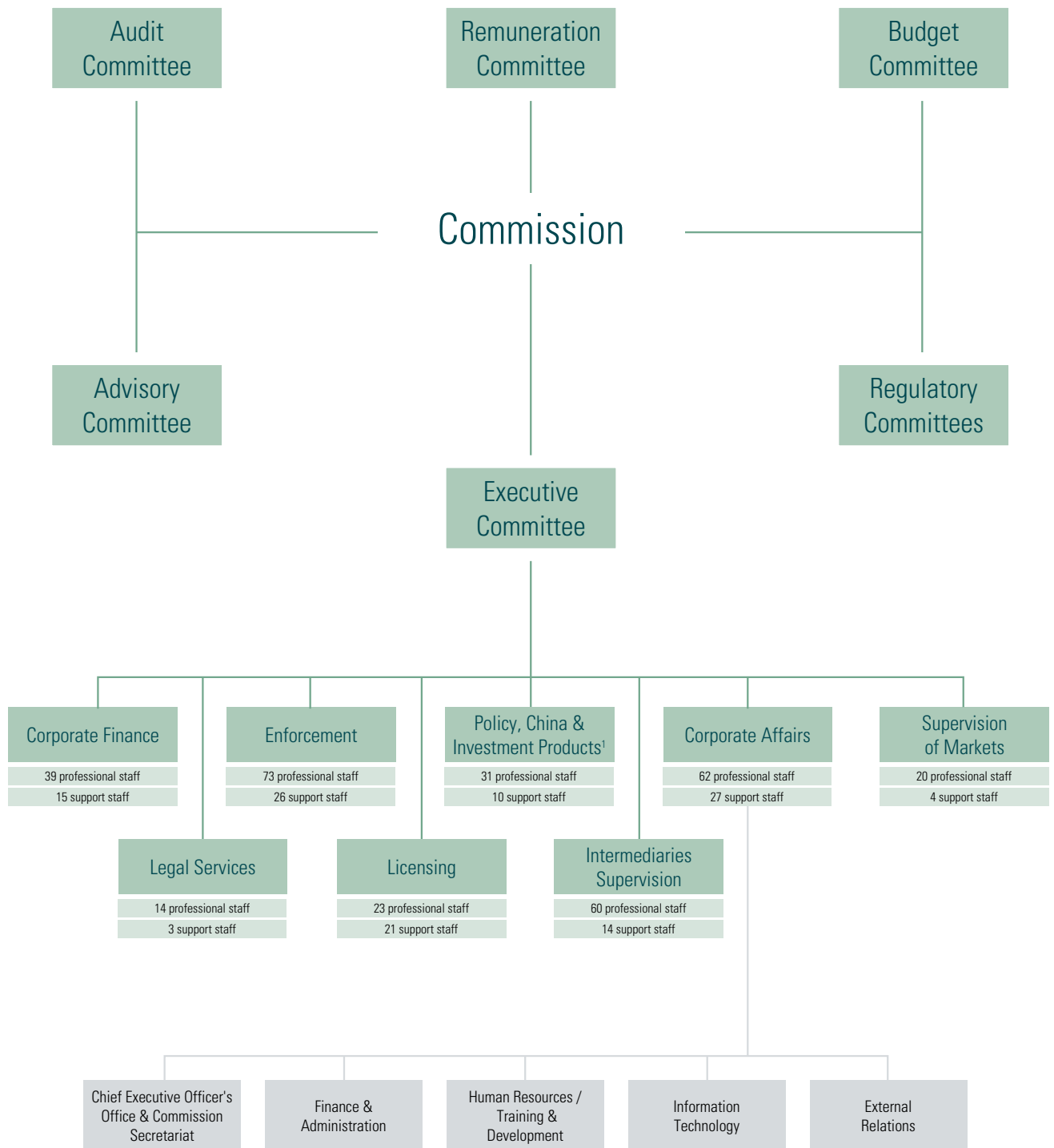
We regularly issue alerts when investment scams come to our attention. Although we cannot offer investment advice, we do answer queries on steps that can be taken to protect investors' interests.

A core part of our education role is to reach out to the community. We do this through multiple channels, including radio and television dramas, newspaper articles and our own Dr Wise education column.

The SFC's investor education portal, InvestEd (www.InvestEd.hk), regularly posts new information to reflect investors' interests and market developments. In addition, InvestEd provides an online channel for investors to ask questions and lodge complaints on misconduct.

Our professional staff make regular presentations to the community and we work with universities to launch preventive programmes so as to cultivate a proper investment attitude among the younger population.

An important part of what we do is to try to measure public awareness about investment risks and the growing sophistication of products. Investor surveys are thus a vital tool to help us direct our educational efforts where they are most needed and we conduct them regularly.



¹ This new Division was created on 1 March 2008. The Investment Products Department, formerly under the Intermediaries and Investment Products Division, and China Affairs Team, formerly under the CEO's Office, are now part of this Division.
The Licensing Department and Intermediaries Supervision Department were both previously under the former Intermediaries and Investment Products Division.

Directors of the Commission

Under the SFO, there must be no fewer than eight members of the Commission, the majority of which must be Non-Executive Directors. All Directors of the Commission are appointed by the HKSAR Chief Executive or the Financial Secretary with the delegated authority of the Chief Executive.



Eddy C Fong, SBS, JP



The Hon Chan Kam-lam, SBS, JP



Christopher W C Cheng, GBS, JP



Kenneth H W Kwok, BBS, SC

Chairman

Eddy C Fong, SBS, JP

(From 20 October 2006. Current appointment expires on 19 October 2009.)

SFC: Non-Executive Director (since 1 January 2005); Certified Public Accountant; Non-Executive Director, Hong Kong Mortgage Corporation; Member, HKEx Listing Nominating Committee; Treasurer and Council Member, Open University of Hong Kong; Formerly, partner of PricewaterhouseCoopers; Non-Executive Director, Mandatory Provident Fund Schemes Authority; Non-Executive Director, Exchange Fund Investments Ltd; Member and Chairman, Finance Committee of the Hong Kong Housing Authority.

Chairs Advisory Committee. Member of Remuneration Committee, Process Review Panel for the SFC and SFC (HKEC Listing) Appeals Committee.

Non-Executive Directors

The Hon Chan Kam-lam, SBS, JP

(From 15 November 2007. Current appointment expires on 14 November 2009.)

Member, Chinese People's Political Consultative Conference; Elected Member (Kowloon East), Legislative Council of the HKSAR; Chairman, LegCo Panel on Financial Affairs; Central Committee Member, Democratic Alliance for the Betterment and Progress of Hong Kong; Member, Advisory Committee on Corruption of the ICAC; Member, Hong Kong Housing Authority; Non-Executive Director, Urban Renewal Authority; Director, The Hong Kong Mortgage Corporation Limited; Member, Deposit-taking Companies Advisory Committee; Member, Travel Industry Compensation Fund Management Board.

Member of Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Christopher W C Cheng, GBS, JP

(From 15 November 2003. Current appointment expires on 14 November 2009.)

Chairman, USI Holdings Ltd; Chairman, Winsor Properties Holdings Ltd; Chairman, Standing Committee on Judicial Salaries and Conditions of Service; Chairman, Competition Policy Review Committee (2005 – 2006); Independent Non-Executive Director, NWS Holdings Ltd; Independent Non-Executive Director, New World China Land Ltd; Director, DBS Holding Ltd; Non-Executive Director, PICC Property and Casualty Company Ltd; Steward, Hong Kong Jockey Club; Member, Exchange Fund

Advisory Committee; Member, Council of the University of Hong Kong; Charter Member, President's Council on International Activities of the Yale University; Chairman, Hong Kong General Chamber of Commerce (2001 – 2003).

Chairs Budget Committee. Member of Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Kenneth H W Kwok, BBS, SC

(From 1 January 2005. Current appointment expires on 31 December 2008.)

Queen's Counsel (1993); Senior Counsel (1997); Chairman, Board of Review (Inland Revenue Ordinance); Member, Standing Committee on Legal Education and Training (Legal Practitioners Ordinance); Member, The University of Hong Kong Law Faculty Board; Member, The University of Hong Kong Academic Board for the Postgraduate Certificate in Laws (PCLL); Governor, HKU Law Alumni Charity Ltd; Member, Advisory Committee on Legal Education (Legal Practitioners Ordinance) (1995 – 2004); Chairman, Takeovers Appeal Committee (2004); Member, Securities and Futures Appeals Tribunal (2003 – 2004); Member, Listing Committee, Main Board, Stock Exchange of Hong Kong Ltd (1997 – 2003).

Chairs Investor Compensation Company Ltd. Member of Audit Committee, Remuneration Committee, SFC (HKEC Listing) Appeals Committee, Securities Compensation Fund Committee and Investor Compensation Fund Committee.

The Commission has a number of statutory functions and also formulates overall policy and strategy. As of 31 March 2008, the Commission consisted of 14 members: the Chairman, seven Non-Executive Directors, and six Executive Directors.



Angelina P L Lee, JP

Dr York Liao, SBS, JP

Professor Liu Pak Wai, SBS, JP

Shengman Zhang

Angelina P L Lee, JP

(From 1 August 2006. Current appointment expires on 31 July 2008.)

Partner, Woo, Kwan, Lee & Lo; Solicitor; Certified Public Accountant; Non-Executive Director, Mandatory Provident Fund Schemes Authority; Independent Non-Executive Director, Great Eagle Holdings Ltd; Non-Executive Director, Cheung Kong Infrastructure Holdings Ltd; Non-Executive Director, Henderson Land Development Company Ltd; Non-Executive Director, TOM Group Ltd; Chairman, Takeovers Appeal Committee (2005 – 2006); Member, Securities and Futures Appeals Tribunal (2003 – 2006); Member, Listing Committee, Stock Exchange of Hong Kong Ltd (2000 – 2006); Member, Standing Committee on Company Law Reform (1991 – 2003).

Chairs Audit Committee. Member of Budget Committee, Remuneration Committee, Takeovers and Mergers Panel, Takeovers Appeal Committee and SFC (HKEC Listing) Appeals Committee.

Dr York Liao, SBS, JP

(From 26 May 2003. Current appointment expires on 25 May 2009.)

Managing Director, Winbridge Company Ltd; Chairman, Hong Kong Council for Accreditation of Academic and Vocational Qualifications; Member, Board of Trustees, California Institute of Technology; Member, Steering Committee on Innovation & Technology; Member, Manpower Development Committee; Council Member, University of Hong Kong.

Chairs Remuneration Committee. Member of Committee on Investment-Linked Assurance and Pooled Retirement Funds, Committee on Unit Trusts and SFC (HKEC Listing) Appeals Committee.

Professor Liu Pak Wai, SBS, JP

(From 1 January 2005. Current appointment expires on 31 December 2008.)

Pro-Vice-Chancellor and Professor of Economics, The Chinese University of Hong Kong; Member, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR; Member, Independent Commission on Remuneration for Members of the District Councils of the HKSAR; Member, Manpower Development Committee; Director, Hong Kong Institute for Monetary Research of Hong Kong Monetary Authority; Member, Aviation Development Advisory Committee; Member, Commission on Strategic Development.

Member of Audit Committee, Budget Committee, Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Shengman Zhang

(From 1 January 2007. Current appointment expires on 31 December 2008.)

Vice Chairman, Global Banking, President, Asia Pacific, Citigroup (from 2008); Vice Chairman of Global Banking, Chief Operating Officer, Citigroup, Markets & Banking, Asia Pacific (2007 – 2008); Chairman, Public Sector Group, Citigroup (2006 – 2007); Managing Director, World Bank (1997 – 2001; 2001 – 2005); Vice President and Corporate Secretary, World Bank (1995 – 1997); Executive Director for China, World Bank (1994 – 1995); various senior positions, The Ministry of Finance, China (1981 – 1992).

Member of Audit Committee, Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

The Hon Jasper Y S Tsang, GBS, JP

(From 15 November 2001. Appointment expired on 14 November 2007.)

Member, Executive Council; Member, Legislative Council; Member, Chinese People's Political Consultative Conference; Adviser, Democratic Alliance for the Betterment and Progress of Hong Kong; Supervisor, Pui Kiu College; Supervisor, Pui Kiu Middle School; Manager, Pui Kiu Primary School; Board Member, Hong Kong Airport Authority; Member, ICAC Complaints Committee; Member, Disaster Relief Fund Advisory Committee; Regular column writer for Sing Tao Daily and South China Morning Post; Adviser, Ryoden Development (China) Ltd.

Directors of the Commission



Martin Wheatley

Alexa Lam

Brian Ho

Executive Directors

Martin Wheatley

Chief Executive Officer

(From 23 June 2006. Current appointment expires on 30 September 2008.)

SFC: Chairman (from 1 October 2005 to 22 June 2006) and Executive Director, Supervision of Markets Division (from 6 June 2005 to 30 September 2005); Member, HKEx Listing Nominating Committee; Deputy Chief Executive, London Stock Exchange (LSE) (2001 – 2004); Board Member, LSE (1998 – 2004); Chairman, FTSE International (2000, 2002, 2004); Member, Listing Authority Advisory Committee of the Financial Services Authority of England (2003 – 2004).

Chairs Executive Committee. Member of Advisory Committee, Budget Committee and SFC (HKEC Listing) Committee.

Alexa Lam

Executive Director, Policy, China and Investment Products Division and Deputy Chief Executive Officer

(From 1 December 2001. Current appointment expires on 28 February 2011.)

SFC: Executive Director and Chief Counsel (March – November 2001), Chief Counsel (1999 – 2001), Senior Adviser-Chairman's Office (1998 – 1999); Visiting Lecturer, Faculty of Law, University of Hong Kong (1997 – 1998); Private law practice in Hong Kong, New York and Chicago (1981 – 1997); Member, Hong Kong Trade Development Council Financial Services Advisory Committee; Member, Professional Advisory Board – The University of Hong Kong Faculty of Law's Asian Institute of International Financial Law.

Chairs Committee on Unit Trusts, Committee on Investment-Linked Assurance and Pooled Retirement Funds, Committee on Real Estate Investment Trusts and Academic and Accreditation Advisory Committee. Member of Advisory Committee, Budget Committee, Executive Committee, Securities Compensation Fund Committee, Investor Compensation Fund Committee and SFC (HKEC Listing) Committee.

Brian Ho

Executive Director, Corporate Finance Division

(From 28 August 2006. Current appointment expires on 27 August 2009.)

SFC: (1992 – 1994; 1995 – present; Senior Director, 2000 – 2006). Solicitor admitted in Hong Kong in 1988. Member of HKEx Listing Nominating Committee.

Chairs Public Shareholders Group. Member of Executive Committee.

The Chief Executive Officer leads the executive team. Each of the four operational divisions – Corporate Finance, Enforcement, Policy, China and Investment Products, and Supervision of Markets – is headed by an Executive Director. The Corporate Affairs Division, which supports the operational divisions, is headed by the Chief Operating Officer.



Paul Kennedy



Keith Lui



Mark Steward

Paul Kennedy

Executive Director and Chief Operating Officer
(From 16 October 2006. Current appointment expires on 15 October 2009.)

Chartered Accountant; Certified Public Accountant; KPMG Hong Kong ((1983 – 2005): Partner 1990 – 2005); Member, Advisory Committee on Human Resources Development in the Financial Services Sector.

Chairs Investor Education Advisory Committee. Member of Advisory Committee, Budget Committee, Executive Committee and SFC (HKEC Listing) Committee. Director of the Investor Compensation Company Ltd.

Keith Lui

Executive Director, Supervision of Markets Division
(From 28 August 2006. Current appointment expires on 27 August 2009.)

SFC: (1991 – 1994; 1995 – present; Commission Secretary, 2001 – 2004; Senior Director, 2002 – 2006). Member of HKEx Risk Management Committee.

Chairs Securities Compensation Fund Committee and Investor Compensation Fund Committee. Member of Executive Committee and SFC (HKEC Listing) Committee. Director of the Investor Compensation Company Ltd.

Mark Steward

Executive Director, Enforcement Division
(From 25 September 2006. Current appointment expires on 24 September 2009.)

Deputy Executive Director, Enforcement, Australian Securities and Investments Commission (ASIC) (2004 – 2006); Director, Enforcement, ASIC (2003 – 2004); Solicitor admitted in Australia in 1990.

Member of SFC (HKEC Listing) Committee and Executive Committee.



Corporate governance

The SFC has adopted a comprehensive and cohesive framework to promote transparency, accountability, fairness, objectivity and integrity in our work. It includes:

- a clearly defined governing structure
- a high standard of conduct
- sound operational and financial control procedures
- vigorous external checks and balances

We make reference to best governance practices for public bodies, such as those set out in 'Corporate Governance for Public Bodies – A Basic Framework' published by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Our Board (The Commission)

All the members of the Board are appointed by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) (or the Financial Secretary under delegated authority) for a fixed term. The SFO requires that the majority of the members of the Board must be independent Non-Executive Directors (NEDs).

The Board leads the organisation in fulfilling our objectives and performing the functions as set out in the SFO. The Board provides strategic guidance to senior management and provides independent oversight of executive functions.

A number of regulatory powers and functions have been delegated by the Board to Executive Directors (EDs), senior staff or committees.

The NEDs bring to the Board a good mix of experience and expertise. They help with effective oversight of the executive functions. At the year-end, the Board comprised 14 members: the Chairman, seven NEDs and six EDs.

The non-executive Chairman leads the Board in setting the overall direction, policy and strategy. The Board under the leadership of the Chairman monitors the performance of the executive arm. The Chief Executive Officer (CEO) has responsibility for the day-to-day running of the SFC. He implements goals set by the Board and ensures the effective functioning of the SFC.

Mrs Alexa Lam was re-appointed with a new title and responsibilities as ED (Policy, China and Investment Products) and Deputy CEO effective from 1 March 2008 for a three-year term. Her role has a particular focus on Mainland China. This reflects our priority attached to strengthening ties with the Mainland and our counterparts there.

The Hon Chan Kam-lam was newly appointed as NED for two years from November 2007. Dr York Liao and Mr Christopher Cheng were re-appointed for two years from May 2007 and November 2007 respectively.

The Board meets regularly to discuss and set policy. Members have separate and independent access to senior management and divisional staff for any additional information they require about any policy proposal.

Internal committees

The Audit Committee comprises only NEDs. Mrs Angelina Lee is the Chairman. The committee met twice in the year where it considered the following:

- Annual audit and half-year financial review.
- Re-appointment of external auditor.
- An internal control review report by PricewaterhouseCoopers, covering areas such as banking and investment procedures, travel and entertainment expenses and payroll procedures. All controls were found to be adequate.
- Four complaints against staff, none of which was substantiated.

The Remuneration Committee comprises only NEDs. Dr York Liao is the Chairman. Its work includes:

- Reviewing overall remuneration policy to keep SFC pay levels effective in attracting, retaining and motivating staff.
- Keeping track of market pay trends and recommending any adjustments.
- Providing views on ED appointments and ED remuneration packages.

The Budget Committee chaired by NED Mr Christopher Cheng comprises both NEDs and EDs. Its work includes:

- Setting the parameters and basis used to prepare the annual budget.
- Reviewing performance against the approved annual budget half-yearly and recommending to the Board any revisions or action required.
- Reviewing the annual budget and making recommendations to the Board regarding its approval.

The Executive Committee comprises all EDs and the Chief Counsel. Mr Martin Wheatley, CEO, is the Chairman. Effective from 1 March 2008, the two Senior Directors who head the Licensing Department and Intermediaries Supervision Department also sit on the Executive Committee. Its work includes:

- Administrative, financial and management functions as delegated by the Board.
- Considering policy issues for recommendation to the Board.
- Oversight of functions delegated to EDs.



Corporate governance

Meetings attended / held					
	Commission	Audit Committee	Remuneration Committee	Budget Committee	Executive Committee
Chairman					
Eddy C Fong	13/16		2/2		
Executive Directors					
Martin Wheatley	15/16			1/1	19/19
Alexa Lam	15/16			1/1	17/19
Brian Ho	15/16				19/19
Paul Kennedy	15/16			1/1	19/19
Keith Lui	15/16				18/19
Mark Steward	16/16				18/19
Non-Executive Directors					
Chan Kam-lam ¹	5/6		2/2		
Christopher W C Cheng	14/16		2/2	1/1	
Kenneth H W Kwok	14/16	2/2	2/2		
Angelina P L Lee	13/16	2/2	2/2	1/1	
York Liao	12/16		2/2		
Liu Pak Wai	12/16	2/2	1/2	1/1	
Jasper Y S Tsang ²	6/9		N/A		
Shengman Zhang	11/16	1/2	2/2		
Chief Counsel & Senior Directors					
Stephen Po ³					1/2
Stephen Tisdall ⁴					2/2
Andrew Young					16/19

¹ Membership from 15.11.2007

² Membership until 14.11.2007

³ Membership from 1.3.2008

⁴ Membership from 1.3.2008

Our standards of conduct

We require high standards of integrity and conduct from our staff to promote and maintain public confidence. These are set out in our Code of Conduct along with the relevant legal duties concerning confidentiality, conflict of interests and personal investments. All staff must formally acknowledge the Code and failure to comply may result in disciplinary action or penalties specified by law.

Open communication within the SFC is encouraged and grievances are dealt with in an efficient and transparent manner. We have set up standard procedures for handling employee, public interest and discrimination complaints.

The procedures for public interest grievances are published on our website for easy access. Confidential reports can be made by employees under contract with the SFC, anyone on secondment, engaged as an independent consultant or contracted to supply services to the SFC.

Dissatisfaction with the way SFC staff carry out their duties is taken seriously and complaints from the public are dealt with promptly. We have published the 'Procedures for Handling Complaints against SFC Staff' on our website for guidance.

Accountability, transparency and internal control

We aim to make decisions and take action in a firm, fair, transparent and accountable manner. The SFC has detailed policies and procedures for making regulatory decisions as well as the use and management of financial resources.

Matters such as the appointment of consultants, collection of fees, investment of surplus funds, and purchasing or disposal of fixed assets are all clearly set out in the financial control procedures.

Each year, our forecast results and proposed budget are submitted to the Financial Secretary for approval and laid before the Legislative Council after consideration by the Board. The Director of Audit may also examine any books, accounts, vouchers, records or documents that we keep.

Our voluntary 'Quarterly Reports' discuss operations and activities at the SFC. We also maintain dialogue with stakeholders and the public through our Annual Report, press conferences and other publications. Our user-friendly website gives updated details about us, including contacts for enquiries and complaints. We consult the public on rule changes, non-statutory codes and guidelines, and amendments to the codes and guidelines.

We have appointed external accountants, separate from our external auditors, to conduct annual internal control reviews for us. The focus of this review is approved annually by the Audit Committee and forms part of the SFC's overall annual internal control review programme.

Independent checks and balances

The SFC is subject to external checks and balances to ensure fairness and due process, and to make sure that there is proper use of its regulatory powers.

