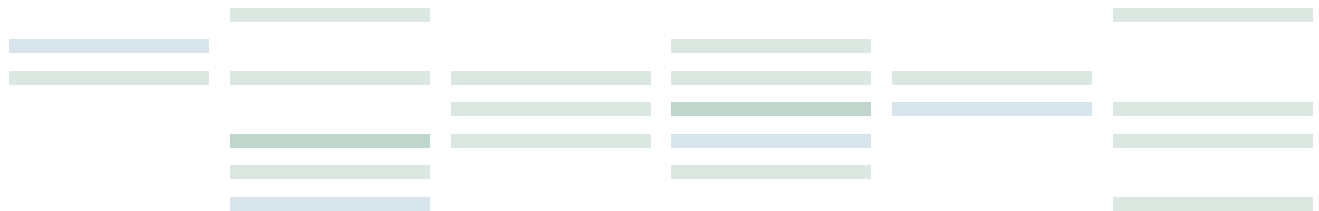




This second Quarterly Report of the Securities and Futures Commission for financial year 2008-09 covers the period from 1 July to 30 September. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

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Chief Executive Officer's Message

We continue to take steps to reduce crime and misconduct in the markets that we regulate and further progress was made during the quarter in tackling insider dealing. Our enforcement action resulted in the first criminal conviction for insider dealing in which the accused was sentenced to six months' imprisonment (suspended for two years) in addition to being ordered to pay a fine and investigation costs.

Following the collapse of Lehman Brothers Holdings Inc, we have commenced formal investigations into the conduct of a number of distributors of Lehman Brothers structured products and also into whether any facts, matters or circumstances that should have been disclosed to the Securities and Futures Commission (SFC) were not disclosed at the time the offer prospectuses and marketing materials were submitted for vetting. We are also working on a response to the Government's call to review the existing regulatory regime for the securities and futures industry.

Against the backdrop of uncertain global financial markets, the SFC and the Hong Kong Exchanges and Clearing Ltd (HKEx) have agreed to defer the proposal to relax the tick rule. We have also called for more stringent risk management among licensed corporations.

Given increasingly volatile market conditions, we have extended our work in investor education. In particular, investor attention was drawn to the credit risks of product issuers and counterparty risk in products with underlying collateral.

To facilitate the development of the gold futures market in Hong Kong, we approved rule amendments and fees related to the introduction of liquidity providers for the gold futures market. Separately, the first gold exchange-traded fund was authorised, offering investors an alternative means to participate in the gold bullion market.

An overview of our major initiatives in the three main areas of our work in the second quarter of year 2008-09 is set out in the remainder of this report.

Martin Wheatley

Chief Executive Officer



Operational Review

Regulation

Enforcement actions to deter misconduct

We continued to deter misconduct and encourage compliance by making full use of the civil, disciplinary and criminal remedies available to us.

We successfully prosecuted an individual for insider dealing, another individual for unlicensed dealing in futures contracts and securities, and two individuals and three companies for disclosure of interests breaches. The seven prosecuted were fined a total of \$250,000.

This quarter saw the first criminal conviction for insider dealing since it was made a criminal offence under the Securities and Futures Ordinance (SFO) in 2003. The insider dealer mentioned above was sentenced to six months' imprisonment suspended for two years, in addition to being ordered to pay a fine and investigation costs. We also commenced the third and fourth criminal prosecutions for insider dealing.

In September, the High Court granted our application to appoint administrators over a firm that we alleged had been conducting unlicensed futures dealings, mainly in commodity futures contracts traded on the London Metals Exchange. The court also ordered the firm to stop dealing in futures contracts for clients. Given the scale of the unlicensed activity and that client and company money appeared to have been mixed, the SFC decided that it was necessary to appoint administrators.

Criminal proceedings were also brought against four individuals for conspiring to manipulate the market to trade in shares of Asia Standard Hotel Group Ltd. This case was the first indictable prosecution for market manipulation under the SFO.

Following an inquiry into dealing in the shares of Sunny Global Holdings Ltd, the Market Misconduct Tribunal determined that three persons were culpable of insider dealing. Although the SFC did not conduct the proceedings, the inquiry was the result of its investigation.

We also started proceedings in the High Court seeking orders against seven current and former company directors for alleged misconduct. With all three cases, we shall argue that the directors were wholly or partly responsible for the companies' affairs being conducted in a manner involving defalcation, fraud or other misconduct. With two of these cases, we will ask the court to order the responsible directors to pay compensation to the company for the losses caused by their breaches of duty.