The Process Review Panel (PRP) for the SFC is an independent, non-statutory panel, established by the HKSAR Chief Executive in November 2000, to review and advise the adequacy of the SFC's internal procedures governing the operational decisions and actions. The PRP has the power to review files of any completed or discontinued cases to verify that we have followed the procedures that govern our operational decisions and actions.

The PRP has 10 members, including eight from the financial services sector, academia and the legal and accountancy professions. There are two ex officio members, namely the representative of the Secretary for Justice and the Chairman of the SFC.

Corporate governance

The SFC is the first securities regulator in the world to introduce such an external review system.

In September 2007, the PRP published its report of the previous year's work based on the review of 40 cases. It concluded that the SFC had in general adhered to established internal procedures in its decisions and actions. In 2007, it reviewed 60 completed cases, ranging from the SFC's handling of complaints to its licensing and inspection of intermediaries and enforcement actions. The report on this review will be published later this year.

A wide range of the SFC's regulatory decisions are subject to a full merits review by the Securities and Futures Appeals Tribunal (SFAT), which is chaired by a High Court judge and comprises two other members appointed by the Secretary for Financial Services and the Treasury.

The SFAT can call new evidence, stay proceedings in the review, confirm, vary or set aside SFC decisions. There were 14 appeals lodged with the SFAT during the year. One was determined and 13 are in progress. Eight other cases carried forward from 2005-06 and 2006-07 were also determined. The applications in four of these cases were dismissed while the penalties in the remaining five cases were varied.

The Independent Commission Against Corruption (ICAC) has conducted reviews on the procedures and practices of the SFC since 1990. The ICAC conducted a review on the work of the Intermediaries Supervision Department in 2007 with no adverse findings.

Members of the public can take complaints against the SFC to the Ombudsman. During the year there was one new complaint and four cases brought forward from 2006-07. All five cases were not substantiated.

The SFC was the subject of three applications for judicial review during the year. Two were rejected by the Court, as was one part of the third case. The remaining part of the third case was dismissed by consent by the parties. Applicants in two of the cases are currently appealing to the Court of Appeal.

Although the SFC is an independent regulatory body, it reports regularly and furnishes information on important regulatory or market issues to the Financial Secretary, the Secretary for Financial Services and the Treasury, and the Financial Services and the Treasury Bureau. We are also required under the SFO to consult the Financial Secretary before exercising certain powers.

Performance pledges

The SFC pledges to be responsive to the public, market participants and intermediaries under our supervision in discharging our regulatory duties. The following table shows how we met our pledges during the year.

		% of cases meeting the pledge in 2007-08
Investor enquiries		
Preliminary response to telephone enquiries	4 business days	100%
Preliminary response to written enquiries	2 weeks	99.4% ¹
General enquiries		
Preliminary response to enquiries via enquiry@sfc.hk	4 business days	99.6% ¹
Public complaints		
Preliminary response to verbal & written complaints	2 weeks	99.8% ²
Processing of licensing applications³		
Representatives (provisional licence)	7 business days	88%
Representatives (normal licence)	8 weeks	83%
Representatives (responsible officers)	10 weeks	94%
Corporations	15 weeks	99%
Transfer of accreditation ⁴	7 business days	65%
Modification / waiver and subordinated loan applications		
Acknowledgement of receipt upon receiving any application	2 business days	100%
Investment products authorisation		
Take-up of applications upon receipt	2 business days	100%
Preliminary response to applicants after take-up for unit trusts, mutual funds, investment-linked assurance schemes and Mandatory Provident Fund pooled investment funds	7 business days	100%
Preliminary response to applications after take-up for other schemes	14 business days	100%

¹ Some cases failed to meet the pledge due to the exceptionally heavy workload when the enquiries were received.

² Three cases failed to meet the pledge due to their complexity. More time was needed to collect information to facilitate assessment.

³ Performance pledges only applied to cases where the applicants had supplied all the required documentation in their applications and satisfied all regulatory requirements.

⁴ This percentage was reduced (from 87% in 2006-07) because of high staff turnover, additional workload (36% increase in the number of licence applications and 19% increase in the number of licensees compared to the figures for the previous year) and the need to divert resources to process other applications.

Our People



By following a common score, each individual musician contributes their unique personal skills so that together the orchestra produces an accomplished performance. Our staff also achieve an accomplished performance by contributing their individual talents to our shared organisational goals. Shared values are also apparent through a common sense of public commitment and a strong sense of duty to the community.





The SFC relies on a talented group of individuals to help it achieve its goals and makes a concerted effort to reward its staff through competitive remuneration, attractive career development opportunities and the ability to strike a work-life balance.

As an organisation we likewise believe in giving back to the community and our employees have pioneered a number of initiatives to help less fortunate groups in society.

Care for employees

An attractive working environment

We consider our staff to be our greatest asset. It is our goal to be an employer of choice and provide attractive remuneration and benefits, personal development opportunities, as well as a healthy, safe and family-friendly workplace.

The SFC tries to foster a healthy work-life balance among staff and is committed to diversity within the workplace.

Pay and rewards

We offer competitive remuneration packages: salaries are regularly benchmarked against market trends, while

both our fixed pay and bonuses are strategically linked to performance. We reward our staff for their performance, talent, loyalty, hard work and innovation. The SFC also offers attractive medical insurance and retirement schemes.

The SFC has been reviewing its human resources function to re-position it and enhance its capability in supporting the achievement of our organisational goals. Our performance management system was re-designed during the year, taking into account the views of our staff, for introduction in 2008. The new system will enable the SFC to better manage its people by differentiating and rewarding individual contribution against agreed priorities, encouraging continuous dialogue on performance, improving transparency around the outcome of individual appraisal as well as building a strong linkage between performance and development.



CEO Mr Martin Wheatley briefs staff on our new performance management framework.



Our staff participate in team-building training.

Opportunities

We have a strong commitment to career development within the SFC. We believe in nurturing ambition: last year there were 82 cases of internal promotion and 31 internal transfers to broaden staff exposure and to allow staff the opportunity to utilise their unique combination of skills.

Enhancing professional goals is a high priority and we offer unique opportunities for career enhancement, from sophisticated in-house training to financial support for external programmes. The SFC is also recognised as an Association of Chartered Certified Accountants accredited employer. We are also an Authorised Employer under the Qualification Programme of the HKICPA.

Management skills are important capabilities required of our staff. We have put in place a structured management programme to cater for various levels of staff. Programmes are tailor-made to reinforce and enhance key skills. At the executive level, we have enlisted faculty from the Michigan Ross School of Business to execute highly customised programmes.

Across the board, on-going training is undertaken on a regular basis. This includes leadership and skill enhancement as well as more technical training which keeps us in touch with the market. We try to ensure that our programmes are relevant and timely as well as of good quality.



We value work-life balance.

Employees also have the opportunity to undergo work experience with our regulatory peers abroad and keep professionally vigilant by attending seminars and conferences in their field of work.

We offer grants for staff seeking to explore outside study. Our employee-initiated education programme provides bursaries for employees to pursue further studies such as professional diplomas. We also offer sponsorship for Chartered Financial Analyst exams and other public programmes.

Communication

Constant dialogue with staff is essential to let them know their contribution to the organisation counts. Management identifies issues of concern and engages employees through regular communication, meetings and publications including a new CEO E-Newsletter launched during the year. We have a Staff Social Committee to boost communication and working relationships.

We recently solicited feedback from staff as part of a consultancy exercise. When asked how they relate to the SFC, some employees said they valued the chance to work at a high-profile organisation, while others enjoyed the professional dynamics of working at a regulator. Being able to work with leading edge, motivated individuals was ranked as a major bonus among staff.

Recognition

We believe in rewarding our staff for their dedication and tenacity, both formally and informally. To show our appreciation for ten years' service with the SFC, staff will receive a formal memento: up to May 2007, 146 employees were recipients. A further 20 will be given to employees in May 2008.

Our Employee Awards reflect our gratitude, and each year we recognise the efforts and integrity of staff as well as particular efforts that have enhanced our effectiveness.

Employee awards

Individual award winners

Clarence Chan	Manager, Corporate Finance
Lisa Chen	Counsel, Legal Services
Carmen Kwok	Senior Administrator, Licensing
Veronica Lee	Senior Secretary, Corporate Finance
Linda Yiu	Senior Manager, Intermediaries Supervision

Team award winners

Broker Frauds Combats Core Team

The Broker Frauds Combats Core Team, a cross-divisional team consisting of staff from the Intermediaries Supervision, Enforcement and Legal Services Divisions, successfully uncovered two broker fraud cases in 2007, in which fraud and actions of the wrongdoers were detected. The Team upheld the value 'Investors First' and exhibited excellent team spirit, dedication and innovation.

Hedge Fund Streamlining Team

The Hedge Fund Streamlining Team, comprising staff from the Licensing Department, has made a big effort to engage overseas hedge fund managers and has contributed to a

significant increase in the number of hedge fund managers being licensed in Hong Kong in 2007. It has also shortened time needed to process licensing applications from foreign hedge fund managers who are able to provide the required documentation. The feedback from the market concerning the initiatives taken by the Team has been very positive and has reflected well on the Commission.

Work-life balance

While demanding high levels of performance, the SFC also recognises the importance of staff welfare and aims to promote a healthy balance between work and home life. We organise talks by health professionals as part of our 'Health Month,' which includes activities for staff such as yoga and tai chi. Seminars are held to increase awareness about work-life balance and free professional consultations are offered to staff and their families for emotional or stress-related issues.

Social activities are held on a regular basis, such as table tennis, bowling, barbecues, basketball and Baduanjin classes. Staff also have access to work premises on request for activities such as reading groups and tai chi classes.

Life at the SFC

As a whole we realise the importance of a team effort to carry out our work effectively. We recruit individuals from diverse backgrounds and areas of expertise, in return offering a professional environment with opportunities for career development, work-life balance and the nurturing of ambition.

Following are some of the stories of how our staff came to join the SFC and the different paths their careers have taken during their time with us. The list only gives a selective insight into work at the SFC, but we hope it reflects the source of our strength – our people.

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Lisa Chen
Counsel, Legal Services Division

As a litigator at an international law firm, Lisa Chen’s gaze had to be fixed on the client, the competition and the pursuit of profit. Her days were long and her weekends short; holidays were the exception rather than the norm.

Four years ago she decided to do something about it, and joined the SFC’s Legal Services Division. “It’s a choice between working long hours all the time and having a more balanced life,” she explains.

As legal counsel, her perspective is now from the other side of the table: “The difference is in private practice you only focus on your client’s interest, whereas here you have to look at the bigger picture. What we do and say will have an impact on market practitioners, and you have to think about the interest of the investing public.”

Lisa has been part of a team dealing with some brokerage failures, allowing her to get involved in injunction applications and securing administrators. More recently, she has had the chance to do a variety of prosecution work.

“It’s always nerve-racking to appear before the court but I find it the more interesting part of the job.”

An average month may also see her before the Market Misconduct Tribunal or the Securities and Futures Appeals Tribunal.

Lisa enjoys the flexibility of her job. It allows her to pursue more activities in her free time, including Sunday school, where she works with teenagers, and photography.

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Kenneth Luk
Director, Enforcement Division

Kenneth Luk enjoys a challenge. In the past ten years, he has faced them daily: whether it be painstakingly piecing together shreds of evidence or keeping his cool during a hostile showdown with suspects.

The process of unravelling market misdeeds may require patience and perseverance, but when that crucial break in a case finally happens, it is one that Kenneth finds truly rewarding.

“Many people think it’s a difficult job because it demands us to handle difficult situations and confrontations, but that’s also the challenging and interesting part of the job,” he explains.

It is one he describes as part detective, part strategist. He would build up a case and try to work out how a suspect would respond.

“Every interview is like a game of chess – you need to anticipate and plan for it.”

His efforts saw Kenneth promoted up the ranks: from a Manager when he joined the SFC ten years ago, he was soon promoted to Senior Manager, then to Associate Director and now a Director in the division.

“I feel that we’re doing something for the community, changing people’s behaviour. And you see the results – you see the fruits of our efforts.”

At home, two young sons keep him physically on his toes. At work, he enjoys a professional stimulus: “Every week gives me something new to explore, some new problems to tackle. The job is never boring.”



Nico'la Chan
Executive Secretary to COO

Nico'la Chan is no stranger to multi-tasking. She juggles her job as executive secretary with a busy home life as mother to her 5-year-old daughter. Somehow in between she has managed to fit in a three-year degree in economics and a 12-month course in financial planning.

“I had to keep my performance up at work, then spend time at evening class, and make sure I spent enough time with my daughter,” she explains. “It was a bit stressful at times, but it’s a topic I’m interested in and achieving the degree was enjoyable for me.”

Nico'la believes her endeavours have paid off.

“I have gained a deeper understanding of how the regulator fits into the financial sector, the role it plays and how it interacts with the industry.”

Now, when she prepares notes and information for the COO, she can give a quick outline of the relevance and main points.

Nico'la has been promoted a number of times, first joining the regulator as a Secretary in the Corporate Finance Division, then moving to work as a Senior Secretary in the Commission Secretariat under the Chairman’s Office before taking up her current post.

Nico'la will find herself facing a new set of challenges in the coming year. She will join the External Relations Department as Officer, assisting in the implementation of investor education programmes.

“I’d like to see myself personally grow in my career. I’m particularly glad as I am taking on this new and exciting role with the support of my supervisors.” she says.

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Stephen Tisdall
Senior Director, Licensing Department

Anyone reading New Zealander Stephen Tisdall’s resume could be forgiven for doing a double take.

While his career has seen him work as a government lawyer, set up his own practice specialising in securities law and regulation and build up a corporate finance house together with three partners, it has also included two stints at Hong Kong’s securities regulator.

Stephen joined the SFC in 1990 in the Legal Services Division and later moved to New Zealand before returning to the Commission in 2006 as Director of Intermediaries and Investment Products and more recently becoming head of Licensing and Conduct.

In the intervening period he was responsible for preparing initial drafts of the Securities and Futures Ordinance and, almost a decade later, he now describes himself as “living daily with the consequences.”

Re-adjusting to the Commission required a shift in mindset. He explains, “The Commission is a much larger organisation.

This required me to adapt so that I could become part of a team and accommodate the different people with whom I work and their many and varied personalities and working styles."

Stephen finds his work both interesting and beneficial to Hong Kong.

"I like what the Commission is doing. It's interesting to be working within the regulatory regime that I played a role in creating."



Stephen Wong
Manager, Enforcement Division

During his five years at the SFC Stephen Wong has seen the regulator from two sides: the nitty-gritty investigation process, and the loftier policy work.

Having joined as a lawyer from private practice, Stephen's first role at the SFC was to master the art of investigations, from surveillance and evidence-gathering to wading through accounts and interviewing witnesses.

His job took on a new dimension however when he was moved to work with the CEO as his Personal Assistant for six months. "It gave me the chance to meet senior management – I could see the Commission differently through his eyes," he explains.

"I understand the SFC is not all about investigations and prosecutions – there's much more than that."

He also gained an insight into the priorities of the organisation. "When talking about new targets, aims and objectives, they took into consideration how this would balance with employee's family lives," he says.

It is something he himself appreciates as someone who likes to be able to use his time effectively: Stephen was the driving force behind 'Commission Possible,' a volunteer group set up by staff.

Their efforts will see them deliver rice dumplings and moon cakes to the elderly during holidays or organise celebrations with mentally disabled children. Stephen's life as a volunteer started in secondary school: "From there, it became a habit," he says.



Bowie Chan
Manager, Enforcement Division

Bowie Chan likes having variety in her job. When she first started with the SFC as an Executive Trainee – the regulator's junior entry level – it wasn't long before she found herself having to employ a different set of skills.

After a stint with the International team in the Enforcement Division, where Bowie dealt with overseas regulators, she was rotated to the Disciplinary Department.

"In the Disciplinary team, I have to draw heavily on my legal training, while the international work required more people skills," she explains.

It was also a shift in focus for Bowie, who had previously worked at a bank.

"The SFC is more interesting, you have exposure to a lot of different things."

Bowie also relied on regular feedback from her peers. "My bosses were very supportive, they gave me a lot of autonomy doing my own cases but still provided guidance so you're going in the right direction," Bowie explains.

This support also became crucial for Bowie when she took on extra studies outside her work, completing a Master of Finance from Hong Kong University in 2006 and levels 1 and 2 of the Chartered Financial Analyst Exam. She is currently studying for level 3.

Bowie has been promoted three times since joining in 2004, and currently works as a Manager within the Disciplinary team.

Helping the community

The SFC makes an effort to give back to the community through a number of means, while encouraging the individual initiatives of staff members. We also recognise our duty to minimise the environmental impact of our work processes and efforts are made to reflect this.

Protecting the environment

We try to keep our workplace as green as possible. Employees are encouraged to minimise waste, paper and energy at every opportunity. As part of an effort to re-focus our endeavours over the past year, our paper consumption was reduced by 14 per cent, while paper cup usage was down 11 per cent. We also cut the number of paper towels used by 17 per cent.

Energy saving light bulbs and low-voltage tubes are used and unnecessary lights and equipment are switched off after office hours. Staff can dress smart-casual to avoid excessive air conditioning.

We recycle waste paper, envelopes, carton boxes and newspapers. Wherever possible we use emails and intranet for communication and adopt e-filing and e-faxing. Having

ascertained that our target audience find it equally if not more convenient, many of our periodic publications are now released in the form of e-copies. From 1 April 2007, our writing paper has been manufactured from well managed forests run by the Forest Stewardship Council.

Staff members were encouraged to join the Community Chest Green Day, which aimed to raise environmental awareness and collect funds for green projects.

Charitable efforts

The SFC takes pride in the fact that our staff contribute to the community both as part of the organisation and on their own behalf. Among our employees we have Civil Aid Service volunteers, mentors to university students and carers for the elderly and disabled.



Our staff arrange a party for the elderly in January 2008.



Our staff show their care for society during a visit to the Haven of Hope Sunnyside School.

On their own initiative, a group of employees set up 'Commission Possible,' a volunteer enterprise where staff help disadvantaged groups in particular need. They organise events and bring festive specialities to the needy during holidays or other special occasions.

The SFC is exploring other ways to give back to the community, such as acting as expert advisers to charitable groups, and lending support to Community Chest initiatives including Skip Lunch Day, Green Day and Dress Special Day. We have recently put in place arrangements, on suitable occasions, to make donations to charitable causes on behalf of visiting guests instead of giving out corporate gifts.

The SFC has again been named a Caring Organisation by the Hong Kong Council of Social Service for its achievements in encouraging and supporting employee volunteering, providing family-friendly work arrangements and staff activities, and assisting social service organisations.

We participate in the Hong Kong Red Cross blood donation campaign. The SFC is a corporate partner of the Tung Wah Group of Hospitals on joint community projects and also partners with the Haven of Hope for voluntary community visits.

Our CEO, Mr Martin Wheatley, raised a few eyebrows when he swapped the board room for a cardboard box. In the process, he achieved his goal of raising awareness of the plight of slum dwellers.

Joined by his wife and daughters, Mr Wheatley built a shack out of corrugated iron and slept under the stars in Tuen Mun as part of Crossroads International's Slum Survivor course. The aim was to give a taste of the rougher side of life.

"The idea was to take us out of our cosy world and give a simulation of how people survive life," Mr Wheatley explains. Crossroads International uses donated goods to provide emergency relief to people in poverty or those suffering from disease.

Part of Mr Wheatley's task was to rely on handouts from organisers, and to physically build a roof over his head. It helped raise Crossroads's profile but in the process served as an eye-opener to the executive and his family.

"I got more from it personally than I expected," he says. "And the kids thought it was amazing, it gave a real sense of awareness about poverty in the world."



CEO Mr Martin Wheatley participates in Slum Survivor Hong Kong in 2007.

Event highlights

2007

April

10 The SFC signs an MOU with the CBRC to share information and boost regulatory co-operation for QDII business.



June

6 A press conference is held to coincide with the publication of Annual Report 2006-07. The report receives high accolades, winning awards from the HKICPA and Hong Kong Management Association.



23 The series of investor education seminars jointly organised with the Hong Kong Society of Financial Analysts and the Li Ka Shing Institute of Professional and Continuing Education (LiPACE) of the Open University of Hong Kong (OUHK) kicks off. The seminars cover more advanced investment topics targeted at experienced investors.



September

11 Chairman Mr Eddy Fong welcomes Mr Gui Minjie, Vice Chairman of the CSRC, who leads a 40-strong delegation of Mainland fund managers on an exchange tour to Hong Kong. ED Mrs Alexa Lam addresses the delegation at a seminar hosted by the SFC.



11 Chairman Mr Eddy Fong speaks at the Hong Kong Investment Funds Association Annual Conference.



2008

October

- 4 ED Mr Brian Ho gives a talk on policy and takeovers issues organised by the Hong Kong Securities Institute (HKSI). Senior SFC executives regularly speak to market participants at HKSI seminars.



November

- 7 – 9 CEO Mr Martin Wheatley participates in an IOSCO Technical Committee Conference in Tokyo.



- 13 An MOU is signed with the Financial Reporting Council to help co-ordinate efforts and exchange information.



- 22 The SFC's Annual Report 2006-07 becomes the Platinum winner in the HKICPA Best Corporate Governance Awards 2007. Chairman Mr Eddy Fong, guest of honour at the presentation ceremony, presents the trophy to COO Mr Paul Kennedy.



January

- 26 The winners emerge at the championship of 'Investment Triathlon', the SFC's first cross-media financial quiz. CEO Mr Martin Wheatley congratulates the winners on their outstanding performance.

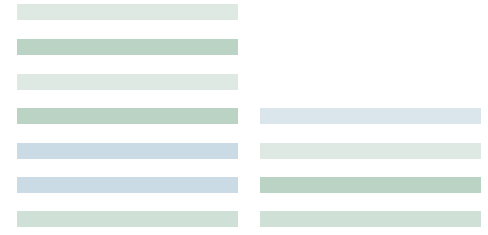


March

- 27 An Agreement of Understanding is signed with the CIRC in Beijing to set up a system of regulatory co-operation and information sharing.



Regulation



Playing a guiding role, like the conductor of an orchestra, the SFC maintains order and quality of the industry. It enforces the laws and provides market practitioners with the necessary guidance to meet the standards expected of an international financial centre.





Regulation

Swings in market volatility and volume provided a dramatic backdrop to the SFC's day-to-day monitoring and supervision roles during the year. We closely monitored the financial integrity, conduct and controls of market operators and intermediaries as global financial uncertainty tested their resilience. However, overall, the market showed a robust ability to cope.

At the same time, our enforcement efforts became more efficient and focused. We made use of the full reach of legislation at our disposal, with our actions targeted at misconduct causing genuine harm to investors and our market.

We continued our long term partnership with the Government and HKEx in considering improvements to the overall regulatory framework. The SFC also worked closely with market players for input and feedback and maintained strong relationships with overseas regulators. Ties with the Mainland authorities have been bolstered and deepened to meet the challenges of cross-border regulation.

Below are some of the major initiatives and action we took to monitor the market, enforce our regulations, strengthen our regulatory regime and address public concerns.

Monitoring the market

The activities of the market and intermediaries were kept under close monitoring during the year as volume, volatility and latterly market downturns added stress to their operating environment. Our goal is not just to ensure compliance with regulatory obligations but also to identify risks and fortify the market and intermediaries to ensure that they have sufficient resilience in the event of adverse market conditions. Among the monitoring measures we took to ensure the integrity of players were the following:



Surveillance work helps maintain a fair and orderly market.



We thoroughly investigate apparent misconduct.

- We enhanced monitoring of the financial integrity of licensed corporations by carrying out intensive and focused risk assessments and required rectification actions where deficiencies in risk management were identified. We also issued circulars to the industry reminding them to tighten their risk management amidst market volatility.
- We conducted nearly 200 prudential visits and meetings with licensed corporations to discuss their business operations. We also conducted risk-based, on-site inspections of 136 licensed corporations to assess their level of regulatory compliance. 460 rule breaches and control deficiencies were identified from these inspections. A further 88 reports of breaches were received from licensed corporations and other external sources. Licensed corporations were required to take rectification measures where deficiencies were identified, including, where appropriate, commissioning reviews by independent accountants. 16 cases of more serious breaches required further investigation.
- We undertook a market-wide risk monitoring exercise in August 2007, including direct enquiries with key market players, fund managers and prime brokers, to gauge the local impact of the subprime crisis in the US and changes in global credit risks on licensed corporations.

Our Dual Filing team continued to play a valuable gate-keeping role in reviewing listing applications under the dual filing regime. Our team identified various areas of concern with applications during the year and highlighted these to sponsors and legal advisers through the publication of regular press releases. We also identified instances of disclosure of false or misleading information by listed issuers through our on-going monitoring of press reports and announcements.

Our Takeovers team handled 99 transactions which included general offers, privatisations and share repurchases and 258 applications under the Codes on Takeovers and Mergers and Share Repurchases (Codes). The Takeovers Panel met 11 times to consider disciplinary proceedings, to rule on matters relating to the Codes and to review proposed amendments to the Codes. The Takeovers Executive took disciplinary action in two cases relating to breaches of the Codes.

Action taken against misconduct

The SFC saw a number of enforcement firsts during the year, reflecting our determination to make full use of the spectrum of legal powers and remedies at our disposal. These firsts included:

- The first disqualification order against a listed company director for misconduct. The director was barred from acting as a director for four years, with the Court making it clear that the need for general deterrence is an element in assessing the period of disqualification.



The SFC commences the first criminal prosecution for insider dealing.

Regulation

- The first conviction after trial for false and misleading information under dual filing. The Court found a listed company and its chairman reckless in not ensuring their response to the Stock Exchange was complete, accurate and not misleading.
- The first insider trading criminal proceeding was commenced. This is also the first indictable prosecution made under the SFO. Twelve charges were laid against five people. The case will proceed during 2008.
- The first time we decided to revoke a firm's licence in an action based on serial breaches of compliance obligations.
- The first time we used our injunction remedies to tackle suspected market abuse. In two actions that are on-going, we successfully obtained interim orders freezing assets totalling \$50 million.
- The first jailing under the SFO. A market manipulator was sentenced to six months' imprisonment. Together with suspended jail terms for five other manipulators, these cases reflect the Courts' view of market misconduct as a serious offence and one for which a jail term is within the range of penalties that could be imposed.
- The first application for an order to punish a person for failing to attend an SFC interview without reasonable excuse. The Court found the person to be in contempt and the person was ordered to be committed to prison until he agreed to attend an interview.

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The Judge held that "Given [the person's] wilful obstinacy, I think that committal to prison is an appropriate remedy... This being a matter of civil contempt, the duration of [the person's] imprisonment is obviously in his hands. It is open to him to purge his contempt and end his confinement by attending an interview with the SFC's investigator." (The person was subsequently released from prison and complied with a court order to attend the SFC interview.)

.....

We will continue to use the full spectrum of remedies available to us including civil, disciplinary and criminal action to deter wrongdoing and to protect the market and investors. We aim to send a strong message to the market encouraging compliance and high standards of conduct by all participants.

Enforcement activities

Number of inquiries to brokers	3,978
Number of investigations started	205
Number of investigations completed	119
Number of investigations completed within seven months (%)	87 (73%)
Number of persons charged in criminal proceedings	74*
Number of criminal charges laid	372
Number of Notices of Proposed Disciplinary Actions	72
Number of Notices of Final Decision	81
Number of civil cases commenced	9
Compliance advice letters issued	217

* Five of the 74 persons were prosecuted for more than one offence

During the year we issued nearly 4,000 inquiries to brokers as part of our daily surveillance of the market.

A high proportion of the 205 investigations started during the year were concerned with market misconduct reflecting the focus of our attention on matters causing genuine harm to investors and our market. 53 investigations involved suspected manipulation of the market and 37 investigations involved suspected insider dealing.

Criminal charges laid were up 101 per cent (an increase of 68 per cent excluding disclosure of interests charges) with 74 people facing a total of 372 charges. The largest increase was in the area of market misconduct with a total of 126 charges laid against 17 people for market manipulation and insider dealing offences. Our Enforcement team also made substantial progress in reducing investigation time. We are now completing 73 per cent of investigations within seven months, representing a substantial improvement in our efficiency.

We drew a clear bright line in cases of dishonesty by intermediaries, revoking licences of individuals and imposing life bans in seven cases. Firm steps were also taken in cases where traders operated secret accounts. During the year, we issued restriction notices against two firms following the discovery of serious misconduct:

- A restriction notice against Man Lung Hong Securities Limited was issued in August 2007 following discovery of evidence of concealment of misappropriation of client assets by a licensed representative of the firm. Further inquiry revealed that approximately \$35 million of client assets had been misappropriated. We successfully applied to the Court for the appointment of administrators and the granting of Mareva Injunctions against the licensed representative and his wife to protect the clients' assets. The licensed representative received a 40-month jail term from the Court on conviction of 35 counts of stealing. He was also banned for life from re-entering the securities industry.
- In November 2007 we issued a restriction notice against Great Honest Investment Company Limited following the discovery of evidence of unauthorised dealings and other irregularities. We successfully applied to the Court for the appointment of an administrator, the granting of Mareva Injunctions against the majority shareholder and her brother-in-law to prevent the removal of their assets, and an order prohibiting the majority shareholder from leaving Hong Kong.

We adopted a new approach in resolving compliance issues by obtaining undertakings from firms to proactively rectify problems and bolster compliance standards following breaches. If the same compliance problems arise again, in a specified period, the firm agrees that the original disciplinary sanction, which is usually a suspension of licence, will be imposed. This has proved to be an effective approach in reducing misconduct and improving performance and compliance standards.

There have been an increasing number of challenges to our investigating powers by individuals who are subject to our investigations. During the year, we were successful in defeating a number of these challenges.

While dealing with these issues absorbed significant resources, the resulting clarity regarding certain of our investigating powers will be helpful in future investigations by reducing delays to proceedings brought before the Courts or the Market Misconduct Tribunal. The matters clarified by the Courts include:

- A decision to interview a person for false trading, stock rigging and possible market manipulation is not a breach of the Bill of Rights Ordinance, according to a November 2007 Court judgment. The person is appealing and the matter will be considered by the Court of Appeal on 29 July 2008. However, his application for a stay of the Court's judgment was granted reluctantly.

.....

The Judge held that "That reluctance arises because it is becoming apparent that there is a practice developing on the part of persons subject to enquiry by the SFC, to challenge every step of the way by judicial review, and to appeal as far as possible, any decision that goes against such a person. Few of these challenges have had any success."

.....



Investigations have led to action against market misconduct and other breaches of the law.

Regulation

- The validity of a search warrant executed by the SFC in relation to an insider dealing probe was upheld by the Court in a December 2007 judgment.
- The SFC's power to audio record investigation interviews as part of an insider dealing probe was upheld by the Court in October 2007.

.....

The Judge held that "The power to record an interview by audio means is reasonably incidental and necessary to the power under section 183(1)(c) to compel a person under investigation to answer questions. Consequently, in insisting upon an audio recording of an interview, the SFC and its investigators did not act ultra vires".

.....

We also maintained a strong record before the SFAT during the year, including:

- Two decisions by the SFC to impose a condition which restricted companies from acting as a sponsor were upheld. This confirmed our decision that the companies had failed to meet all the eligibility criteria set out in the Sponsor Guidelines, which came into effect in January 2007.
- The SFAT's decision to suspend immediately the licensed activities of Hong Kong Forex Investment Limited pending a hearing about the SFC's decision to revoke its licence.

The characterisation of the SFAT as a civil tribunal was further reinforced by the Court during the year and the requisite standard of proof for disciplinary proceedings was determined.

Keeping market standards high

The SFC continued to play a key role in improving Hong Kong's overall regulatory framework and contributed to the following on-going regulatory reforms during the year:

- We worked together with the Stock Exchange to require publication of online information packs on IPOs – this requires earlier disclosure of information

by IPO applicants to address the apparent inequality of the timing of information dissemination between institutional and retail investors.

- On-going work to overhaul the prospectus regime continued and proposals were refined. We continue to work with the Government to draft the amendment legislation and consult the market. Where appropriate and feasible within the current legislative framework, we will consider ways to expedite the implementation of the proposals. The publication of online information packs is one example.
- Jointly with the Federation of Share Registrars, the Hong Kong Monetary Authority and the Hong Kong Association of Banks, the SFC introduced a new measure to prevent investors from making multiple subscription applications for IPO shares. This became effective on 2 April 2007.
- We commented on a number of consultation papers issued by the Stock Exchange aimed at boosting the effectiveness of market regulation, including: a combined consultation paper on 18 substantive policy issues in January 2008; a consultation paper in August 2007 seeking market views on changes to reporting deadlines and the introduction of quarterly reporting; and a consultation paper in July 2007 regarding the further development of the Growth Enterprise Market to a second board.

In addition, we reviewed the Stock Exchange's performance in the regulation of listing matters during 2006, and published our findings in the report on the SFC's '2007 Annual Review of the Exchange's Performance in its Regulation of Listing Matters'. We formed the view that the operational procedures and decision-making processes reviewed were appropriate to enable the Stock Exchange to discharge its statutory obligation to maintain an orderly, informed and fair market.

We assisted the HKICPA in their review of the professional guidelines for auditors of licensed corporations and the training of their members on conducting audits of brokers.

Guidance to help investment advisers meet the conduct requirements on giving suitable advice, in the form of questions and answers, was issued and posted on the SFC website in May 2007.

Boosting cross-border regulation

The SFC made significant efforts during the year to boost ties with our regulatory peers in the Mainland as it deals with the jurisdictional challenges of cross-border regulation. We had top-level meetings with the China Securities Regulatory Commission (CSRC) and the China Banking Regulatory Commission (CBRC) during the year and sought mutual exchanges of information to assist with our respective regulatory activities on a number of occasions.

In March 2007 a CSRC side letter to the Memorandum of Regulatory Co-operation and the Memorandum of Regulatory Co-operation Concerning Futures was signed. During the year this has proved to be an effective and useful basis for obtaining investigatory assistance and also in developing a framework for joint work on matters of mutual interest and concern.

A Regulatory Co-operation Agreement of Understanding was signed with the China Insurance Regulatory Commission (CIRC) on 27 March 2008. This marked the first regulatory co-operation agreement on the use of Mainland insurance funds outside the Mainland.



We maintain open communication with the investing public.

Addressing public concerns

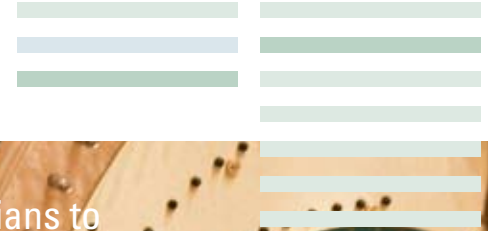
The SFC is committed to high standards of transparency and accountability and has an open complaints mechanism to deal with public grievances. During the year, we received 1,204 public complaints, of which 248 cases were referred to operational divisions for further assessment and 89 cases were investigated by the Enforcement Division. A further 159 cases were referred to the Stock Exchange or other financial regulators where the subject matter of the complaint fell within their sphere of responsibility.

One of the staff members in our complaint handling unit was a proud winner of the Ombudsman's Awards 2007, organised by the Office of The Ombudsman, for excellence in complaints handling in the public sector.

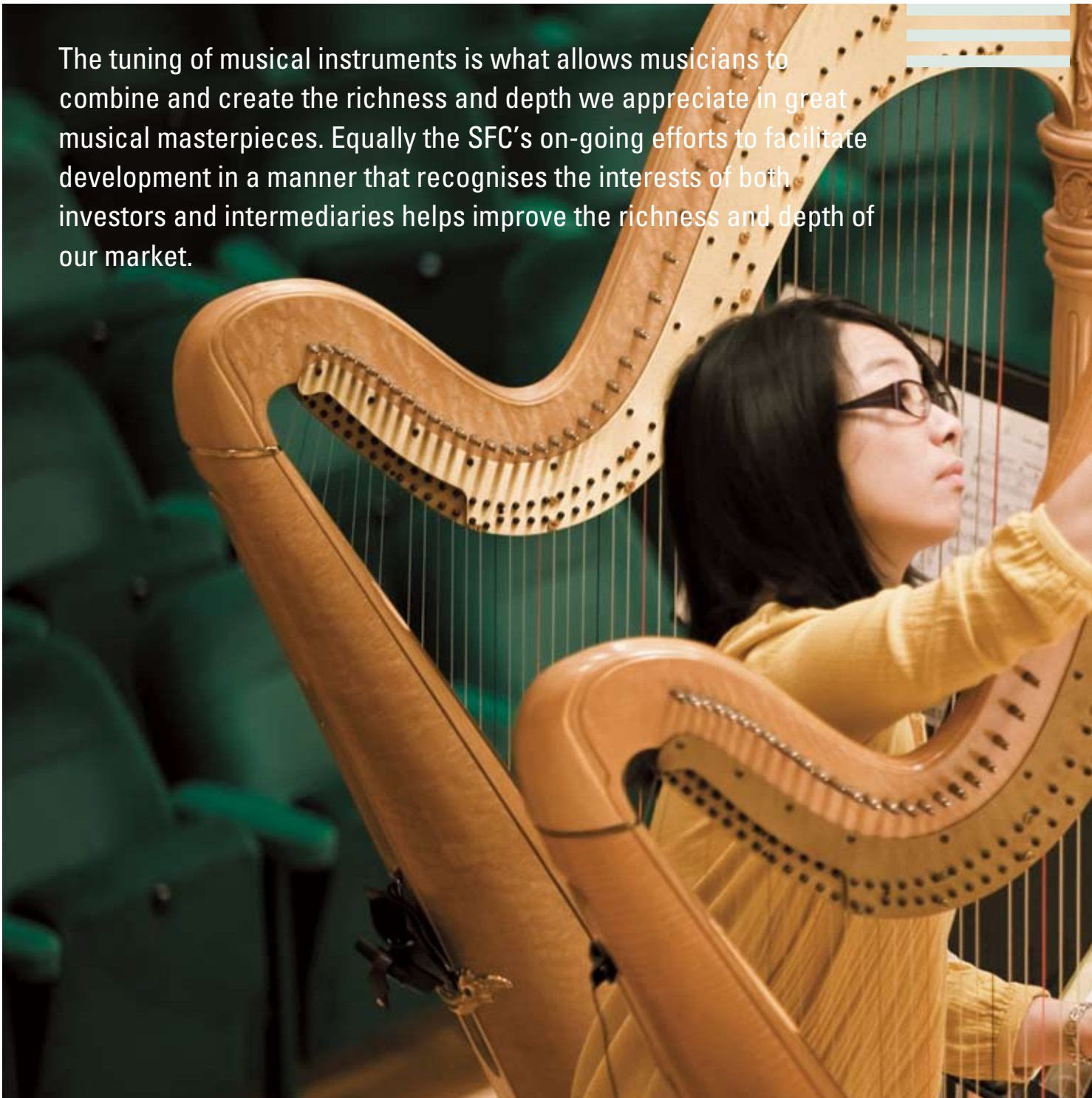
Statistics of public complaints

Nature of complaints	2007-08	2006-07	% change
Conduct of licensed intermediaries and registered institutions	353	309	14%
Listing related matters & disclosure of interests	351	339	4%
Market misconduct	215	195	10%
Products	27	26	4%
Other financial activities	248	178	39%
Miscellaneous	10	9	11%
Total	1,204	1,056	14%

Facilitation



The tuning of musical instruments is what allows musicians to combine and create the richness and depth we appreciate in great musical masterpieces. Equally the SFC's on-going efforts to facilitate development in a manner that recognises the interests of both investors and intermediaries helps improve the richness and depth of our market.





Facilitation

The SFC’s responsibilities include facilitating the development of the securities market to help Hong Kong maintain its reputation as the leading international financial centre in Asia. In discharging all of our regulatory responsibilities, we aim to maintain an orderly and fair market but in a manner that does not impose undue burdens or restrictions on industry participants. We believe that a balanced approach to regulation has helped, and will continue to help, attract quality investors and intermediaries to our markets.



CEO Mr Martin Wheatley delivers a speech at the Hong Kong Institute of Chartered Secretaries.

Global products are becoming ever more sophisticated and technically complex, requiring world-class markets to be flexible and innovative. It is vital that our regulatory regime can accommodate this dynamic environment and be responsive to evolving market needs, while still maintaining appropriate regulatory standards.

During the year we worked on several fronts to boost the market’s attractiveness and adaptability. This included measures to streamline and speed up existing regulatory processes, to reduce costs to market players and to broaden product choice.

We have taken some positive steps to make our licensing process more efficient and market-friendly as part of a longer term exercise which will see us re-engineer and automate all of our processes in this area.

We are also responsive to innovation and on a case-by-case basis, have accommodated a number of intermediaries with unique business models by granting specific exemptions or modifications to the Financial Resources Rules requirements where there are no investor protection concerns. This year

this approach has allowed seven intermediaries to operate more effectively in our market when otherwise the Financial Resources Rules constraints would have made this extremely difficult or impractical.

We continued our focus on the Mainland as a crucial partner in the development of Hong Kong's market and built on the strong foundation laid down in previous years. In particular we facilitated the implementation of the QDII scheme and helped pave the way for Mainland asset managers setting up operations under Supplement IV to CEPA.

On the international front we remain active in all five Standing Committees of IOSCO which deal with many aspects of securities regulation and industry issues relevant to securities markets, on which global regulators seek to co-operate and to develop common standards. We also hosted two IOSCO standing committee meetings in November 2007 dealing with issues on accounting and auditing as well as investment management.

Hong Kong as a fund innovator

Hong Kong's asset management business enjoyed significant growth over the past year with buoyant markets attracting more investors to fund products. We have worked hard to encourage the development of the industry – both new asset managers and new funds – as part of the deepening of the Hong Kong market, and also to increase the number and range of SFC-authorized funds available to investors.

281 new retail funds were authorised during the year and by the year end there were 2,123 SFC-authorized funds (an increase of 7 per cent over the previous year) with an aggregate net asset value of more than US\$1 trillion.

Hong Kong is now the largest exchange traded fund (ETF) market in Asia ex-Japan, with 17 SFC-authorized ETFs with a combined market capitalisation of US\$12 billion. As at end-March 2008, there were 244 SFC-authorized UCITS III funds which utilise financial derivative instruments for investment purposes.



Regular publications enhance understanding of our work.

In terms of product authorisation, there were a number of notable firsts during the year:

- The first commodities futures ETF, which was listed in April 2007
- The first actively managed closed-end fund investing primarily in the A-share market, which was listed in July 2007
- The first retail 130/30 UCITS III fund, which was authorised in July 2007
- The first UCITS III fund that has significant exposure to hedge fund indices, which was authorised in November 2007
- The first retail Islamic fund, which was authorised in November 2007
- The first Real Estate Investment Trust (REIT) managed by an international REIT manager, which is also the second REIT with cross-border investment property in the Mainland

Facilitation



The SFC issued 8,615 licences, up 44% over the previous year.

We also enhanced the efficiency of our review and approval processes by giving practical and proactive guidance in relation to the conduct of substantial transactions by REITs, such as the first acquisition of Mainland property by a listed REIT in Hong Kong announced in January 2008.

Enhanced flexibility

During the year, we approved more than 8,600 new items of marketing material and 3,700 revisions to existing scheme documents and related notices of our authorised products. While we turn around applications for approval on a timely basis, there are inevitable time and cost implications for issuers. We have therefore undertaken a review of this process and proposed changes to streamline the review of marketing materials and notices for investment products, moving from a pre-vetting to a post-vetting and monitoring regime. This change would bring us in line with international standards and practices with regard to the approval of marketing material for authorised products. A public consultation was commenced in February 2008 and the comments received were generally supportive of our proposals. We will publish our consultation conclusions later this year.

The investment management operations of SFC-authorised funds must be based in an Acceptable Inspection Regime (AIR) unless otherwise approved by the SFC. Starting in October 2007, managers of SFC-authorised funds were granted greater flexibility in delegating investment management functions to their affiliated companies located in overseas jurisdictions beyond those on the AIR list. We now have funds managed in AIR jurisdictions such as the UK and the US, as well as non-AIR jurisdictions including Belgium, Bermuda, Brazil, Japan, the Netherlands, Singapore and Switzerland.

In order to improve efficiency and accuracy we have proposed measures for all licensed corporations to submit financial returns electronically, extending the current voluntary regime. A new submissions platform is now being created, including high levels of security, which will be provided to intermediaries, together with training, during 2008. With the new electronic submission facilities, licensed corporations will be able to flexibly prepare and amend their

returns electronically at any time before the submission deadline and built-in arithmetic checks will help reduce clerical and data entry errors.

Streamlined processes

The hedge fund industry benefited from a streamlining of their licensing process that we introduced in 2007, with the average processing time for managers cut by 45 per cent. The average period taken by us to approve in principle the licence applications for hedge fund managers is now nine weeks, with well prepared applications taking as little as four weeks to approve in some instances.

For the whole year, we approved 53 licence applications from hedge fund managers, a 47 per cent increase from last year. At year end, the total number of licensed hedge fund managers topped 200, compared with 154 in the previous year.

Under our streamlined process, persons nominated to be the Responsible Officers (ROs) of hedge fund managers can be exempted from the local regulatory examination if they fulfil certain specified criteria. Under the new procedures we recognise a broader range of past industry experience for RO qualification. Policies concerning office premises and the need for ROs to be physically present in Hong Kong have also been clarified.

Our Takeovers team has also streamlined and refined procedure for applications for exempt fund manager and exempt principal trader status.