Separately, we took disciplinary action against nine individuals and one company for various breaches. The penalties included revocation, banning from re-entering the industry for life, suspension, public reprimands and fines.

The Securities and Futures Appeals Tribunal upheld two SFC decisions: (i) to reprimand and fine a company \$1,500,000 for internal control weaknesses, which facilitated staff's misappropriation, and (ii) to revoke the licence of an individual as well as fine him \$21,400 for conducting front-running activities.

During the quarter, no appeal was lodged and 28 disciplinary proceedings were in progress.

Protecting interest of investing public

On 16 September, the day after Lehman Brothers Holdings Inc filed for bankruptcy protection in the United States, we issued restriction notices on four Lehman Brothers companies in Hong Kong to preserve the assets of the companies and their clients, and to protect the interests of these clients and the investing public. The restriction notices were varied on 22 September to allow the provisional liquidators of Lehman Brothers Asia Ltd, Lehman Brothers Securities Asia Ltd and Lehman Brothers Futures Asia Ltd to carry out their duties under the Court Order of 19 September.

Monitoring the market and maintaining standards

In June, we approved the rule amendments submitted by HKEx in relation to the relaxation of the tick rule on the basis that a reinstatement mechanism would also be introduced. However, given the uncertainties surrounding global financial markets and the various short-selling regulations recently implemented in overseas markets, both the SFC and HKEx agreed that relaxing the tick rule would not be in the best interest of the market and that it would be more appropriate to defer the proposal for the time being.

Following a review of share margin financing policies and practices of broker firms, two seminars were organised in mid-October to share the findings with the industry and to call for stricter risk management. The review was conducted jointly by the SFC and an accounting firm in anticipation of a deteriorating market situation. The thematic exercise complemented the SFC's regular inspection and on-going surveillance over risk management practices of securities firms.

We gazetted the Advertising Guidelines Applicable to Collective Investment Schemes Authorised under the product

codes, namely the Code on Unit Trusts and Mutual Funds, the Code on Investment-Linked Assurance Schemes, the Code on Pooled Retirement Funds and the Code on MPF products, on 4 July. From 1 August, notices related to SFC-authorized funds and advertisements falling within the applicable exemptions under the SFO no longer required SFC authorisation prior to issue. In conjunction with the launch of the Advertising Guidelines, a set of FAQs was posted on the SFC's website to help market practitioners understand and comply with this new rule. The SFC has been monitoring advertisements and will take regulatory actions against any non-compliance with the Guidelines.

On 23 July, the Takeovers Panel met to consider whether a cash alternative offer should be required in the privatisation of CITIC International Financial Holdings Ltd (CIFH) as a result of acquisitions of shares in CIFH by Lehman Brothers, the financial adviser to the offeror during the offer period. The Takeovers Panel agreed with the Executive to exercise its discretion to waive the cash offer requirement, given the insignificance of the purchases and the negligible impact they had on shareholders. It was explained in the Panel's decision published on 30 July that a cash offer would be a draconian requirement that potentially would undermine the privatisation proposal. CIFH shareholders approved the privatisation proposal on 14 October and the relevant scheme became effective on 5 November.

Addressing investors' concerns

Investors' enquiries surged following the bankruptcy of Lehman Brothers in September 2008. In response to concerns raised regarding their investments related to the bank, we clarified issues and provided updates as the event unfolded. We also met with investors to understand their concerns. A systemic top-down approach has been adopted in the various investigations that we have commenced to ensure that allegations of mis-selling are investigated efficiently, effectively and expeditiously.

The Lehman Brothers incident in mid-September drew a large number of complaints. As at 30 September, we received 1,511 complaints against mis-selling of various banks and brokerages, regulation of sale of retail products and disclosure in the marketing materials and offering documents. More complaints related to Lehman Brothers were received after the end of the quarter.

Market Development

Promoting process efficiency and new products

In August, we approved HKEx's proposed rule amendments and fees related to the introduction of liquidity providers for the gold futures market. We also approved offering the Hong Kong Futures Exchange trading right at a discount to members of the Chinese Gold and Silver Exchange Society to encourage its members' participation in the trading of gold futures. The trading of gold futures contracts started on 20 October.

To facilitate the implementation of electronic submission of financial returns of licensed corporations later in the year, we arranged to issue private label digital certificates free of charge. In addition to providing training, circulars and online FAQs, a special hotline was also made available to offer assistance to licensed corporations. Since 1 September 2008, a pilot testing version of the submission system has been released for corporations' trial use and the system has gone live subsequently.