Measures involving listed companies and the exchanges

We continue to enhance and develop our relationship with the Stock Exchange, in order to facilitate and encourage new entrants to the securities market, without reducing regulatory standards, with a focus on making it quicker and easier for them to start their businesses.

The principal measures and improvements achieved during the year were:

- Working on a framework for the listing of overseas companies in Hong Kong by way of depositary receipts.

Existing shareholder protection in the Listing Rules will apply to depositary receipt issuers following amendments to the rules.

- Steps were taken to improve transparency of takeovers proceedings by opening disciplinary hearings before the Takeovers and Mergers Panel and Takeovers Appeal Committee to the public with effect from 1 April 2008.
- The market was consulted on proposed amendments to the Takeovers Code relating to dealings by connected discretionary fund managers and principal traders before and during an offer period, transactions involving the disposal by a company of its assets or operations and the possibility of delisting of the trading in the shares of that company and securities borrowing and lending. The proposed amendments will provide the market with greater clarity. The SFC is currently considering the public comments received.
- The SFC sought to improve timely publication of disclosure of interests information through mandatory electronic submission of these notices. The market was consulted on the proposed changes and the overall response received was positive. It is hoped to implement the proposal as soon as practicable.
- In November 2007 the SFC approved an HKEx proposal to allow Exchange Participants (EPs) to transfer their clearing and settlement obligations in the Central Clearing And Settlement System to another clearing participant. Third party clearing provides EPs with more flexibility in managing their business operations. We are also discussing with HKEx its proposal to admit overseas companies as Remote Exchange Participants. This would give more choice to overseas market participants and improve efficiency.
- We oversaw HKEx's upgrading of the trading, clearing and network systems to cope with increases in market activities. The SFC also administered Part III of the SFO in relation to the authorisation and on-going reporting of the Automated Trading Services. Two new authorisations were granted in 2007.
- Further flexibility in the position limits regime was achieved by enabling, in appropriate circumstances and with SFC approval, EPs or their affiliates to exceed the statutory limits for Hang Seng Index and Hang Seng

Facilitation

China Enterprises Index futures and options contracts by up to 50 per cent. This follows an earlier relaxation of position limits for the Hang Seng China Enterprises Index futures and options contracts effective from 30 March 2007.

Other products

Action was taken during the year to facilitate the introduction of more innovative products, as well as reducing the compliance burden and costs faced by intermediaries.

In particular, on 7 December 2007 we announced that waivers from certain disclosure obligations by issuers of listed structured products may be applied for on an annual basis rather than in respect of each product listed.

We approved the launch by HKEx of other initiatives including the new Hang Seng China H-Financials Index futures contract, the Mini H-shares Index futures contract and Market Access Products.

The SFC also authorised the issue of offering and marketing materials to facilitate three public offerings of unlisted RMB bonds which had a total retail issue size of around RMB 3 billion.

Co-operation with Mainland authorities

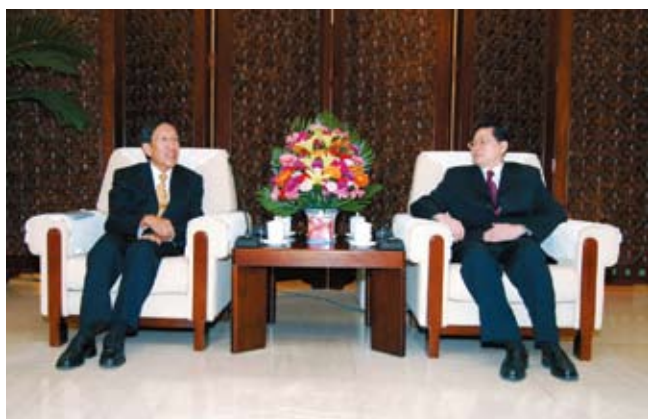
2007 saw the implementation of the Mainland's QDII scheme, reinforcing Hong Kong's role as a capital raising centre for Mainland enterprises. The SFC continues to work closely with its Mainland regulatory counterparts to

ensure that Hong Kong is the platform of choice for the implementation of the scheme. Some important milestones during the year were as follows:

- In April 2007, we signed an MOU with the CBRC for Hong Kong to become the first overseas jurisdiction that Mainland commercial banks could invest in. Hong Kong was the first market to benefit from the expansion of the investment scope of Mainland bank QDII.
- In June 2007, the CSRC announced provisional rules for QDII funds investing in overseas markets. The first QDII fund was launched in September 2007. Up to 40 per cent of the fund's assets are allocated to the Hong Kong market.
- In March 2008, a Regulatory Co-operation Agreement of Understanding was signed with the CIRC, which is the first agreement on regulatory co-operation and information exchange on the use of Mainland insurance funds outside the Mainland.

A senior SFC representative sits on the CSRC's QDII expert committee which approves QDII funds. During the year, our staff attended 14 committee meetings.

We continue to conduct regular exchanges of staff with the CSRC. We welcomed 24 individuals on secondment from the CSRC in 2007. In turn, 18 of our staff were seconded to the CSRC.



The SFC maintains close ties with the Mainland authorities.



Our publications facilitate the investing public in understanding our role and functions.

We encourage Mainland asset managers to set up business operations in Hong Kong which is permitted under Supplement IV to CEPA signed on 29 June 2007. To facilitate the establishment of these businesses, the SFC sponsored a high level seminar organised by the Hong Kong Investment Funds Association for a delegation of the Mainland's largest fund management and securities companies to visit Hong Kong in September 2007.

Communication with the market

Keeping stakeholders and investors abreast of our activities is a top priority and we aim to achieve this through a variety of means. In our publications, the 'Enforcement Reporter' gives up-to-date information on recent cases. Over the past year we have given it a fresher look and included new sections to share changes in our thinking and approach with the market.

The 'Takeovers Bulletin' is a new publication this year. This is a periodic newsletter designed to provide practice notes and informal guidance to the industry as well as articles and information on takeovers.

Our Research team continues to issue analysis and commentary on matters relevant to Hong Kong's financial

markets, including this year a report on the stock options market which helped identify Hong Kong as the most active stock options market in Asia.

We gather information about the funds market and annually publish the Fund Management Activities Survey, the last one being in July 2007.

Our Annual Report was recognised for its clarity and scope, taking the Gold Award in the non-profit making and charitable organisations category of the Hong Kong Management Association's Best Annual Reports Awards 2007, and won the Citation for Achievement in Corporate Governance Disclosure. The report also received a Platinum Award in the Public Sector / Not-for-profit Organisations category in the HKICPA's Best Corporate Governance Disclosure Awards 2007.

During the year, 2,540 enquiries were received from our stakeholders. In addition, we received 835 enquiries from the media in addition to holding press conferences and briefings to keep members of the press up to date on topical issues and areas of concern.



Our Annual Report wins top awards.



Education



Tutoring – a vital part of the learning process from which musicians master skills and knowledge. Through various interactive channels, the SFC provides the public with knowledge and guidance to help them understand the principles of investing and make informed choices.



Education

Market volatility and the growing sophistication of investment products pose major challenges to today's investors. As a responsible regulator, we take a proactive role to help investors gain a better understanding of the investment environment including market mechanics, new product features and risks, and how players interact.

We keep a close watch over potential risks and challenges that might affect investors in their investment decisions and issue advice and guidance on topical issues. We also issue generic educational materials on new product types that target retail investors as they are introduced to the market.

By broadening the scope and depth of investment knowledge among the investing public, investors can use this knowledge to make informed choices and manage their risks. We believe that a more inquisitive investor culture helps the public keep market participants on their toes as well as helping the individual investor make informed choices.

The mass media is a key tool for effective communication to investors: we reach out to the public through newspapers, television, radio, periodicals and our Dr Wise education column. Our InvestEd website for investors at www.InvestEd.hk is easy to navigate and regularly updated.

We conduct regular surveys to get a feel for the investment market and the public's financial know-how. The findings help us target education to address any knowledge gaps and misconceptions among investors.

We intend to extend the breadth and depth of our investor education efforts during 2008 with more funding and new initiatives, making extensive use of the mass media and targeting different segments of society.

Themes and campaigns

We started the new year with the theme 'Know Your Risk' and a host of activities to bring attention to investment topics where we feel education is needed. Each January is designated 'Investor Education Month' and a cluster of initiatives are rolled out to stress investor education at the beginning of the year, when many investors re-assess and plan their portfolios. The following activities took place this year:



Contestants face intense competition in the 'Investment Triathlon'.

- A cross-media financial knowledge quiz was a highlight this year. This proved hugely popular and marked a successful collaboration with the print, radio and TV media. The 'Investment Triathlon' not only tested investors' wits, but also put the spotlight on key investment issues. We brought together people from different walks of life, such as dentists, housewives, accountants, teachers and surveyors, to compete for cash prizes, attracting more than 600 entries. The final was broadcast on Cable TV.
- Snappy time check messages were broadcast on Commercial Radio One to help highlight important but easily-remembered issues for investors.
- Commuters were able to conveniently view our video on the common fallacies about warrants which was screened on RoadShow on board 1,600 buses.
- Five-minute segments on topical issues were broadcast during two prime-time shows on the Radio Television Hong Kong's Putonghua Channel.
- Experienced practitioners spoke on topics such as investment strategies and market risks at a series of four seminars co-organised with LiPACE of the OUHK.
- Financial planning workshops were run in collaboration with the Institute of Financial Planners of Hong Kong, targeting secondary school teachers.

- Feature articles in Sing Tao Daily's Investment Weekly magazine enabled us to explore topical issues in greater depth. Our articles were also carried in other newspapers and magazines.

Topical issues

During the year, we took a proactive approach in providing investors with information and timely advice on a range of topical issues:

- New types of investment funds – this year saw Hong Kong launch a number of new investment funds or funds with innovative features, such as Islamic funds, 130/30 funds, commodities index funds and listed closed-end funds. In order to provide timely and up to date product education to investors, we published concurrently investor leaflets and feature articles, and posted FAQs on our InvestEd website to educate and inform investors about the risks and mechanisms of these new products.
- Complex structured products – we also saw an increase in complex structured products being made available in the market, such as equity-linked instruments (ELIs). We therefore published a leaflet to remind investors that ELIs are not low risk products, which was complemented by feature articles explaining in detail some common special features of ELIs.



Our educational TV dramas 'Wising up with Experience' receive good responses from audiences.

Education



The SFC works closely with universities on investor education.



A radio show on investor education.

- Safeguarding investors' interests – investors were reminded how to avoid losses from fraudulent conduct by encouraging them to use more secure Investor Participant accounts to gain better control over their stock holdings and transactions.

Reaching out to the public

Other major investor education programmes rolled out last year to reach out to the public included:

- Hot topics for investors were mooted during a 15-week series on Commercial Radio One. Market professionals and SFC representatives were on hand to give investors advice and raise the public's risk awareness during the 30-minute show 'Investing 101'. The broadcast covered hot topics such as IPOs and structured products and at the end of each session, callers who correctly answered questions related to the episode were given a souvenir.
- A new series of investor leaflets were published to raise awareness in key areas, such as choosing a broker, investing in IPOs, making a complaint, fund investing, index tracking ETFs, hedge funds and ELLs.
- A series of seven seminars were organised jointly with the OUHK and the Hong Kong Society of Financial Analysts. The aim was to arm investors with pragmatic information about stock analysis and risk management. Video excerpts were aired on the OUHK's 'Open for Learning' television show.

- We met with community groups – for example the elderly and students – upon their invitation to talk about financial planning and proper investment attitude.

Cyber initiatives

We continued to make good use of our InvestEd website to promote education – our hits last year were up 30 per cent. The following content was added last year:

- The InvestEd website carried an English-dubbed version of our popular educational TV dramas, 'Wising up with Experience', in its 'Studio' section.
- 12 monthly Dr Wise articles on hot topical issues.
- 14 additional animation videos on various topics were rolled out under the 'Features & Dr Wise' section.
- We set up a new 'Overseas Investors' section on the InvestEd website to help overseas investors understand the Hong Kong stock, fund and warrant markets.
- We produced materials in Mainland Simplified Chinese to help investors from across the border gain a familiarity with the Hong Kong securities market.

We have started a revamp of the InvestEd website to make it easier to navigate and more interactive. The new look site will be rolled out during 2008.

Investor alert

Urgent warnings to the public are issued when we notice suspicious practices or misdeeds that warrant attention. Our Alert List on the InvestEd website warns investors of any suspected scams or suspicious activities that come to our attention. Last year we also took the following steps:

- A public warning was put out against a suspected boiler room operator, which put up a false notice on its website that the SFC and Police had raided its offices and frozen its bank accounts. There was no real business in Hong Kong. Details of the company and its modus operandi were communicated to the public.
- Investors were cautioned about an investment scheme offered by a company which seemed too good to be true – it claimed to provide a lucrative return of up to 25 per cent a month. We stressed that the mutual fund plan in question was not authorised by the SFC, nor were its staff licensed.

The investing community also drew upon our expertise throughout the year. A total of 5,896 enquiries were received from the investing public.



A wide range of leaflets are published for investor education.



A preview of our new InvestEd website.

Statistical comparisons

The following table shows certain key market data and statistics related to the work of the SFC in the past three years. Figures in brackets are changes from the preceding year. More statistics of the SFC's activities are provided in the chapter on Activity and Market Data starting on page 105.

	2007-08	2006-07	2005-06
Market activities and transactions			
Number of listed companies on the Stock Exchange Main Board	1,055 (+7%)	983 (+5%)	940
Market capitalisation (\$ billion)	16,825.3 (+25%)	13,442.2 (+44%)	9,331.8
Average daily market turnover (\$ billion)	99.0 (+153%)	39.2 (+83%)	21.3
Total number of listing applications reviewed under the dual filing regime	134 (+41%)	95 (+10%)	86
Total number of takeovers and share repurchases transactions handled	357 (+26%)	284 (-4%)	295
Total NAV of all compensation funds (\$ million)	1,916 (+7%)	1,794 (+4%)	1,726
Licensees and investment products			
Applications for SFC licences	9,035 (+36%)	6,628 (+16%)	5,704
Applications to conduct new regulated activity	25,478 (+45%)	17,553 (+27%)	13,809
Total number of SFC licensees	34,384 (+19%)	28,940 (+13%)	25,691
Total number of SFC-authorised schemes	2,881 (+7%)	2,686 (+1%)	2,667
NAV of authorised unit trusts and mutual funds (US\$ billion) ¹	1,077 (+18%)	910 (+36%)	668
Enforcement action			
Total number of cases handled ²	161 (+3%)	156 (-21%)	198
Entities successfully prosecuted	66 (+29%)	51 (-29%)	72
Unsuccessful prosecutions	3 (0%)	3 (+200%)	1
Disciplinary inquiries conducted	145 (-31%)	211 (+2%)	206
Actions against licensees	81 (+1%)	80 (-18%)	98

	2007-08	2006-07	2005-06
Reaching out			
Press releases issued	227 (-14%)	264 (-5%)	279
Total average daily hit rate of corporate and InvestEd websites	615,869 (+15%)	537,186 (+30%)	414,099
Investor enquiries	5,896 (-1%)	5,944 (+24%)	4,811
Public complaints	1,204 (+14%)	1,056 (-3%)	1,091
Consultation papers issued	6 (N/A)	0 (-100%)	5
Consultation conclusions issued	3 (-50%)	6 (-25%)	8
Codes and guidelines issued	1 (-83%)	6 (+100%)	3

Finances and staff

Income (\$ million)	2,546.3 (+95%)	1,306.4 (+53%)	851.5
Expenses including depreciation (\$ million)	585.0 (+8%)	541.0 (+9%)	496.9
Number of staff ³	442 (-0.2%)	443 (+0.5%)	441

¹ Net Asset Value (NAV) as at 31 December 2007, 2006 and 2005

² The basis of disclosure of total number of cases handled has changed this year. Previously the number included inquiry files as well as investigations and disciplinary actions. This year it refers only to the number of cases where enforcement action was commenced and actually taken.

³ The breakdown of the total number of staff is as follows:

	31 March 2008		31 March 2007	
	Actual	Approved	Actual	Approved
Professional	322	349	319	332
Support	120	121	124	87
	442	470	443	419

Securities and Futures Commission

Independent auditor's report to the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

We have audited the consolidated financial statements of the Securities and Futures Commission (the "SFC") set out on pages 59 to 77 which comprise the consolidated and the SFC balance sheet as at 31 March 2008 and the consolidated income and expenditure account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Hong Kong Securities and Futures Ordinance requires the directors to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group as at 31 March 2008 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

13 May 2008

Consolidated income and expenditure account

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000 (restated) ^{Note}
Income			
Levies		2,134,733	1,007,423
Fees and charges		277,686	217,848
Investment income	5	128,212	69,259
Less: custody and advisory expenses		(1,399)	(854)
Investment income net of third party expenses		126,813	68,405
Recoveries from Investor Compensation Fund		3,809	3,893
Other income	6	3,223	8,796
		2,546,264	1,306,365
Expenses			
Staff costs and directors' emoluments	7	470,925	416,334
Premises			
rent		23,487	21,279
other		17,169	15,073
Other expenses	8	60,829	74,584
Depreciation		12,607	13,735
		585,017	541,005
Surplus for the year		1,961,247	765,360
Accumulated surplus brought forward		1,937,114	1,171,754
Accumulated surplus carried forward		3,898,361	1,937,114

^{Note} Restatement was due to the adoption of a revised presentation of certain expense items as detailed in note 3.

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

Securities and Futures Commission

Consolidated balance sheet

At 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Non-current assets			
Fixed assets	10(a)	15,749	18,076
Held-to-maturity debt securities	9	2,123,610	1,285,072
		2,139,359	1,303,148
Current assets			
Held-to-maturity debt securities	9	1,646,043	624,828
Bank deposits	11	85,612	53,642
Debtors, deposits and prepayments	14	225,211	135,592
Cash at bank and in hand	11	2,725	3,509
		1,959,591	817,571
Current liabilities			
Fees received in advance		57,185	52,225
Creditors and accrued charges		53,533	34,304
		110,718	86,529
Net current assets		1,848,873	731,042
Total assets less current liabilities		3,988,232	2,034,190
Non-current liabilities	13	47,031	54,236
Net assets		3,941,201	1,979,954
Funding and reserves			
Initial funding by Government	16	42,840	42,840
Income and expenditure account		3,898,361	1,937,114
		3,941,201	1,979,954

Approved and authorised for issue by the SFC on 13 May 2008 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

Balance sheet

At 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Non-current assets			
Fixed assets	10(b)	15,737	18,025
Held-to-maturity debt securities	9	2,123,610	1,285,072
		2,139,347	1,303,097
Current assets			
Held-to-maturity debt securities	9	1,646,043	624,828
Bank deposits	11	85,612	53,642
Debtors, deposits and prepayments	14	225,016	135,431
Cash at bank and in hand	11	2,334	2,797
		1,959,005	816,698
Current liabilities			
Fees received in advance		57,185	52,225
Creditors and accrued charges		52,935	33,380
		110,120	85,605
Net current assets		1,848,885	731,093
Total assets less current liabilities		3,988,232	2,034,190
Non-current liabilities	13	47,031	54,236
Net assets		3,941,201	1,979,954
Funding and reserves			
Initial funding by Government	16	42,840	42,840
Income and expenditure account		3,898,361	1,937,114
		3,941,201	1,979,954

Approved and authorised for issue by the SFC on 13 May 2008 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

Securities and Futures Commission

Consolidated cash flow statement

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	2008	2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the year	1,961,247	765,360
Adjustments for:		
Depreciation	12,608	13,735
Investment income	(128,212)	(69,259)
Profit on disposal of fixed assets	(22)	(19)
	1,845,621	709,817
Increase in debtors, deposits and prepayments	(59,274)	(21,063)
Increase in fees received in advance	4,960	30
Increase in creditors and accrued charges	19,229	740
Decrease in non-current liabilities	(7,205)	(8,904)
Net cash generated from operating activities	1,803,331	680,620
Cash flows from investing activities		
Interest received	92,454	48,174
Held-to-maturity debt securities purchased	(2,625,881)	(1,325,009)
Held-to-maturity debt securities redeemed	771,541	617,120
Fixed assets bought	(10,281)	(13,658)
Fixed assets sold	22	21
Net cash used in investing activities	(1,772,145)	(673,352)
Net increase in cash and cash equivalents	31,186	7,268
Cash and cash equivalents at beginning of the year	57,151	49,883
Cash and cash equivalents at end of the year	88,337	57,151

Analysis of the balance of cash and cash equivalents:

	2008	2007
	\$'000	\$'000
Bank deposits	85,612	53,642
Cash at bank and in hand	2,725	3,509
	88,337	57,151

Notes to the consolidated financial statements

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

1. Status and principal activities

The SFC is governed by Part II of the Hong Kong Securities and Futures Ordinance (the SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 8/F Chater House, 8 Connaught Road, Central, Hong Kong.

2. Income

Details of the funding of the SFC are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by the Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council; and
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

3. Significant accounting policies

We have prepared the consolidated financial statements, which comprise the SFC and its subsidiaries (together referred to as the "Group"), in accordance with International Financial Reporting Standards ("IFRSs") (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board ("IASB"). We set out below a summary of our significant accounting policies.

Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis. The accounting policies have been applied consistently by Group entities.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of consolidation

Subsidiaries are those entities in which the SFC, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Control exists when the SFC has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. We include the financial statements of subsidiaries in the consolidated financial statements from the date that control commences until the date that control ceases. We eliminate all material intra-group balances and transactions and any unrealised profits and losses arising from intra-group transactions in preparing the consolidated financial statements.

Securities and Futures Commission

3. Significant accounting policies (cont'd)

Recognition of income

We recognise income in the income and expenditure account provided it is probable that the economic benefits will flow to the Group and we can measure reliably the revenue and costs. We record our income as follows:

<i>Levies</i>	We record levies from The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited as income on an accruals basis.
<i>Fees and charges</i>	We record annual fees as income on a straight-line basis over the periods to which they relate. We record other fees and charges as income when they are receivable.
<i>Investment income</i>	We record investment income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and held-to-maturity debt securities; and (b) the amortisation of premiums or discounts on purchases of held-to-maturity debt securities.

Operating leases

We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the income and expenditure account as an integral part of the aggregate net lease payments made.

Employee benefits

We make accrual for salaries and allowances, paid annual leave, contributions to defined contribution schemes and the cost of non-monetary benefits in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, we state these amounts at their present values. Other benefits for services received are accrued when a contractual or constructive obligation arises for the SFC.

Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see the accounting policy in respect of "impairment" on page 66). We charge depreciation to the income and expenditure account to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

Leasehold improvements	– 3 years or if shorter the life of the respective leases
Furniture and fixtures	– 3 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Mainframe computers and application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the income and expenditure account as an expense as incurred.

We review the carrying amounts of fixed assets for indications of impairment at each balance sheet date. An impairment loss is recognised to the extent that the carrying amount of an asset, or the cash-generating unit to which it belongs, is more than its recoverable amount. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the income and expenditure account on the date of retirement or disposal.

3. Significant accounting policies (cont'd)

Investments

We state our investments in debt securities, which we have positive intention and ability to hold to maturity, initially at fair value and subsequently at amortised cost using the effective interest method less impairment losses, if any (see the accounting policy in respect of "impairment" on page 66). We account for purchases and sales of debt securities on the settlement date.

Related parties

For the purpose of these financial statements, we consider that the following are related parties of the SFC:

- (a) parties that the SFC has the ability, directly or indirectly, to control or to significantly influence in making financial and operating decisions;
- (b) parties that have the ability, directly or indirectly, to control or to significantly influence the SFC in making financial and operating decisions; and
- (c) parties that are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, and / or their close family members) or other entities and include entities which are under the significant influence of related parties of the SFC where those parties are individuals, and post-employment benefit plans which are for the benefit of the employees of the SFC or of any entity that is a related party of the SFC. As the SFC is an entity controlled by the Government of the Hong Kong Special Administrative Region, we are not required by International Accounting Standard ("IAS") 24 to disclose transactions with other government departments and agencies in the financial statements.

Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the balance sheet date. We recognise exchange gains and losses on translation in the income and expenditure account.

Other receivables

We state other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of other receivables at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, we reduce the carrying amount to the estimated recoverable amount by means of a charge to the income and expenditure account. (See also the accounting policy in respect of "impairment" on page 66).

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Other payables

We state other payables initially at fair values and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Investment in subsidiaries

We state an investment in a subsidiary at cost less any impairment losses in the SFC's balance sheet.

Securities and Futures Commission

3. Significant accounting policies (cont'd)

Impairment

Recognition of impairment loss

We review the carrying amounts of the SFC's assets at each balance sheet date to determine whether there is any objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the SFC about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor; or significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the income and expenditure account the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Calculation of impairment loss

We calculate the recoverable amount of the SFC's investments in held-to-maturity debt securities and receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, we discount the estimated future cash flows to their present value at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, we determine the recoverable amount for the cash-generating unit to which the asset belongs.

Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation or amortisation, if we had not recognised any impairment loss.

Provisions and contingent liabilities

We recognise a provision in the balance sheet when the SFC has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the SFC will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably. If the effect is material, we determine provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

Changes in accounting policies

A number of new and revised standards and interpretations that are first effective or available for early adoption for the current accounting period of the SFC were issued.

As a result of the adoption of IFRS 7 "Financial instruments: Disclosures", the financial statements include expanded disclosures about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, "Financial instruments: Disclosure and presentation". These disclosures are provided throughout these financial statements, in particular note 20. Further, as a result of the adoption of the amendment to IAS 1 "Presentation of financial statements" which introduces new disclosures on the level of capital and objectives, policies and procedures for managing capital, additional disclosures in relation to the SFC's solvency and funding requirements have been provided. These new disclosures are set out in note 16.

3. Significant accounting policies (cont'd)

Changes in accounting policies (cont'd)

Neither IFRS 7 nor IAS 1 have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

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 years these expenses were recorded in other expenses. The previous year comparatives have been restated with other expenses being reduced by \$854,000 to \$74,584,000 and investment income being shown net of third party expenses at \$68,405,000. There is no change to the surplus for the year or comparative year and no change in net assets as at 31 March 2008 nor as at 31 March 2007 arising from this revised presentation.

4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

5. Investment income

	2008	2007
	\$'000	\$'000
Interest income	122,799	66,141
Amortisation of premium on held-to-maturity debt securities	(5,201)	(3,556)
Amortisation of discount on held-to-maturity debt securities	10,614	6,674
	128,212	69,259

Interest income is derived as follows:

	2008	2007
	\$'000	\$'000
Interest income from held-to-maturity debt securities	117,950	62,484
Other interest income	4,849	3,657
Total interest income on financial assets not at fair value through profit or loss	122,799	66,141

6. Other income

	2008	2007
	\$'000	\$'000
IOSCO 2006 Annual Conference	–	5,025
Investigation costs awarded	1,453	1,944
FinNet managed network and support fee	287	1,403
Exchange gain	1,064	–
Sale of SFC publications	324	352
Profit on disposal of fixed assets	22	19
Others	73	53
	3,223	8,796

Securities and Futures Commission

7. Staff costs and directors' emoluments

	2008	2007
	\$'000	\$'000
Salaries and allowances	428,758	385,123
Retirement benefits	26,383	18,578
Medical and life insurance	13,295	12,126
Staff functions	524	–
Recruitment	717	–
Registration and membership fees	552	–
Overtime pay	696	507
	470,925	416,334

In 2007, executive trainee programme, staff functions, recruitment and registration and membership fees of \$2,788,000 were included in other expenses (note 8).

The total number of staff as at 31 March 2008 was 445, comprising 404 regular staff (401 for SFC and 3 for Investor Compensation Company Limited) and 41 temporary staff (at 31 March 2007: the total number of staff was 446, comprising 405 regular staff and 41 temporary staff).

Directors' emoluments included in the above comprised:

	Directors' fee	Salaries, allowances & benefits in kind	Discretionary pay	Retirement scheme contribution	2008 Total	2007 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Chief Executive Officer						
Martin Wheatley	–	6,350	1,513	318	8,181	7,598
Executive Directors						
Alexa Lam	–	4,083	1,000	408	5,491	5,225
Brian Ho (appointed 28 August 2006)	–	3,600	940	360	4,900	2,820
Keith Lui (appointed 28 August 2006)	–	3,600	940	360	4,900	2,820
Mark Steward (appointed 25 September 2006)	–	4,000	1,199	200	5,399	2,646
Paul Kennedy (appointed 16 October 2006)	–	4,501	1,683	225	6,409	2,162
Peter Au-Yang (retired 25 May 2006 ^(Note 1))	–	–	–	–	–	2,139
Alan Linning (resigned 6 June 2006)	–	–	–	–	–	773
	–	26,134	7,275	1,871	35,280	26,183
Non-executive Chairman						
Eddy Fong, SBS, JP	702	–	–	–	702	444
Non-executive Directors						
The Hon Chan Kam-lam, SBS, JP (appointed 15 Nov 2007)	88	–	–	–	88	–
Angelina Lee, JP (appointed 1 August 2006)	234	–	–	–	234	156
Christopher Cheng, GBS, JP	234	–	–	–	234	234
Kenneth Kwok, BBS, SC	234	–	–	–	234	234
Kwok Ping Luen, Raymond, JP (retired 31 July 2006 ^(Note 1))	–	–	–	–	–	78
Professor Liu Pak-wai, SBS	234	–	–	–	234	234
Shengman Zhang (appointed 1 January 2007)	234	–	–	–	234	59
The Hon Tsang Yok Sing, GBS, JP (retired 14 November 2007 ^(Note 1))	146	–	–	–	146	234
Dr York Liao, SBS, JP	234	–	–	–	234	234
	2,340	–	–	–	2,340	1,907
Total directors' emoluments	2,340	26,134	7,275	1,871	37,620	28,090

Note 1 retired having completed appointment period

7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals in 2007/2008, representing the emoluments of five executive directors, was \$30,380,000 (2006/2007: \$26,311,000 for four executive directors) with the breakdown as follows:

	2008	2007
	\$'000	\$'000
Salaries, allowances & benefits in kind	22,534	21,144
Discretionary pay	6,335	4,181
Retirement scheme contribution	1,511	986
	30,380	26,311

Their emoluments are within the following bands:

	2008	2007
	No. of individuals	No. of individuals
\$3,500,001 to \$4,000,000	–	1
\$4,000,001 to \$4,500,000	–	1
\$4,500,001 to \$5,000,000	1	–
\$5,000,001 to \$5,500,000	2	1
\$5,500,001 to \$6,000,000	–	1
\$6,000,001 to \$6,500,000	1	–
\$6,500,001 to \$7,000,000	–	–
\$7,500,001 to \$8,000,000	–	1
\$8,000,001 to \$8,500,000	1	–

Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme):

(a) ORSO Scheme

General grade staff For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the SFC prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was \$44,000 (2007: \$27,000).

Professional staff For professional staff, we make monthly contributions in the range of 5% to 10% of their fixed pay, depending on the period of service and subject to a vesting scale with the benefit fully vested upon completion of 10 years' service.

We use forfeited contributions in respect of professional staff who leave the SFC prior to qualifying for 100% disbursement of the contributions to offset the SFC's future contributions. The amount so forfeited during the year was \$1,933,000 (2007: \$1,330,000) and the amount so forfeited available at the balance sheet date was \$414,000 (2007: \$115,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

(b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

Securities and Futures Commission

8. Other expenses

	2008	2007
	\$'000	\$'000 (restated)
Training and development	3,649	7,590
Legal and professional services	23,000	20,309
Information and systems services	18,371	20,483
Auditors' remuneration	374	268
Funding for the Financial Reporting Council	2,500	7,500
General office and insurance	5,352	7,075
FinNet	–	1,921
External relations	7,583	9,131
Exchange loss	–	307
	60,829	74,584

In 2007 other expenses included \$2,788,000 for executive trainee costs, staff functions, recruitment and registration and membership fees, which were included in staff costs in 2008 (note 7).

9. Held-to-maturity debt securities

The Group and the SFC

	2008	2007
	\$'000	\$'000
Maturing after one year		
In the second to third years – unlisted	470,182	583,165
– listed outside Hong Kong	1,653,428	701,907
	2,123,610	1,285,072
Maturing within one year – unlisted	650,557	420,712
– listed outside Hong Kong	995,486	204,116
	1,646,043	624,828
	3,769,653	1,909,900
Cost at 31 March – unlisted	1,120,739	1,003,877
– listed outside Hong Kong	2,648,914	906,023
	3,769,653	1,909,900
Market value at 31 March – unlisted	1,144,453	1,003,853
– listed outside Hong Kong	2,709,693	908,594
	3,854,146	1,912,447

The average yield to maturity of the debt securities was 2.78% at 31 March 2008 (2007: 4.82%).

10. Fixed assets

(a) The Group

	Furniture, fixtures and leasehold improvements	Office equipment	Mainframe computers and application systems	Personal computers and software	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
At 1 April 2007	35,520	9,261	119,650	26,030	1,967	192,428
Additions	52	244	7,879	2,106	–	10,281
Disposals	–	–	–	(3,339)	–	(3,339)
Written off	–	–	–	(102)	–	(102)
At 31 March 2008	35,572	9,505	127,529	24,695	1,967	199,268
Accumulated depreciation						
At 1 April 2007	35,184	8,053	108,731	21,158	1,226	174,352
Charge for the year	178	760	7,421	4,002	247	12,608
Written back on disposals	–	–	–	(3,339)	–	(3,339)
Written off	–	–	–	(102)	–	(102)
At 31 March 2008	35,362	8,813	116,152	21,719	1,473	183,519
Net book value						
At 31 March 2008	210	692	11,377	2,976	494	15,749
Cost						
At 1 April 2006	35,218	9,506	117,002	24,532	1,456	187,714
Additions	389	435	7,351	4,717	988	13,880
Disposals	(87)	(680)	(4,703)	(3,219)	(477)	(9,166)
At 31 March 2007	35,520	9,261	119,650	26,030	1,967	192,428
Accumulated depreciation						
At 1 April 2006	33,448	7,908	106,960	20,008	1,456	169,780
Charge for the year	1,823	824	6,474	4,367	247	13,735
Written back on disposals	(87)	(679)	(4,703)	(3,217)	(477)	(9,163)
At 31 March 2007	35,184	8,053	108,731	21,158	1,226	174,352
Net book value						
At 31 March 2007	336	1,208	10,919	4,872	741	18,076

Securities and Futures Commission

10. Fixed assets (cont'd)

(b) The SFC

	Furniture, fixtures and leasehold improvements	Office equipment	Mainframe computers and application systems	Personal computers and software	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
At 1 April 2007	35,176	9,230	119,650	25,675	1,967	191,698
Additions	52	243	7,879	2,106	–	10,280
Disposals	–	–	–	(3,339)	–	(3,339)
At 31 March 2008	35,228	9,473	127,529	24,442	1,967	198,639
Accumulated depreciation						
At 1 April 2007	34,862	8,029	108,731	20,825	1,226	173,673
Charge for the year	167	753	7,421	3,980	247	12,568
Written back on disposals	–	–	–	(3,339)	–	(3,339)
At 31 March 2008	35,029	8,782	116,152	21,466	1,473	182,902
Net book value						
At 31 March 2008	199	691	11,377	2,976	494	15,737
Cost						
At 1 April 2006	34,864	9,474	117,002	24,169	1,456	186,965
Additions	356	435	7,351	4,717	988	13,847
Disposals	(44)	(679)	(4,703)	(3,211)	(477)	(9,114)
At 31 March 2007	35,176	9,230	119,650	25,675	1,967	191,698
Accumulated depreciation						
At 1 April 2006	33,102	7,890	106,960	19,691	1,456	169,099
Charge for the year	1,804	818	6,474	4,343	247	13,686
Written back on disposals	(44)	(679)	(4,703)	(3,209)	(477)	(9,112)
At 31 March 2007	34,862	8,029	108,731	20,825	1,226	173,673
Net book value						
At 31 March 2007	314	1,201	10,919	4,850	741	18,025

11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2008 ranged from 1% to 1.6% (2007: 3.7% to 4.4%). These balances mature within one year at both 31 March 2008 and 31 March 2007.

12. 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 SFO.

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2008, the investments 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.

The balance sheet of FinNet as at 31 March 2008 was immaterial and its expenses have been paid by the SFC. Therefore, we have not consolidated FinNet in the Group's financial statements.

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

13. Non-current liabilities

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.

Securities and Futures Commission

14. Ageing analysis of debtors

Debtors, deposits and prepayments include \$216,691,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2007: \$132,130,000). Receivables are usually due within 30 days. We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2007 and 2008.

15. Advance to an executive

The interest-free advance to an executive for initial settling-in purposes was fully repaid during the year (2007: \$333,000).

The maximum balance of outstanding advance to an executive during the year was \$333,000 (2007: \$667,000).

16. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government. The SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make appropriation to it. The SFC manages its funding requirements from its income and accumulated surplus.

17. Capital commitments

Capital commitments outstanding at 31 March 2008 not provided for in the financial statements were as follows:

	2008	2007
	\$'000	\$'000
Authorised and contracted for	16,324	14,571
Authorised but not contracted for	22,937	12,231

18. Commitment to pay rents for offices

The leases in respect of our Chater House office are subject to a rent review on 1 July 2008. The rent we will have to pay after 1 July 2008 will be fixed in 2008 based on the market rent prevailing in 2008 but subject to a cap set out in the lease agreement.

During the year, we have entered into a new lease for a second office for a period of four years starting 1 February 2008.

At 31 March 2008, the minimum amount we are committed to pay in rent for our office up to the expiry dates of the leases are as follows:

	The Group		The SFC	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Payable next year	62,578	30,860	62,578	30,860
Payable in one to five years	257,326	7,696	257,326	7,696
Payable in more than five years	13,647	–	13,647	–
	333,551	38,556	333,551	38,556

In 2007, we disclosed the minimum amount of rent payable for our Chater House office up to 30 June 2008, the rent review date. For the current year we have based the disclosure on our intention to exercise our option to renew this lease for a further five years commencing on 1 July 2008.

During the year ended 31 March 2008, \$23,487,000, net of lease incentives, was recognised as an expense in the income and expenditure account in respect of operating leases (2007: \$21,279,000).

19. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, we have the following significant related party transactions.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$3,809,000 was recovered from ICF for ICC's expenses (2007: \$3,893,000). As at 31 March 2008, the amount due to ICF from ICC was \$536,000 (at 31 March 2007: \$863,000).

(b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

Securities and Futures Commission

20. Financial instruments

Financial assets of the SFC comprise held-to-maturity debt securities, bank deposits, cash at bank and debtors. These are classified into different categories at inception in accordance with IAS 39, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: held to maturity, loans and receivables and other financial liabilities.

The main financial risks of the SFC arise from its investments in held-to-maturity debt securities. The SFC confers upon its Executive Directors the power to act upon the advice received from an external investment manager and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk. The Executive Directors report thereon to the SFC on a regular basis.

(a) Credit risk

The SFC's credit risk is primarily attributable to debt security investments. The Financial Secretary has approved our investment policy which, subject to other control limits, only allows the SFC to invest in high-quality dated securities, rated AA or above. The policy also limits the exposure to each organisation and each country, except for the US Treasury. During the year, the SFC complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

(b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rates bearing debt securities and bank balances. The SFC is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The SFC manages re-pricing risk of its fixed rate dated securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the SFC's interest bearing assets are disclosed in the respective notes to the financial statements. At 31 March 2008, it is estimated that a general increase / decrease of 100 basis points assuming a parallel shift of the yield curve, with all other variables held constant, would increase / decrease the SFC's surplus and accumulated surplus by approximately \$7.4 million (2007: \$3.5 million). As at 31 March 2008 the average duration of the SFC's investment portfolio was 1.65 years (31 March 2007: 1.33 years).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents the management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(c) Exchange rate risk

The only foreign currency investment allowed under the SFC's investment policy is US dollar dated securities. As the HK dollar is pegged to the US dollar, and since there were no other exchange rate exposures other than in US dollars and HK dollars, the SFC was not exposed to significant foreign exchange risk at the balance sheet dates. During the years ended at the balance sheet dates the SFC was not exposed to significant risks arising from market exchange rates.

20. Financial instruments (cont'd)

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2008 and 2007 except for held-to-maturity debt securities as disclosed in note 10 and non-current liabilities as disclosed in note 13. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- Held-to-maturity debt securities: The fair value is based on quoted market prices at the balance sheet date at current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.
- Non-current liabilities: The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

21. Comparative figures

As a result of adopting IFRS 7 "Financial instruments: Disclosures", certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2008.

22. Possible impact of new standard and amendment issued but not yet effective for the annual accounting period ended 31 March 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2008 and which have not been adopted in these financial statements.

The SFC is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the SFC's results of operations and financial position.

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their annual report and the audited financial statements for the year ended 31 March 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 80 to 92.

3. Members of the Committee

The members of the Committee during the year ended 31 March 2008 and up to the date of this report were:

Mr Keith Lui (Chairman)

Mr Gerald Greiner

Mr Kenneth H W Kwok, BBS, SC

Mrs Alexa Lam

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 year.

5. Auditors

KPMG were first appointed as auditors of the Fund in 2003. KPMG retire and being eligible, offer themselves for re-appointment.

On behalf of the Committee

Keith Lui

Chairman

13 May 2008

Independent auditor's report to the Securities and Futures Commission (the SFC)

We have audited the financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 80 to 92 which comprise the balance sheet as at 31 March 2008 and the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The SFC's responsibility for the financial statements

The Securities and Futures Ordinance requires the directors of the SFC to keep proper accounts of the Fund and to prepare financial statements of the Fund in respect of each financial year. The directors of the SFC do so on the basis that these financial statements should give a true and fair view and in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2008 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

13 May 2008

Investor Compensation Fund

Income and expenditure account

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Income			
Net investment income	3&5	126,894	108,932
Exchange difference		(3,720)	5,262
		123,174	114,194
Expenses			
Investor Compensation Company expenses	7	3,809	3,893
Compensations (write backs) / expenses	8	(10,873)	48,570
Auditor's remuneration		77	72
Bank charges		770	758
Professional fees		2,965	2,668
Sundry expenses		1	1
		(3,251)	55,962
Surplus		126,425	58,232
Accumulated surplus brought forward		629,760	571,528
Accumulated surplus carried forward		756,185	629,760

Balance sheet

At 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities	9	1,502,130	1,548,070
– Equity securities	9	202,926	177,925
Interest receivable		21,411	24,516
Unsettled regular purchases of financial assets		46,987	–
Due from Investor Compensation Company		536	863
Fixed and call deposits with banks	10	104,916	27,800
Cash at bank	10	4,784	263
		1,883,690	1,779,437
Current liabilities			
Provision for compensation	8	22,978	45,214
Accounts payable and accrued charges		886	822
		23,864	46,036
		1,859,826	1,733,401
Net current assets			
		1,859,826	1,733,401
Net assets			
		1,859,826	1,733,401
Representing:			
<u>Compensation fund</u>			
Contributions from Unified Exchange Compensation Fund	11	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	11	108,923	108,923
Accumulated surplus		756,185	629,760
		1,859,826	1,733,401

Approved and authorised for issue by the Securities and Futures Commission (the SFC) on 13 May 2008 and signed on its behalf by

Eddy C Fong

Chairman of the SFC

Martin Wheatley

Chief Executive Officer of the SFC

Investor Compensation Fund

Statement of changes in equity

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	2008	2007
	\$'000	\$'000
Compensation Fund balance as at 1 April	1,733,401	1,674,206
Surplus for the year	126,425	58,232
Contributions from Commodity Exchange Compensation Fund	—	963
Compensation Fund balance as at 31 March	1,859,826	1,733,401

Cash flow statement

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	2008	2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the year	126,425	58,232
Net investment income	(126,894)	(108,932)
Exchange difference	3,720	(5,262)
Decrease in amount due from Investor Compensation Company	327	863
Increase in unsettled regular purchases of financial assets	(46,987)	–
(Decrease) / Increase in provision for compensation	(22,236)	45,214
Increase in accounts payable and accrued charges	64	56
Net cash used in operating activities	(65,581)	(9,829)
Cash flows from investing activities		
Purchase of debt securities	(1,305,142)	(1,827,241)
Sale or maturity of debt securities	1,375,047	1,650,868
Sale of equity securities	970	752
Interest received	76,343	60,200
Net cash from / (used in) investing activities	147,218	(115,421)
Cash flows from financing activities		
Contributions received from Commodity Exchange Compensation Fund	–	963
Net cash from financing activities	–	963
Net increase / (decrease) in cash and cash equivalents	81,637	(124,287)
Cash and cash equivalents at beginning of the year	28,063	152,350
Cash and cash equivalents at end of the year	109,700	28,063

Analysis of the balance of cash and cash equivalents:

	2008	2007
	\$'000	\$'000
Fixed and call deposits with banks	104,916	27,800
Cash at bank	4,784	263
	109,700	28,063

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing.

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Ltd. (ICC) under Section 80 of the SFO. ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council has by order set the maximum amount of compensation at \$150,000 per claimant for a single default in relation to securities traded at the Stock Exchange of Hong Kong Limited (SEHK) or futures contracts traded at the Hong Kong Futures Exchange Limited (HKFE).

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation-Claims) Rules. The SFC would pay unpaid claim amounts when funds became available in the Fund.

2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on the SEHK and futures contracts traded on the HKFE, and returns earned on the investment of the Fund (see also note 5).

3. Significant accounting policies

The Fund prepares its financial statements in accordance with International Financial Reporting Standards ("IFRSs") (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board ("IASB"). We set out below a summary of our significant accounting policies.

Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as designated at fair value through profit or loss at their fair value (see accounting policy stated below).

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. Significant accounting policies (cont'd)

Recognition of income

We recognise income in the income and expenditure account provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record our income as follows:

Net investment income

Net investment income comprises (i) interest income from bank deposits and debt securities; (ii) unrealised gain or loss on revaluation of debt securities and equity securities and (iii) realised gain or loss on redemption and disposal of debt securities and equity securities. We record interest income as it accrues using the effective interest method.

Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the balance sheet date. We record exchange gains and losses on translation in the income and expenditure account.

Financial Instruments

(i) Initial recognition

We classify the financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables and other financial liabilities.

We initially measure financial instruments at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. We charge transaction costs on financial assets and financial liabilities at fair value through profit or loss to expense immediately.

We recognise financial assets and financial liabilities on the date the Fund becomes a party to the contractual provisions of the instrument. We recognise regular purchase or sale of financial assets using settlement date accounting. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets or financial liabilities.

The Fund's financial instruments mainly consist of debt and equity securities designated at fair value through profit or loss. We state financial assets and liabilities under this category at fair value and recognise changes in the fair value in the income and expenditure account in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income and expenditure account.

(ii) Fair value measurement principles

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker / dealer for non-exchange-traded financial instruments at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. Unlisted equity investments are shares in pooled funds. The fair value is determined based on the Fund's share in the net assets of the pooled funds as determined by the custodian. The majority of the underlying assets of the pooled funds are listed securities.

(iii) Derecognition

We derecognise a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

We derecognise a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

Investor Compensation Fund

3. Significant accounting policies (cont'd)

(iv) Offsetting

We offset the financial assets and financial liabilities and report the net amount in the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Impairment

(i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at each balance sheet date to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the income and expenditure account the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

(ii) Calculation of impairment loss

We calculate the recoverable amount of the Fund's receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount.

(iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we would have determined if we had not recognised any impairment loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses. These are classified as loans and receivables in accordance with the determination in International Accounting Standard ("IAS") 39, are due within one year and are unsecured.

Provision for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.

Other payables

We state other payables initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial in which case we state them at cost. These liabilities are classified as financial liabilities measured at amortised cost in accordance with the determination in IAS 39, are due within one year and are unsecured.

3. Significant accounting policies (cont'd)

Contingent liability

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Fund:

- (i) parties that the Fund has the ability, directly or indirectly, to control or to significantly influence in making financial and operating decisions;
- (ii) parties that have the ability, directly or indirectly, to control or to significantly influence the Fund in making financial and operating decisions; and
- (iii) parties that are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, and / or their close family members) or other entities and include entities which are under the significant influence of related parties of the Fund where those parties are individuals.

Changes in accounting policies

A number of new and revised standards and interpretations that are first effective or available for early adoption for the current accounting period of the Fund were issued.

As a result of the adoption of IFRS 7 "Financial instruments: Disclosures", the financial statements include expanded disclosures about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, "Financial instruments: Disclosure and presentation". These disclosures are provided throughout these financial statements, in particular in note 13.

Further, as a result of the adoption of the amendment to IAS 1 "Presentation of financial statements" which introduces new disclosures on the level of capital and objectives, policies and processes for managing capital, additional disclosures in relation to the Fund's solvency and funding requirements have been provided. These new disclosures are set out in notes 2, 6 and 11.

Neither IFRS 7 nor the amendment to IAS 1 have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

4. Taxation

The interest and profits on investments earned by the Fund are not subject to profits tax under Section 14 of the Inland Revenue Ordinance.

Investor Compensation Fund

5. Net investment income

	2008	2007
	\$'000	\$'000
Interest income from bank deposits	3,887	3,871
Interest income on financial assets designated at fair value through profit or loss	68,268	62,873
Realised (loss) / gain on disposal of equity securities	(34)	3
Realised gain on redemption / disposal of debt securities	5,544	3,629
Gain on revaluation of equity securities	26,835	31,967
Gain on revaluation of debt securities	22,394	6,589
Net investment income	126,894	108,932

Interest income from bank deposits and debt securities is derived as follows:

	2008	2007
	\$'000	\$'000
Total interest income on financial assets not at fair value through profit or loss	3,887	3,871
Interest income on financial assets designated at fair value through profit or loss	68,268	62,873
	72,155	66,744

6. Levy from the SEHK / HKFE

From 1 April 2003, the Fund received a levy chargeable on leviable SEHK transactions and leviable HKFE contracts pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and re-instatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion. Pursuant to the Securities and Futures (Investor Compensation Levy) (Amendment) Rules 2005 and the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase of securities and futures contract with effect from 19 December 2005.

7. 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 SFO. The Fund is responsible for funding the establishment and operation of ICC. For the year ended 31 March 2008, ICC incurred costs of \$3,809,000 for its operations (2007: \$3,893,000).

8. Provision for compensation

	\$'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	(3,356)
Balance as at 31 March 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

We maintained provision for liabilities arising from claims received resulting from two default cases for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules. We also made provision for a case for which ICC has not published the notice calling for claims but it is probable the case will result in compensation payments from the Fund. The maximum liability of the Fund to claims for these cases is set at \$150,000 per claimant. As at 31 March 2008 all provisions were expected to be paid within one year.

9. Financial assets designated at fair value through profit or loss

	2008	2007
	\$'000	\$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	317,043	365,445
Listed – in Hong Kong	126,294	106,428
Unlisted	1,058,793	1,076,197
	1,502,130	1,548,070
(ii) Maturity profile		
– Within one year	621,703	686,980
– After one year but within two years	546,878	491,983
– After two years but within five years	276,348	321,163
– After five years	57,201	47,944
	1,502,130	1,548,070
(iii) The weighted average effective interest rate of debt securities on 31 March 2008 was 2.54% (2007: 4.66%).		
(b) Equity securities		
Unlisted	202,926	177,925

Investor Compensation Fund

10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2008 ranged from 1.33% to 2.85% (2007: 3.91% to 5.3%). The balances mature within one year at both 31 March 2008 and 31 March 2007.

11. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2008, the SFC had paid \$994,718,000 (2007: \$994,718,000) and \$108,923,000 (2007: \$108,923,000) into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from UECF and CECF and the accumulated surplus.

12. Related party transactions

We have related party relationships with the SFC, the ICC, the SEHK, the HKFE and the UECF. During the year, there were no significant related party transactions other than those disclosed in the financial statements (refer to notes 6, 7 & 11).

13. Financial instruments

The financial assets of the Fund mainly comprise debt securities and units in a pooled fund. The underlying investments of the pooled fund mainly comprise equity securities.

The main financial risks of the Fund arise from its investments in debt and equity securities. The SFC appoints external investment managers to manage the Fund's investments and to ensure that the portfolio's investments comply with the Fund's investment policy approved by the SFC which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk. The external investment managers report thereon to the SFC on a regular basis.

(i) Credit risk

The Fund's Investment Policy and Administrative Guidelines (Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits. The Policy further limits the Fund's exposure to each issuer and each country, except for holdings of the US Treasuries, any issuances by Hong Kong Government and specified multilateral agencies rated AAA by Moody's or S&P's and approved pooled funds. The Fund's investment managers are responsible for managing the portfolio and ensuring the portfolio's investments meet the investment policy and restrictions and reports thereon on a monthly basis. During the year, the Fund complied with the above investment policy and, as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is the carrying value of the assets in the balance sheet.

(ii) Liquidity risk

The Fund's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

13. Financial instruments (cont'd)

(iii) Interest rate risk

The Fund's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank deposits. The Fund's bank deposits are exposed to short term bank deposit interest re-pricing risk.

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than 2.5 years within its debt securities portfolio. As at 31 March 2008 the duration was 1.42 years (31 March 2007: 1.31 years).

At 31 March 2008, it is estimated that a general increase / decrease of 100 basis points in 3 month interest rates, with all other variables held constant, would decrease / increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$23.5 million (2007: \$20.6 million). Further, at 31 March 2008, it is estimated that a general increase / decrease of 100 basis points in 3 month interest rates, with all other variables held constant, would increase / decrease the Fund's interest income and the accumulated surplus by approximately \$3.8 million (2007: \$4.1 million). Other components of accumulated surplus would not be affected (2007: Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents the Fund's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(iv) Exchange rate risk

The Fund's investment policy allows the Fund to have US dollar foreign exchange exposure. As the HK dollar is pegged with the US dollar, the Fund was not exposed to significant foreign exchange risk.

(v) Market risk

The investment activities of the Fund expose it to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and equity securities. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

The Fund invests in units of a pooled fund which mainly comprises equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase / decrease of 20% in the benchmark index would increase/decrease the Fund's profit and accumulated surplus by approximately \$30.6 million (2007: a general increase / decrease of 17.6% in the benchmark index would increase / decrease the Fund's profit and accumulated surplus by approximately \$26.7 million).

The sensitivity analysis has been determined assuming that the reasonably possible changes in the benchmark index had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Fund's equity investments would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant. The stated changes represent the Fund's assessment of reasonably possible changes in the relevant benchmark index based on risk analysis of the pooled fund over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

Investor Compensation Fund

13. Financial instruments (cont'd)

(vi) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2008 and 2007.

Where available, the fair value of the debt securities is the quoted market price. The fair value of unlisted debt securities is determined based on quotes from bond market-makers.

Unlisted investments are shares in pooled funds. The fair value is determined based on the Fund's share in the net assets of the pooled funds as determined by the custodian. The majority of the underlying assets of the pooled funds are listed securities.

14. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 8, 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 of \$2,403,000 (as at 31 March 2007: \$7,784,000) is a contingent liability of the Fund and this is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

15. Comparative figures

As a result of adopting IFRS 7 "Financial instruments: Disclosures", certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2008.

16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2008 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their annual report and the audited financial statements for the year ended 31 March 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 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 95 to 104.

3. Members of the Committee

The members of the Committee during the year ended 31 March 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 [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 year.

5. Auditors

KPMG were first appointed as auditor of the Fund in 1996. KPMG retire and being eligible, offer themselves for re-appointment.

On behalf of the Committee

Keith Lui

Chairman

6 May 2008

Unified Exchange Compensation Fund

Independent auditor's report to the Securities and Futures Commission (the SFC)

We have audited the financial statements of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 95 to 104 which comprise the balance sheet as at 31 March 2008 and the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The SFC's responsibility for the financial statements

The repealed Hong Kong Securities Ordinance (Chapter 333) requires the directors of the SFC to keep proper accounts of the Fund and to prepare financial statements of the Fund in respect of each financial year. The directors of the SFC do so on the basis that these financial statements should give a true and fair view and in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2008 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

6 May 2008

Income and expenditure account

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Income			
Interest income	3	3,148	2,584
Recoveries	3&5	26,804	8,754
		29,952	11,338
Expenses			
Compensation expenses made		1,643	1,667
Recoveries re-distributed	6	33,210	–
Auditor's remuneration		35	33
Professional fees		360	11
Sundry expenses		4	1
		35,252	1,712
(Deficit) / Surplus for the year		(5,300)	9,626
Accumulated surplus brought forward		19,210	9,584
Accumulated surplus carried forward		13,910	19,210

Unified Exchange Compensation Fund

Balance sheet

At 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Current assets			
Equity securities received under subrogation		670	560
Interest receivable		100	113
Fixed and call deposits with banks		59,223	66,324
Cash at bank		373	13
		60,366	67,010
Current liabilities			
Accounts payable and accrued charges	7	4,308	4,306
Provision for compensation	3&9	27	1,823
		4,335	6,129
Net current assets			
		56,031	60,881
Net assets			
		56,031	60,881
Representing:			
<u>Compensation fund</u>			
Contributions from the SEHK	8	46,550	46,100
Excess transaction levy from the SEHK	11	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	12	3,002	3,002
Accumulated surplus		13,910	19,210
		1,050,749	1,055,599
Contributions to Investor Compensation Fund	13	(994,718)	(994,718)
		56,031	60,881

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 6 May 2008 and signed on its behalf by

Keith Lui

Chairman

Kenneth H W Kwok

Committee Member

Statement of changes in equity

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	2008	2007
	\$'000	\$'000
Compensation Fund balance as at 1 April	60,881	51,255
Net contribution from the SEHK	450	–
(Deficit) / Surplus for the year	(5,300)	9,626
Compensation Fund balance as at 31 March	56,031	60,881

Unified Exchange Compensation Fund

Cash flow statement

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	2008	2007
	\$'000	\$'000
Cash flows from operating activities		
(Deficit) / surplus for the year	(5,300)	9,626
Interest income	(3,148)	(2,584)
(Increase) / decrease in equity securities received under subrogation	(110)	161
Decrease in provision for compensation	(1,796)	(730)
Increase in accounts payable and accrued charges	2	52
Provision for recoveries to be re-distributed	33,210	–
Payments for recoveries re-distributed	(33,210)	–
Net cash (used in) / from operating activities	(10,352)	6,525
Cash flows from investing activities		
Interest received	3,161	2,562
Net cash from investing activities	3,161	2,562
Cash flows from financing activities		
Contributions from the SEHK	450	–
Net cash from financing activities	450	–
Net (decrease) / increase in cash and cash equivalents	(6,741)	9,087
Cash and cash equivalents at beginning of the year	66,337	57,250
Cash and cash equivalents at end of the year	59,596	66,337

Analysis of the balance of cash and cash equivalents:

	2008	2007
	\$'000	\$'000
Fixed and call deposits with banks	59,223	66,324
Cash at bank	373	13
	59,596	66,337

Notes to the financial statements

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of the Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

The SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits to \$8 million the total amount that may be paid per exchange participant default. If allowed claims exceed the limit, payments are made proportionally to claimants. The SEHK, with the approval of the SFC, can decide to increase the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, the SEHK proposed and the SFC approved increases in the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds were available.

After 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 allowing a sufficient sum of money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Before 1 April 2003, the SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, the SFC may require the SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to the SEHK the investment return earned on any remaining deposits net of Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from the SEHK (2007: nil).

The SEHK and the SFC have made contributions of their own money to the Fund. The SFC determines to retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries; SEHK replenishments detailed in note 16; special levy surplus detailed in note 12; and transaction levy received before the SFO became effective from 1 April 2003.

The Fund defines "capital" as including all elements of the Compensation Fund less contributions to the Investor Compensation Fund and less Contributions from the SEHK (deposits for transferred trading rights) as disclosed on the face of the balance sheet.

3. Significant accounting policies

The Fund prepares its financial statements in accordance with International Financial Reporting Standards ("IFRSs") (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board ("IASB"). We set out below a summary of our significant accounting policies.

Unified Exchange Compensation Fund

3. Significant accounting policies (cont'd)

Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a break-up basis with assets stated at recoverable amounts. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the balance sheet date and up to the date operations will cease as these are estimated to be immaterial.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2008 and 2007.

Recognition of income

Interest income We record interest income from bank deposits on an accruals basis.

Recoveries We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

Replenishments by the SEHK We record replenishments from the SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by the SEHK, we deem compensation payments up to the amount of \$8,000,000 for each default to be charged to the contribution from the SEHK.

Impairment

(i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at each balance sheet date to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the income and expenditure account the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

(ii) Calculation of impairment loss

We calculate the recoverable amount of the Fund's receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount.

(iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we would have determined if we had not recognised any impairment loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3. Significant accounting policies (cont'd)

Provision for compensation

We make provision for liabilities arising from claims resulting from defaults occurring before 1 April 2003 for which the SEHK has published a notice calling for claims pursuant to either Section 112 of the repealed Securities Ordinance or Section 74(4) of Schedule 10 of the SFO, or if it is probable that based on available information an existing case may result in compensation payments for which the amount can be measured with sufficient reliability. The provision covers all such claims received up to the date on which the financial statements are approved by the Committee.

As a result of the enactment of the amendments to Section 113 of the repealed Securities Ordinance in November 1998, the maximum liability of the Fund to claims for each default case can exceed the normal \$8,000,000 limit.

Accounts payable and accrued charges

We state accounts payable and accrued charges initially at fair value and thereafter state them at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Contingent liabilities

Unless the probability of outflow of economic benefits is remote, we disclose obligations as contingent liabilities where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events unless the probability of outflow of economic benefits is remote.

Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Fund:

- (i) parties that the Fund has the ability, directly or indirectly, to control or to significantly influence in making financial and operating decisions;
- (ii) parties that have the ability, directly or indirectly, to control or to significantly influence the Fund in making financial and operating decisions; and
- (iii) parties that are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, and / or their close family members) or other entities and include entities which are under the significant influence of related parties of the Fund where those parties are individuals.

Changes in accounting policies

A number of new and revised standards and interpretations that are first effective or available for early adoption for the current accounting period of the Fund were issued.

As a result of the adoption of IFRS 7 "Financial instruments: Disclosures", the financial statements include expanded disclosures about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by International Accounting Standard ("IAS") 32, "Financial instruments: Disclosure and presentation". These disclosures are provided throughout these financial statements, in particular in note 15. Further, as a result of the adoption of the amendment to IAS 1 "Presentation of financial statements" which introduces new disclosures on the level of capital and objectives, policies and processes for managing capital, additional disclosures in relation to the Fund's solvency and funding requirements have been provided. These new disclosures are set out in notes 1, 2 and 16.

Neither IFRS 7 nor the amendment to IAS 1 have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

Unified Exchange Compensation Fund

4. Taxation

Section 87 of the Hong Kong Inland Revenue Ordinance exempts the Fund from Hong Kong taxes.

5. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund arranged to liquidate the shares as far as possible. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 March 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".

6. 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 returned to the claimants amounted to \$33.21 million.

7. Accounts payable and accrued charges

Accounts payable and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared over six months from the cheque issuing date and accrued auditor's remuneration.

These liabilities are classified as financial liabilities measured at amortised costs in accordance with the determination in IAS 39, are due within one year and are unsecured.

8. Set-off of SEHK deposits and refunds / contributions from the SEHK

When a trading right is transferred, the SEHK must make a \$50,000 deposit with the SFC within one month of the transfer in respect of the new holder. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to the SEHK the deposit of the former holder within six months of the transfer. In practice, the SFC sets off these amounts for trading right transferred against one another and does not include in these financial statements any liability of the SEHK to make a deposit during the six-month period.

The SEHK advised the SFC of seven trading rights having been transferred during the six months to 31 March 2008 (2007: 13 trading rights had been transferred during the six months to 31 March 2007).

According to Section 104 of the repealed Securities Ordinance, the SEHK contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. During the year, deposits of \$950,000 in respect of nineteen new trading rights were received from the SEHK.

The SEHK also advised the SFC of fifteen trading rights in total having been relinquished since December 2006 of which five of these trading rights were relinquished during the six months to 31 March 2008. The SFC should refund to the SEHK the deposit of \$50,000 in respect of each trading right at the end of a six-month period after the relinquishment took effect. During the year, the SFC refunded deposits of total \$500,000 to the SEHK in respect of ten of these relinquished trading rights and will refund the deposits for the remaining five trading rights at the end of a six-month period.

9. Provision for compensation

	2008	2007
	\$'000	\$'000
Balance brought forward	1,823	2,553
Less: Amount paid during the year	(3,439)	(2,397)
Add: Net provision made	1,643	1,667
Balance carried forward	27	1,823

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 31 March 2008 all provisions were expected to be paid within one year.

10. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund (2007: \$16 million) except for the claim set out in note 9.

Shares were allocated to the Fund under its subrogation rights in relation to the C.A. Pacific case (refer to note 5). As at 31 March 2008, shares with a market value \$670,000, 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.

11. Excess transaction levy from the SEHK

The SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning the SEHK's budget and its receipt of transaction levy.

12. Special levy surplus

In November 2000, the Financial Services Bureau of the HKSAR Government transferred to the Fund \$3,002,000 under the provisions of the Exchanges (Special Levy) Ordinance.

13. Contributions to Investor Compensation Fund

When the 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. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF upto 31 March 2008 amounted to \$994,718,000.

14. Related party transactions

We have related party relationships with the ICF, the SFC and the SEHK. During the year, there were no significant related party transactions other than those disclosed in the financial statements (refer to notes 8, 11, 13 and 16).

15. Financial risk management

Interest bearing assets include mainly deposits at banks which mature or re-price in the short term, as a result of which the Fund is subject to a limited exposure to interest rate risk due to fluctuations in the prevailing market rates. Exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in HK dollar.

Unified Exchange Compensation Fund

15. Financial risk management (cont'd)

The Fund's credit risk are primarily attributable to cash at bank. Management's policy is that cash balances are placed only with licensed banks in Hong Kong. The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

The Fund's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

16. Replenishments from the SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require the SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2008, the SEHK has replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require the SEHK to further replenish \$71,255,000 to the Fund as follows:

	2008	2007
	\$'000	\$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	99,091
Less: Recoveries received for compensation paid up to \$8 million	(29,507)	(29,507)
Add: Recoveries re-distributed to claimants	16,385	16,385
Less: Replenishments from the SEHK	(16,361)	(16,361)
Net amount the SFC may request the SEHK for replenishment	71,255	69,608

Under Section 74(3) of Schedule 10 of the SFO, the SFC having allowed sufficient funds to meet claims, may reimburse the SEHK for the deposits paid by the SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from the SEHK.

Replenishment from the SEHK are not recognised in the balance sheet given that the Fund is not aware of any need for requesting the SEHK for replenishment in the near future.

17. Comparative figures

As a result of adopting IFRS 7 "Financial instruments: Disclosures", certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2008.

18. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2008 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Activity and market data

Table 1 Number of authorised investment products

	As at 31/03/2008	As at 31/03/2007
Unit trusts and mutual funds	2,123	1,980
Investment-linked assurance schemes	229	201
Pooled retirement funds	36	37
MPF master trust schemes	38	38
MPF pooled investment funds ¹	298	287
Others ²	157	143
Total	2,881	2,686

¹ 129 funds included in this category were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

² Other schemes comprised 137 investment-linked deposits, 13 paper gold schemes and seven REITs. The market for investment-linked deposits continued to expand and there was a 10% increase in the number of authorised schemes from a year ago.

Table 2 Authorised unit trusts and mutual funds as at 31 March 2008 – breakdown by type

	Number	%	Total NAV ¹ (US\$ million)	%
Bond	342	17.43	224,116 ²	20.81
Equity	1,042	53.11	637,641 ²	59.20
Diversified	157	8.00	85,690	7.95
Money market	46	2.34	79,882	7.42
Fund of funds	112	5.71	8,326	0.77
Index	48	2.45	28,536	2.65
Guaranteed	193	9.84	6,375	0.59
Hedge	12	0.61	1,732	0.16
Other specialised ³	10	0.51	4,862	0.45
	1,962	100.00	1,077,160	100.00
Umbrella structures	161			
No. of authorised funds	2,123			

¹ Net Asset Value as at 31 December 2007

² Standard equity and bond funds still comprised the bulk of the funds population, with a growth in aggregate asset size of 25% and 22% respectively.

³ Includes Futures and Options Funds and Leveraged Funds

Table 3 Authorised unit trusts and mutual funds as at 31 March 2008 – breakdown by origin

	Umbrella funds	Sub-funds	Single funds	Total	%	Total NAV ¹ (US\$ million)	%
Hong Kong	19	62	28	109	5.13	18,564	1.72
Luxembourg	54	1,105	4	1,163	54.78	710,852	65.99
Ireland	39	296	3	338	15.92	238,034	22.10
Guernsey	3	33	1	37	1.74	8,366	0.78
United Kingdom	3	42	5	50	2.36	58,088	5.39
Other Europe	0	0	7	7	0.33	3,503	0.33
Bermuda	1	21	5	27	1.27	4,113	0.38
British Virgin Islands	4	8	9	21	0.99	5,106	0.48
Cayman Islands	38	265	63	366	17.24	25,777	2.39
Others	0	0	5	5	0.24	4,757	0.44
No. of authorised funds	161	1,832	130	2,123	100.00	1,077,160	100.00

¹ Net Asset Value as at 31 December 2007 (excluding "umbrella funds")

Activity and market data

Table 4 Number of licensees as at 31 March 2008 (31 March 2007 in brackets)

	Corporations		Representatives		Responsible Officers		Total		% Change
Stock Exchange participants	423	(411)	9,739	(8,293)	1,352	(1,241)	11,514	(9,945)	16%
Futures Exchange participants	110	(111)	377	(433)	73	(63)	560	(607)	-8%
Stock Exchange and Futures Exchange participants	32	(23)	1,830	(1,257)	160	(130)	2,022	(1,410)	43%
Non-participants	882	(787)	17,072	(14,124)	2,334	(2,067)	20,288	(16,978)	19%
Grand total	1,447	(1,332)	29,018	(24,107)	3,919	(3,501)	34,384	(28,940)	19%

Table 5 Takeovers activities

	2007-08	2006-07
Codes on Takeovers and Mergers and Share Repurchases		
General and partial offers under Takeovers Code	52	36
Privatisations	5	8
Whitewash waiver applications	39	23
Other applications under Takeovers Code	254	211
Off-market and general offer repurchases	3	2
Other applications under Share Repurchases Code	4	4
Total	357	284
Executive Statements		
Sanctions imposed with parties' agreement ¹	2	0
Takeovers and Mergers Panel		
Meetings for review of the Takeovers and Share Repurchases Codes	3	0
Hearings before the Panel (disciplinary and non-disciplinary)	8	4
Statements issued by the Panel ²	3 ³	0

¹ Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Repurchases

² Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Repurchases

³ Figure for 2007-08 includes one Panel Statement comprising one substantive and seven preliminary decisions of the Panel.

Table 6 Authorisations of offer and marketing documents for unlisted retail structured products¹

	2007-08	2006-07
Authorisations granted under the SFO	148 ²	177 ³
Authorisations granted to register prospectuses under the Companies Ordinance	77 ⁴	106 ⁵

¹ Includes RMB bonds

² Includes retail ELIs with an aggregate issue size of \$222,660 million and two RMB bond offerings with an aggregate retail issue size of RMB2,000 million

³ Includes retail ELIs with an aggregate issue size of \$142,736 million

⁴ Retail structured notes with an aggregate issue size of \$10,772 million and one RMB bond offering with a retail issue size of RMB1,000 million

⁵ Retail structured notes with an aggregate issue size of \$10,691 million

Table 7 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31/12/2007	As at 31/12/2006
Total number of securities dealers and securities margin financiers	691	641
Total number of active cash clients ²	924,131	730,356
Total number of active margin clients ²	110,043	80,348
Total number of active clients (+28%)	1,034,174	810,704
Balance Sheet	(\$ million)	(\$ million)
Cash in hand and at bank ³	257,372	150,573
Amounts receivable from margin clients ⁴	41,765	20,591
Amounts receivable from clients and other dealers arising from dealing in securities	204,336	160,604
Proprietary positions	139,394	114,788
Other assets	205,965	171,520
Total assets (+37%)	848,832	618,076
Amounts payable to clients and other dealers arising from dealing in securities	333,904	244,766
Total borrowings from financial institutions	114,754	118,484
Short positions held for own account	50,909	62,714
Other liabilities	173,885	85,196
Total shareholders' fund ⁵	175,380	106,916
Total liabilities and shareholders' fund (+37%)	848,832	618,076
	12 months to 31/12/2007	12 months to 31/12/2006
Profit and loss	(\$ million)	(\$ million)
Total value of transactions ⁶	64,704,725	30,754,491
Net securities commission income	55,560	29,456
Gross interest income	16,781	10,903
Other income ⁷	84,610	53,784
Total operating income (+67%)	156,951	94,143
Total overheads and interest expense	-102,647	-71,855
Total operating profit (+144%)	54,304	22,288
Net profit on proprietary trading	10,523	2,733
Net profit for the period (+159%)	64,827	25,021

¹ The above data were extracted from the monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded from the above figures.

² Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

³ Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$104,051 million (31/12/2006: \$65,463 million).

⁴ Average collateral coverage (the number of times the aggregate market value of securities collateral deposited by clients covers the amounts receivable from margin clients on a given date on an industry-wide basis):

As at 31/12/2007	As at 31/12/2006
5.3	5.2

⁵ The value of shareholders' fund includes value of redeemable shares.

⁶ Total value of transactions includes trading in equities and bonds both in Hong Kong and overseas.

⁷ Other income mainly comprises intercompany management fee income, fund management income, corporate finance income and others.

Activity and market data

Table 8 Breaches by licensed corporations noted during inspections

Nature of breaches	Number of breaches 2007-08	Number of breaches 2006-07
Failure to comply with Financial Resources Rules	30	13
Failure to safekeep client securities	34	15
Failure to maintain proper books and records	14	21
Failure to safekeep clients' money	28	23
Unlicensed dealing and other registration issues	5	9
Breach of licensing condition	2	4
Breach of requirements of contract notes / statements of account / receipts	32	26
Failure to make filing / notification	3	3
Breach of margin requirements	3	2
Marketing malpractices	0	5
Illegal short selling of securities	0	1
Dealing malpractices	1	2
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	105	126
Breach of Code on Unit Trusts and Mutual Funds	0	1
Breach of Fund Manager Code of Conduct	6	14
Non-compliance with anti-money laundering guidelines	23	5
Breach of other rules and regulations of the Exchanges	4	1
Internal control weaknesses	129	100
Others	41	20
Total	460	391

Table 9 Successful prosecutions – market manipulation

Case	Defendants	Date of conviction	Fine (\$) / Penalty	Investigation costs awarded (\$)
1	Li Kam Shing	28.6.2007	240 hours' community services	15,402
2	Wong Kai Wing	4.7.2007	200,000 four months' imprisonment suspended for 18 months	20,427
3	Cheng Ngai	26.7.2007	30,000 one month's imprisonment suspended for one year	7,198
4	Chan Tit Yuen	5.9.2007	12,400 four months' imprisonment suspended for 12 months	16,650
5	Ho Lai	7.12.2007	six months' immediate sentence	11,868
6	Wong Wing Hing	3.1.2008	two months' imprisonment suspended for two years	13,058
7	Yeung Fong Shiu	6.3.2008	four months' imprisonment suspended for two years	10,242
Total: 7 entities			242,400	94,845

Table 10 Successful prosecutions – unlicensed / unauthorised activities

Case	Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
Unregistered dealing / aiding and abetting				
1	Basu Arnab	10.4.2007	25,000	12,591
2	ICICI Bank Limited	10.4.2007	40,000	54,860
3	Rath Lara ¹	10.4.2007	–	4,152
4	Vergheese Abraham	10.4.2007	14,000	7,465
5	Grover Akashdeep ³	10.4.2007	–	2,456
6	Cheruparambil Manoj ²	4.5.2007	–	4,669
7	Mangaraj Sambit ²	4.5.2007	–	2,782
8	Soloman Vijay ²	4.5.2007	–	3,979
9	Chung Yuk Man Max	25.10.2007	3,000	4,746
10	Chung Yuk Wing	25.10.2007	4,500	4,746
Unlicensed investment adviser				
1	Zavagno Dino	6.9.2007	2,000	17,106
Unlicensed foreign exchange trading / aiding and abetting				
1	Lau Ka Fai	27.8.2007	1,500	15,611
2	Lee Mei Mei	27.8.2007	3,000	15,611
3	Hung Nam Fook	25.10.2007	2,000	15,141
4	Pak Hoi Wun	25.10.2007	1,000	15,141
Issuing unauthorised advertisements, invitations or documents				
1	HKBSS Limited	6.9.2007	2,000	5,869
2	HKBSS Worldwide Limited	6.9.2007	2,000	5,869
3	Chau Chung Kai Peter	27.9.2007	7,500	6,631
4	Chief Securities Limited	27.9.2007	7,500	6,631
Unregistered advising on corporate finance				
1	HKBSS Limited	6.9.2007	5,000	5,869 ⁴
2	HKBSS Worldwide Limited	6.9.2007	5,000	5,869 ⁴
Restriction on substantial shareholding				
1	Chim Chai Shan Jovin	14.6.2007	10,250	14,512
2	Tung Chung Yin Williams	14.6.2007	17,450	21,764
Total: 23 entities			152,700	254,070

¹ Convicted but conditional discharge on her recognisance of \$2,000 for a period of 12 months granted

² Convicted but conditional discharge on their own recognisance of \$2,500 for a period of 12 months granted

³ Convicted but conditional discharge on her recognisance of \$3,000 for a period of 12 months granted

⁴ Investigation costs also related to another summons.

Activity and market data

Table 11 Successful prosecutions – disclosure of interests

Case	Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
1	Fu He	12.4.2007	8,000	7,276
2	To Shu Fai	12.4.2007	30,000	–
3	Top Synergy Associates Limited	12.4.2007	10,000	–
4	Vision Harvest Limited	12.4.2007	10,000	–
5	Kan Che Kin Billy Albert	19.4.2007	12,000	17,443
6	Integrated Asset Management (Asia) Limited	26.4.2007	1,000	3,000
7	Yam Tak Cheung	26.4.2007	1,500	6,000
8	Lau Kam Chee	26.4.2007	1,000	8,628
9	Chu Hon Pong	31.5.2007	16,000	12,441
10	Richfair Limited	31.5.2007	16,000	12,441
11	Concord Group (B.V.I.) Limited	7.6.2007	10,000	–
12	Concord Strategic Investments Limited	7.6.2007	4,000	–
13	Ji Kewei	7.6.2007	10,000	20,677
14	Lee Sang Yoon	5.7.2007	9,000	6,940
15	Lau Fook Chuen	2.8.2007	4,000	4,652
16	Lee Wai Man	2.8.2007	16,000	4,266
17	Leung Wai Cheung	9.8.2007	2,400	7,533
18	Lo Jung Te	9.8.2007	1,500	14,051
19	Liu Yanjie	9.8.2007	4,800	7,342
20	Sunny Link Trading Limited	20.8.2007	2,000	7,908
21	Zhang Xiaohui	8.11.2007	72,000	17,674
22	Chew Lye Yin	8.11.2007	70,000	12,426
23	Wei Ming	22.11.2007	25,000	6,103
24	Chiu Shun Yun	6.12.2007	8,000	2,791
25	Lee Shuk Yee	6.12.2007	8,000	2,481
26	APAC Capital Advisors Limited	27.12.2007	5,000	3,037
27	Lu Yungang	27.12.2007	5,000	3,037
28	Golden China Master Fund	14.2.2008	6,000	3,475
29	Greenwoods Asset Management Limited	14.2.2008	6,000	3,475
30	Jiang Jinzhi	14.2.2008	6,000	3,475
Total: 30 entities			380,200	198,572

Table 12 Successful prosecutions – provision of false or misleading information

Case	Defendants	Date of conviction	Fine (\$) / Penalty	Investigation costs awarded (\$)
1	[X]	12.4.2007	10,000	16,324
2	Daido Group Limited	12.4.2007	50,000	–
3	To Shu Fai	12.4.2007	50,000	15,166
4	Li Kam Shing	28.6.2007	240 hours' community service ¹	15,402 ¹
5	Green Energy Group Limited	8.11.2007	40,000	27,185
Total: 5 entities			150,000	74,077

¹ Penalty and investigation costs also related to another summons.

Table 13 Successful prosecutions – short selling

Case	Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
1	Yip Po Keung	12.7.2007	24,000	13,500
2	Liang Kin Wai	13.9.2007	27,500	10,513
3	Suen Wai Hung	13.9.2007	32,500	16,634
4	Lam Ho Kwan John	4.10.2007	35,000	9,145
5	Lam Chun Wilson	27.3.2008	48,000	30,839
Total: 5 entities			167,000	80,631

Table 14 Most significant disciplinary actions in 2007-08

Case	Parties involved	Date of action	Misconduct	Action / SFAT decision
1	Hong Kong Forex Investment Limited	29.1.2008	Failure to prevent unlicensed activities	SFAT ordered interim suspension effective for five and a half months until the hearing to be held in mid-July 2008.
2	South China Capital Limited, South China Research Limited	19.12.2007	Failure to act properly as sponsor (SC Capital) and failure to enforce its staff dealing policy (SC Research)	If either company commits similar breaches in the next three years, SC Capital will be suspended from sponsorship activities for 18 months and / or SC Research will be suspended for a minimum of three months, as relevant. A surprise inspection by outside auditors will be conducted within the next three years to review compliance.
3	Hang Tai Securities Limited	23.10.2007	Insufficient internal controls to prevent and detect misappropriation and other misconduct	Reprimanded and fined \$800,000
4	Fong Shik Yee	29.8.2007	Misappropriation of clients' assets	Licence revoked and banned for life
5	Yeung Hon Fat	30.7.2007	Breach of employer's internal control procedures and operating secret accounts	Banned for life
6	Fung Chun Wai	16.10.2007	Misappropriation of clients' assets	Banned for life
7	Leung Wu Huey Ju Betty	24.10.2007	Misappropriation of clients' assets	Banned for life
8	Leung Kin Man Kenny	24.10.2007	Misappropriation of clients' assets	Banned for life
9	Man Kwai Ching	22.11.2007	Lack of supervision to implement and maintain adequate internal control policies and procedures	Banned for life from being Responsible Officer
10	Ip Shu Kun	10.12.2007	Misappropriation of clients' assets	Banned for life
11	Poon Ting Kei	8.1.2008	Misappropriation of clients' assets	Banned for life
12	Ding Lai Leung	4.1.2008	Front running	Revocation and fined \$128,000
13	Chung Yu Kit	4.1.2008	Front running	Revocation
14	Lee Mei Mei	6.11.2007	Procuring unlicensed persons to engage in regulated activities	Revocation

Activity and market data

Table 15 Requests for regulatory co-operation

	2007-08		2006-07		2005-06	
	In	Out	In	Out	In	Out
Enforcement-related requests for assistance	65	55	68	23	71	18
Licensing-related requests for assistance	254	1,004	233	853	186	631

'In' represents requests received, while 'out' are requests made.

Table 16 Comparison with overseas regulatory agencies

It is difficult to obtain detailed data, in a consistent format, for sensible comparison of key performance measures with other regulators and this is complicated further by the different mandates which each of these regulators have. Nevertheless, we have set out in this table some key data relating to the size of certain other regulators for the interest of readers.

All foreign currency amounts have been translated into Hong Kong dollars at 31 March 2008 exchange rate for the purpose of comparison.

	2007-08	2006-07	2005-06
SFC (year ended on 31 March) ¹			
Number of staff	442	443	441
Total expenditure (\$ million)	585	541	497
US Securities and Exchange Commission (SEC) (year ended on 30 September) ²			
Number of staff	3,567 ⁵	3,465	3,695
Total expenditure (\$ million)	7,067 ⁵	6,829	6,843
UK Financial Services Authority (FSA) (year ended on 31 March) ³			
Number of staff (at year-end date)	2,700 ⁶	2,606	2,667
Total expenditure (\$ million)	4,676 ⁶	4,632	4,481
Australian Securities & Investments Commission (ASIC) (year ended on 30 June) ⁴			
Number of staff (at year-end date)	DNA ⁷	1,610 ⁸	1,471
Total expenditure (\$ million)	DNA ⁷	1,821 ⁸	1,549

¹ The SFC is an independent non-governmental statutory body funded mainly by a market levy and is responsible for regulating the securities and futures markets in Hong Kong.

² The US SEC is an independent, non-partisan, quasi-judicial regulatory government agency with responsibility for administering the federal securities laws.

³ The FSA is an independent non-governmental body funded by the firms it regulates. It has been given statutory powers to regulate the financial services in the UK including authorisation and regulation of deposit taking, insurance, mortgage lending, general insurance advice, mortgage advice and investment business.

⁴ The ASIC is an independent Commonwealth government body which enforces and regulates company and financial services laws to protect consumers, investors and creditors.

⁵ Budget figures extracted from FY2009 Congressional Justification

⁶ Budget figures extracted from FSA Business Plan 2007/2008

⁷ Data not available

⁸ Figures extracted from ASIC Report of Operations 2006/2007

Committees, Panels and Tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. This section outlines the activities of these bodies and provides a list of the members. For information on the **Audit Committee**, **Remuneration Committee**, **Budget Committee** and **Executive Committee**, please see our discussion in the Corporate governance chapter.

Committees of the SFC

Advisory Committee

Advises the Commission on any matter of policy regarding the performance of its functions.

Chairman	Members	
FONG Ching, Eddy, SBS, JP	BECZAK Thaddeus (to 31.5.2007)	LOH Kung Wai, Christine (to 31.5.2007)
	CHAN Henry	MAISANO Jack
	CHEUNG Wing Sum, Ambrose (to 31.5.2007)	PICKERELL Blair Chilton
	CHEW Fook-aun (from 1.6.2007)	POON Yiu Kin, Samuel (to 31.5.2007)
	CHOW Man Yiu, Paul (to 31.5.2007)	SULLIVAN Peter David (to 31.12.2007)
	EU Andrew Douglas (from 1.6.2007)	TSE Koon Hang, Ada
	FAN Chor Ho, Paul (to 31.5.2007)	WHEATLEY Martin
	Dr HU Zuli, Fred (from 1.6.2007)	WONG Kwai-lam (from 1.6.2007)
	KENNEDY Paul Michael	WONG Shou Yeh, David (from 1.2.2008)
	LAM Cheung, Alexa	WU Thomas Jefferson (from 1.6.2007)
	LEE Kin Ping, Christophe (from 1.6.2007)	YIP Lai Shing
No of meetings: 4	Average attendance rate: 80%	

Takeovers and Mergers Panel

Administers the Codes on Takeovers and Mergers and Share Repurchases.

During the year, the Panel met three times to consider various policy issues under the Takeovers Code, on six occasions in respect of a then on-going disciplinary matter and twice to rule on matters relating to the application of the Takeovers Code.

Chairman	Members	
WESTLEY Kevin Anthony	ALLEN Nicholas Charles	MAGUIRE John Martin
	BAIRD Jim Wilson	NESBITT Gavin Paul
Deputy Chairmen	BROWN Malcolm Edward Osborne	NORRIS Nicholas Andrew
CHIU Chi Cheong, Clifton	CHAN Yuk Sing, Freeman	OEI Wai Chi Grace Fung
CLARK Stephen Edward	CHARLTON Julia Frances	PALIN Michael Gurdon
The Hon FAN Hung Ling, Henry, SBS, JP	CHEN Yang Chung, Roy	SABINE Martin Neville
GRAHAM David	CHEUNG Man, Stephen	SHIH Patricia Joy
KO, Teresa Yuk Yin, JP	DESAI Kalpana (from 22.4.2007)	SLEVIN Francis Joseph
	KEYES Terence Francois (from 22.4.2007)	TAN Siew Boi, May
	Dr KWOK Chi Piu, Bill	TONG Carlson, JP
	KWOK King Man, Clement	WEBB David Michael
	KWOK Tun Ho, Chester (from 22.4.2007)	WILLMAN Kenneth Wayne
	LEE Pui Ling, Angelina, JP	WINTER Richard David (from 22.4.2007)
	LEES John Robert	WONG Oi Ming, Christine
	LIU Chee Ming	WONG Tsu Hing, Harold
	LIU Che Ning	YEH V-Nee
	LIU Swee Long, Michael	YU Ka Po, Benita
No of policy meetings: 3	Average attendance rate: 52%	

Committees, Panels and Tribunal

Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	Members	
KO, Teresa Yuk Yin, JP	ALLEN Nicholas Charles	LIU Swee Long, Michael
	BROWN Malcolm Edward Osborne	MAGUIRE John Martin
Deputy Chairman	CHAN Yuk Sing, Freeman	NESBITT Gavin Paul
BAIRD Jim Wilson	CHARLTON Julia Frances	NORRIS Nicholas Andrew
	CHEN Yang Chung, Roy	OEI Wai Chi Grace Fung
	CHEUNG Man, Stephen	PALIN Michael Gurdon
	CHIU Chi Cheong, Clifton	SABINE Martin Neville
	CLARK Stephen Edward	SHIH Patricia Joy
	DESAI Kalpana (from 22.6.2007)	SLEVIN Francis Joseph
	The Hon FAN Hung Ling, Henry, SBS, JP	TAN Siew Boi, May
	GRAHAM David	TONG Carlson, JP
	KEYES Terence Francois (from 22.6.2007)	WEBB David Michael
	Dr KWOK Chi Piu, Bill	WESTLEY Kevin Anthony
	KWOK King Man, Clement	WILLMAN Kenneth Wayne
	KWOK Tun Ho, Chester (from 22.6.2007)	WINTER Richard David (from 22.6.2007)
	LEE Pui Ling, Angelina, JP	WONG Oi Ming, Christine
	LEES John Robert	WONG Tsu Hing, Harold
	LIU Chee Ming	YEH V-Nee
	LIU Che Ning	YU Ka Po, Benita
No of meetings: 0	Average attendance rate: N/A	

Committee on Unit Trusts

Considers new policies for the regulation of collective investment schemes commonly regarded as mutual funds and unit trusts, considers the acceptability of new management groups, authorises schemes with novel product features, and imposes conditions and/or grants waivers on such schemes.

During the year, the Committee met three times to discuss a new waiver request and some policy issues, including the proposed streamlining of the pre-vetting of notices and advertisement of relevant authorised collective investment schemes.

Chairman	Full Members	
LAM Cheung, Alexa	Dr AU King Lun	Dr LIAO York, SBS, JP
	Prof CHAN Ka Lok	McSHANE Darren Mark
	CHOI Fung Yee, Christina	MONDOVITS Andreas Georg
	HEUNG Shu Fai	NG Joo Yeow, Gerry (from 18.9.2007)
	HSU Li Ching	NG To Han, Simon
	LEE Kevin	SCOTT Elisabeth (to 18.9.2007)
	Alternate Members	
	HO Man Leuk, Joseph (to 22.5.2007)	MAK Tat Cheung
	KWAN Sau Ha	PICKERELL Blair Chilton
No of meetings: 3	Average attendance rate: 68%	

Committee on Investment-Linked Assurance and Pooled Retirement Funds

Considers new policies for the regulation of collective investment schemes commonly regarded as investment-linked assurance schemes and pooled retirement funds, considers the acceptability of new management groups, authorises schemes with novel product features, and imposes conditions and/or grants waivers on such schemes.

During the year, the Committee met once to discuss the proposed streamlining of the pre-vetting of notices and advertisement of relevant authorised collective investment schemes.

Chairman

LAM Cheung, Alexa

Members

Prof CHAN Ka Lok

CHOI Fung Yee, Christina

HON Wai Ming, Angel

HUDDART Michael Edward (to 27.4.2007)

KO Hon Wa

LEE Kevin

Dr LIAO York, SBS, JP

MAK Tat Cheung

McSHANE Darren Mark

MURRAY Alastair Elliot

WONG Chien Kuo, James (from 27.4.2007)

No of meetings: 1

Average attendance rate: 82%

Committee on Real Estate Investment Trusts

Advises the Commission on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman

LAM Cheung, Alexa

Members

AU Fun Kuen

CHOI Fung Yee, Christina

FOK Glenn (from 1.9.2007)

HEUNG Shu Fai

HUI Chiu Chung, Stephen, JP

LAW Shing Mui, Alice

LEUNG Chun Ying, JP

MOORE Vernon Francis

MURRAY Alastair Elliot

PO Wai Kwong

RICHARDSON David Alexander

STEVENSON Thomas Brian, SBS

WESTLEY Kevin Anthony

WONG Kwai Lam

WOO Mo Fong, Susan

No of meetings: 0

Average attendance rate: N/A

Committees, Panels and Tribunal

Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the Securities and Futures Ordinance, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met three times to consider the financial statements of the Fund and dealt with other administrative matters.

Chairman	Members	
LUI Kei Kwong, Keith	GREINER Gerald Dale	LAM Cheung, Alexa
	KWOK Hing Wai, Kenneth, BBS, SC	YIP Chee Hang, Eric
No of meetings: 3	Average attendance rate: 87%	

Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance.

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

Chairman	Members	
LUI Kei Kwong, Keith	GREINER Gerald Dale	LAM Cheung, Alexa
	KWOK Hing Wai, Kenneth, BBS, SC	
No of meetings: 1	Average attendance rate: 75%	

Investor Education Advisory Committee

Provides ideas and support to the Commission in setting its investor education targets.

In the past year, the Committee advised the SFC on investor education for stock and warrant investors, scope and design of a benchmarking investor survey and the establishment of a new body to provide investor education across the whole financial sector.

Chairman	Full Members	
KENNEDY Paul Michael	CHIU Ying Chun, Ronald	LAM Yim Nam
	The Hon CHOY So Yuk	LIU Tat Yin, Kennedy
	ESPINA Anthony	SIN Tak Wah
	FU KWONG, Wing Ting, Francine	SO Wai Sang, Kenneth
	FU Wai Man (to 21.10.2007)	TAI Chi Kin
	Prof HO Shun Man, Simon	WAN Yuen Yung (from 22.10.2007)
	LAI Ho Wan Ying, Ivy	
	Alternate Members	
	TAM Sau Ngor, Vera	YIP Chee Hang, Eric
	WONG Chi Ming, Sally	
No of meetings: 3	Average attendance rate: 82%	

Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training, advises the Commission on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, the Committee met twice to discuss the issues raised by the market on the licensing exams provided by Hong Kong Securities Institute and to resolve to request it to conduct a thorough review of all licensing exam papers.

Chairman

LAM Cheung, Alexa

Members

Prof CHAN Ka Lok	MONDOVITS Andreas Georg
Prof CHAN Man Man, Johannes, SC	SHEK Chi Fai
Prof CHENG Yu Shek, Joseph	Prof SO Wai Man, Raymond
DA ROSA Albert Thomas, Junior	VAS Judy
ESPINA Anthony	

No of meetings: 2

Average attendance rate: 60%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met four times and discussed a number of issues, including quarterly reporting, listing criteria for the Growth Enterprise Market, blackout period for directors' trading, public float and voting by poll at meetings of listed companies.

Chairman

HO Yin Tung, Brian

Members

ALLEN Arthur James Blair (to 30.6.2007)	KERR William Walter Raleigh
AUYEUNG Rex Pak Kuen (to 30.6.2007)	KWOK Lam Kwong, Larry, JP (from 1.7.2007)
BROWN Melissa (from 1.7.2007)	LECKIE Stuart Hamilton, OBE, JP
CHAN Chun Hung, Vincent	LUNG Hak Kau, Karl
Prof CHAN Ka Keung Ceajer (to 30.6.2007)	MUH Yi Tong, Anthony (from 1.7.2007)
CHAN Wing Luk (to 30.6.2007)	NGAN Wai Wah (from 1.7.2007)
CHEUNG Ching Leung, David	SCOTT Elisabeth (from 1.7.2007 to 12.2.2008)
Prof CHEUNG Yan Leung, Stephen	WEBB David Michael (to 30.6.2007)
GOYAL Ashish Chandrakumar (from 1.7.2007)	

No of meetings: 4

Average attendance rate: 50%

Committees, Panels and Tribunal

SFC Dual Filing Advisory Group

Advises on treatment of cases and policy issues under the dual filing regime.

During the year, the Group met once to advise on possible improvements to the vetting process of listing applications under the existing dual filing arrangement.

Members

ALDER Ashley Ian	NG Sze Yuen, Terry
CHEUNG Ching Leung, David	SIU Kai Lau, James
FONG Chi Wai, Alex	SLEVIN Francis Joseph
HOWE Christopher John	TONG Carlson, JP
LEE Raymond	YEH V-Nee
NESBITT Gavin Paul	YEUNG Eirene

No of meetings: 1

Average attendance rate: 83%

SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of the Stock Exchange when actual or potential conflicts arise between the interests of HKEx and those of the proper performance of the Stock Exchange's listing functions. In such cases, the relevant Stock Exchange functions may be exercised by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting

Members

CLARK Stephen John	LUI Kei Kwong, Keith
KENNEDY Paul Michael	STEWART Mark Robert
KO Teresa Yuk Yin, JP	TONG Carlson, JP
LAM Cheung, Alexa	TSOI Tong Hoo, Tony
LEE Tze Hau, Michael	WHEATLEY Martin

No of meetings: 0

Average attendance rate: N/A

SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of the Stock Exchange's Listing Appeals Committee when actual or potential conflicts arise between the interests of HKEx and those of the proper performance of the Stock Exchange's listing functions. In such cases, the relevant powers and functions may be exercised by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	Members	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting	The Hon CHAN Kam-lam, SBS, JP (from 15.11.2007)	Dr LIAO York, SBS, JP Prof LIU Pak-wai, SBS, JP
	CHENG Wai-chee, Christopher, GBS, OBE, JP	The Hon TSANG Yok Sing, Jasper, GBS, JP (to 14.11.2007)
	FONG Ching, Eddy, SBS, JP	ZHANG Shengman
	KWOK Hing Wai, Kenneth, BBS, SC	
	LEE Pui Ling, Angelina, JP	
No of meetings: 0	Average attendance rate: N/A	

Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	Members	
LIU Swee Long, Michael* (from 1.7.2007)	ALLEN Nicholas Charles (to 30.6.2007)	NG Chi Keung, Victor
ROGERS Martin David (to 30.6.2007)	BEST Roger Thomas, JP (to 30.6.2007)	NG Wai Sum, Sam
	CHIONG Chung Seng, Desmond	NORRIS Nicholas Andrew
Deputy Chairman	CHOW Yu, Rebecca (to 30.6.2007)	RICHARDSON David Alexander
CHARLTON Julia Frances* (from 1.7.2007)	FONG Loong Choon, Julian	SHAFTESLEY Colin
	GRAHAM David (to 30.6.2007)	SHIH Patricia Joy
	LEE Wai Hung, Alan (to 30.6.2007)	WEBBER Jason Haim (to 30.6.2007)
	MA Ka Ming, Teresa (to 30.6.2007)	WONG Shiu Hoi, Peter
	NESBITT Gavin Paul	YEH V-Nee (to 30.6.2007)
No of meetings: 0	Average attendance rate: N/A	

* Messrs. Michael Liu and Julia Charlton were appointed as members on 1 April 2007 and became the Chairman and Deputy Chairman of the Disciplinary Committee respectively on 1 July 2007.

Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consists of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Committees, Panels and Tribunal

Independent panels and tribunal

Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and operational decisions made by the SFC and its staff in the performance of its regulatory functions, including the receipt and handling of complaints, licensing and inspection of intermediaries, and disciplinary action.

Chairman	Members	
CHOW Wing Kin, Anthony, SBS, JP	Prof CHAN Yuk Shee, BBS, JP	LAI Ying Sie, Benedict, JP
	CHIU Chi Cheong, Clifton	LEE Jor Hung, Dannis, BBS
	FONG Ching, Eddy, SBS, JP	LIU Che Ning
	FUNG Hau Chung, Andrew	SUN Tak Kei, David, BBS
	KAM Pok Man	

Arbitration Panel under Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

During the year, no new cases were received. There was no outstanding case as at year-end.

Chairman	Deputy Chairman	Members
GILLOT, Patrick (to 17.2.2008)	TAN C S, Eddie*	CHAN S C, Justin
		FUNG Hau Chung, Andrew

* Mr Eddie Tan has become the acting chairman of the Panel from 18 February 2008.

Securities and Futures Appeals Tribunal

Hears appeals against a range of regulatory decisions made under the SFO by the SFC and to determine any question or issue arising out of or in connection with any appeal.

Chairman	Members	
The Honourable Mr Justice Stone, Judge of the Court of First Instance of the High Court	Dr AU King Lun	MOORE Vernon Francis
	BAIRD Jim Wilson	PANG Yuk Wing, Joseph, JP
	BEST Roger Thomas, JP	SUN Tak Kei, David, BBS
	GRAHAM David	TANG Kwai-Nang, BBS, JP
	Prof HO Shun Man, Simon	THORNHIL Richard John
	Prof HO Yan Ki, Richard	TSAI Wing Chung, Philip
	HUI Chiu Chung, Stephen, JP	TSE Kam-Keung
	KO, Teresa Yuk Yin, JP	TSIEN Nag, Samuel
	Dr KWOK Chi Piu, Bill	Dr TSUI Fuk Sun, Michael
	KWOK King Man, Clement	WONG Wai Sum, Wilfred
	KWOK Lam Kwong, Larry, JP	WONG Yuen Fai, Stanley
	KUNG Yiu Fai, Ronald	WU King Cheong, Henry, BBS, JP
	LEE Kwan Ho, Vincent Marshall	

Abbreviations and index

Abbreviations

Acceptable Inspection Regime	AIR
Australian Securities and Investments Commission	ASIC
China Banking Regulatory Commission	CBRC
China Insurance Regulatory Commission	CIRC
China Securities Regulatory Commission	CSRC
Chief Executive Officer, SFC	CEO
Chief Operating Officer, SFC	COO
Exchange Participants	EPs
Exchange traded funds	ETFs
Executive Directors, SFC	EDs
Financial Services Authority, UK	FSA
Hong Kong Exchanges and Clearing Limited	HKEx
Hong Kong Futures Exchange Limited	Futures Exchange
Hong Kong Institute of Certified Public Accountants	HKICPA
Independent Commission Against Corruption	ICAC
Initial public offerings	IPOs
International Organization of Securities Commissions	IOSCO
Memorandum of Understanding	MOU
Non-Executive Directors, SFC	NEDs
Open University of Hong Kong	OUHK
Process Review Panel	PRP
Qualified Domestic Institutional Investor Scheme	QDII
Real Estate Investment Trusts	REITs
Securities and Futures Appeals Tribunal	SFAT
Securities and Futures Commission	SFC
Securities and Futures Ordinance	SFO
Stock Exchange of Hong Kong Limited	Stock Exchange
The Mainland and Hong Kong Closer Economic Partnership Arrangement	CEPA
Undertakings for Collective Investment in Transferable Securities III	UCITS III

Index

The index does not include references in the financial statements and tables of data and committees which are defined or explained when used.

A

Acceptable Inspection Regime (AIR)	p. 46
Advisory Committee, SFC	pp. 11, 12, 14, 15
Alert List, SFC A list of entities which have come to the attention of the SFC because they are unlicensed in Hong Kong and are believed to be, or to have been, targeting Hong Kong investors or claim to have an association with Hong Kong.	p. 55
Association of Chartered Certified Accountants	p. 25
Audit Committee, SFC	pp. 11, 12, 13, 17, 18, 19
Australian Securities and Investments Commission (ASIC) An independent government body which enforces company and financial services laws to protect consumers, investors and creditors in Australia.	p. 15
Automated Trading Services Services provided by means of electronic facilities (except those provided by a recognised exchange company or clearing house) whereby offers to sell or purchase securities or futures contracts are regularly made or accepted in a way that results in a binding transaction in accordance with established methods.	p. 47

Abbreviations and index

B

- Bill of Rights Ordinance** p. 39
- Boiler room**
Fraud in which unscrupulous but plausible salespeople cold call potential investors and use high pressure sales tactics to persuade them to buy real or bogus investments. p. 55
- Budget Committee, SFC** pp. 11, 12, 13, 14, 15, 17, 18

C

- Chartered Financial Analyst** pp. 25, 29
- China Banking Regulatory Commission (CBRC)**
The authorised department under the State Council that governs the banking sector of China. pp. 32, 41, 48
- China Insurance Regulatory Commission (CIRC)**
The authorised department under the State Council that governs the insurance sector of China. pp. 33, 41, 48
- China Securities Regulatory Commission (CSRC)**
The authorised department under the State Council that governs the securities and futures markets of China. pp. 5, 32, 41, 48

Code of Conduct, SFC p. 19

Codes on Takeovers and Mergers and Share Repurchases p. 37

Community Chest pp. 30, 31

Corporate governance pp. 3, 16, 18, 20, 33, 49

Court of Appeal pp. 20, 39

Crossroads International
A Hong Kong based non-profit organisation. It aims to serve as an intersection between those in need and those who can help. p. 31

D

Director of Audit, HKSAR p. 19

Disclosure of interests
Anyone who has an interest of 5% or more of the voting shares of a listed company is required to disclose that interest within three business days of acquiring or disposing of the interest. Directors and chief executives of listed companies are required to disclose any acquisition or disposal of their company's shares, irrespective of the percentage they hold. pp. 38, 41, 47

Dr Wise pp. 10, 52, 54

Dual filing
The arrangement that came into effect with the SFO, under which all corporate disclosure and listing application materials are filed with both the Stock Exchange and the SFC. The SFC can exercise its enforcement powers against persons issuing false or misleading corporate information. pp. 37, 38, 56

E

Exchange Participants (EPs)
Companies which have obtained trading rights in either the Stock Exchange or Futures Exchange to trade on or through the respective exchange. p. 47

Exchange traded funds (ETFs)
Basically index funds that are listed and traded on exchanges just like stocks. pp. 45, 54

Executive Committee, SFC pp. 11, 14, 15, 17, 18

Executive Directors, SFC (EDs) pp. 13, 14, 15, 16, 17, 18

F

Federation of Share Registrars p. 40

Financial Reporting Council
An independent statutory body set up for investigating any financial irregularities or non-compliance in relation to listed entities. p. 33

Financial Resources Rules
The rules that set out the capital requirements with which intermediaries have to comply in order to become and remain licensed by the SFC. pp. 44, 45

Financial Secretary, HKSAR pp. 8, 9, 12, 19, 20

Financial Services and the Treasury Bureau, HKSAR p. 20

Financial Services Authority (FSA), UK
An independent organisation responsible for regulating financial services in the UK. It is the single statutory regulator responsible for the authorisation and supervision of deposit taking, insurance and investment business. p. 14

Forest Stewardship Council
A non-profit organisation based in Germany with a mission to promote environmentally appropriate, socially beneficial and economically viable management of the world's forests. p. 30

H		Institute of Financial Planners of Hong Kong	p. 53
H-shares Index futures	p. 48	International Organization of Securities Commissions (IOSCO)	An international co-operative body recognised as the international standard setter for securities markets. pp. 6, 10, 33, 45
Hang Seng China Enterprises Index	p. 48	InvestEd	An SFC operated portal to provide investors with educational information on investments and regulations. pp. 6, 10, 52, 53, 54, 55, 57
Hang Seng China H-Financials Index	p. 48	Investment-linked assurance schemes	Hybrid investment products combining life insurance with fund investment. p. 21
Hang Seng Index	pp. 5, 47	Investor Compensation Company Ltd	pp. 12, 15
Hedge funds		Investor Compensation Fund	A fund that covers defaults of Exchange Participants and non-Exchange Participants including licensed intermediaries and authorised financial institutions. pp. 9, 12, 14, 15
Loosely-regulated private pooled investment vehicles that can invest in both cash and derivatives markets on a leveraged basis for the benefits of their investors.	p. 54	Investor Participant accounts	Depository accounts for individual and corporate investors to safekeep their stocks, which give them legal protection and control over their shareholdings. p. 54
Hong Kong Association of Banks	p. 40	J	
Hong Kong Council of Social Service	p. 31	Judicial review	pp. 20, 39
Hong Kong Exchanges and Clearing Limited (HKEx)		L	
HKEx owns and operates the only stock exchange and futures exchange in Hong Kong. It is the holding company of the Stock Exchange, Futures Exchange and their related clearing houses. pp. 7, 8, 12, 14, 15, 36, 47, 48		Legislative Council	pp. 12, 13, 19
Hong Kong Futures Exchange Limited (Futures Exchange)		M	
A wholly-owned subsidiary of HKEx. It operates and maintains a futures market in Hong Kong and is the primary regulator of Futures Exchange Participants with respect to trading matters. pp. 8, 10		Mandatory Provident Fund	p. 21
Hong Kong Institute of Certified Public Accountants (HKICPA)	pp. 16, 25, 32, 33, 40, 49	Mareva Injunctions	Interlocutory court orders restraining parties from removing from the jurisdiction of the court, or otherwise dealing with, assets, whether money or goods, which are the subject of the injunctions. p. 39
Hong Kong Investment Funds Association	p. 32, 49	Market Access Products	Structured products issued on non-Hong Kong underlying assets listed on the Stock Exchange, which can take the form of zero / low strike or higher strike derivative warrants (DW), exotic DW, basket DW, callable bull / bear contracts and equity-linked instruments. They can carry various degrees of leverage, can be non-leveraged, and of different durations. p. 48
Hong Kong Management Association	pp. 32, 49	Market manipulation	pp. 38, 39
Hong Kong Monetary Authority		Market misconduct	pp. 6, 9, 38, 39, 41
The government authority in Hong Kong responsible for maintaining monetary and banking stability. pp. 8, 13, 40			
HKSAR Chief Executive	pp. 12, 19		
Hong Kong Society of Financial Analysts	pp. 32, 54		
I			
Independent Commission Against Corruption (ICAC)	pp. 12, 13, 20		
Initial public offerings (IPOs)	pp. 5, 40, 54		
Insider dealing	pp. 6, 9, 37, 38, 40		

Abbreviations and index

Market Misconduct Tribunal

An independent full-time body established under the SFO, which conducts civil proceedings in public and, where appropriate, imposes civil sanctions against those it determines to be guilty of market misconduct.

pp. 9, 27, 39

Memorandum of Regulatory Co-operation and the Memorandum of Regulatory Co-operation Concerning Futures

The memorandums signed between the CSRC, Shanghai Stock Exchange, Shenzhen Stock Exchange, Stock Exchange of Hong Kong and the SFC to promote mutual assistance and the exchange of information so that the parties may effectively perform their respective duties according to law.

p. 41

Memorandum of Understanding (MOU)

Co-operative arrangements or agreements the SFC signed with other local or international organisations.

pp. 6, 32, 33, 48

Mini H-shares Index futures

Mini contracts of the standard H-shares Index futures contracts. Their contract sizes are one-fifth of the contract sizes of the standard contracts.

p. 48

N

Non-Executive Directors, SFC (NEDs)

pp. 12, 13, 16, 17, 18

O

Ombudsman

pp. 20, 41

Open University of Hong Kong (OUHK)

pp. 12, 32, 53, 54

P

Performance pledges, SFC

p. 21

Police, HKSAR

pp. 9, 55

Position limits

pp. 5, 47, 48

Process Review Panel (PRP)

Reviews and advises the adequacy of the SFC's internal procedures governing operational decisions and actions.

pp. 12, 19, 20

Q

Qualified Domestic Institutional Investor Scheme (QDII)

A scheme which allows Mainland investors to invest in foreign securities markets via certain approved financial institutions such as fund management companies, insurance companies and securities companies.

pp. 10, 32, 45, 48

Quarterly Reports, SFC

p. 19

R

Real Estate Investment Trusts (REITs)

Collective investment schemes constituted as trusts that invest primarily in real estate with the aim of providing returns to holders derived from the rental income of the real estate.

pp. 14, 45, 46

Regulatory Co-operation Agreement of Understanding

A regulatory co-operation and information sharing arrangement signed with CIRC.

pp. 41, 48

Remuneration Committee, SFC

pp. 11, 12, 13, 17, 18

S

Securities and Futures Appeals Tribunal (SFAT)

pp. 12, 13, 20, 27, 40

Securities and Futures Ordinance (SFO)

pp. 8, 12, 16, 20, 28, 38, 47

Sponsor Guidelines

p. 40

Stock Exchange of Hong Kong Limited (Stock Exchange)

A wholly-owned subsidiary of HKEx. It operates and maintains a stock market in Hong Kong. It is also the primary regulator of Stock Exchange Participants in relation to trading matters and listing activities in the Stock Exchange's Main Board and GEM.

pp. 8, 9, 10, 12, 13, 38, 40, 41, 47, 56

Supplement IV to CEPA

An additional agreement signed to further enhance the level of economic and trade exchanges and co-operation between the Mainland and Hong Kong in relation to CEPA.

pp. 10, 45, 49

T

Takeovers and Mergers Panel

Administers the Code on Takeovers and Mergers.

p. 13, 47

Takeovers Appeal Committee

pp. 12, 13, 47

U

Undertakings for Collective Investment in Transferable Securities III (UCITS III)

A new set of regulations issued by the European Union Commission governing funds domiciled in the European Union member states. UCITS III comprises a new European Union Product Directive and a new Management Directive adopted in 2001 (effective in February 2002) updating the UCITS I directive with a view to enhancing a "European fund passport system". Key changes include the expansion of the investment powers of funds and the use of financial derivatives for investment purposes.

p. 45

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