During the quarter, we authorised the first gold exchange-traded fund (ETF) - a passive investment vehicle investing solely in gold bullion with the aim of tracking the price of gold. This offers investors an alternative means of participating in the gold bullion market without taking physical delivery of gold. The total number of ETFs has now increased to 24. Hong Kong, whose total assets under management (excluding the gold ETF) totalled over US\$13.6 billion as at the end of September, has maintained its position as the largest ETF market in Asia, excluding Japan.

Statistics of public complaints

Nature of complaints	Q3 2008	Q2 2008	Q3 2007
Conduct of licensed intermediaries and registered institutions	73	72	113
Listing related matters & disclosure of interests	69	103	98
Market misconduct	64	76	61
Products	12	7	9
Other financial activities	66	66	70
Miscellaneous	9	5	2
Total	293 ¹	329 ²	353

¹ For ease of administration, complaints related to Lehman Brothers have been put under three omnibus logs according to their nature.

² The volatile share price movements during the closing auction session in May sparked a number of complaints. For ease of administration, these complaints were put under a single log.

In July, changes to the Listing Rules to facilitate HKEx's re-positioning of the Growth Enterprise Market as a stepping stone to the Main Board came into effect.

We continued to support efforts to develop Islamic finance in Hong Kong. We conducted a country presentation for Hong Kong at the Malaysian Islamic Finance Issuers & Investors Forum in August in Kuala Lumpur. We also met with the Malaysia Securities Commission on issues such as Islamic finance and co-operation between Hong Kong and Malaysia.

During the quarter, we received 3,636 new licence applications, slightly more than in the first quarter. The number of licensees and registrants stood at 37,109 as at 30 September, up 3.5% from the previous quarter and 15.2% more than the same period last year.

Cooperation with the Mainland

We took part in the 39th Memorandum of Regulatory Co-operation meeting on 25 July, which focused on the latest developments of markets on the Mainland and Hong Kong and matters of mutual interest, with a view towards enhancing co-operation in the regulatory regimes. Other participants were HKEx, the China Securities Regulatory Commission, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Mutual recognition with overseas regulators

We signed a Declaration on Mutual Recognition of Cross-border Offering of Collective Investment Schemes with the Australian Securities and Investments Commission (ASIC) on 7 July. The Declaration provides the framework for the mutual recognition by the SFC and ASIC of schemes offered to retail investors, which is a significant milestone towards strengthening regulatory ties and co-operation between the SFC and ASIC.

Communication with the industry

We continued to keep the market abreast of our activities and developments in Hong Kong's financial markets through our periodic newsletters, surveys and research.

In July, we published the Fund Management Activity Survey 2007 - an annual SFC survey on fund management activities of licensed corporations, registered institutions and insurance companies in Hong Kong. The survey showed that Hong Kong's combined fund management business amounted to \$9,361 billion at the end of 2007, representing a year-on-year growth of 56.5%.

In July and September, we published the Half-Yearly Review of the Hong Kong Securities Market offering a market overview and the Financial Review of the Securities Industry, which describes the aggregate financial position of all licensed securities dealers and securities margin financiers, including those that are not participants of the Stock Exchange of Hong Kong.

The September issue of the Takeovers Bulletin, among other topics, clarified the application of the provisions of the Takeovers Code relating to the gathering of irrevocable commitments, timing of the disclosure of shareholdings of financial advisers in the offeree company, and the meaning of "reporting on in accordance with Rule 10."

Education

Our investor education initiatives during the quarter continued the theme of adopting a healthy investment attitude and urged the public to be aware of risks before making investment decisions.

Number of authorised collective investment schemes as at 30 September 2008

	30 September 2008	30 June 2008	30 September 2007
Unit trusts and mutual funds	2,231	2,210	2,014
Investment-linked assurance schemes	237	232	218
Pooled retirement funds	36	36	36
MPF master trust / industry schemes	36	36	36
MPF pooled investment funds	304 ¹	296	290
Real estate investment trusts	7	7	7
Other schemes	136 ²	140	144
Total	2,987	2,957	2,745

¹ Included in this category (30 Jun 2008: 129; 30 Sept 2007: 128) are 136 funds that are offered both as retail unit trusts and pooled investment funds for MPF purposes.

² These include 122 investment-linked products and 14 paper gold schemes.

Number of Licensees and Registrants as at 30 September 2008

	As at 30 September 2008	As at 30 June 2008	Change in %	As at 30 September 2007	Change in %
Licensed Corporations	1,501	1,476	+1.7	1,393	+7.8
Registered Institutions	103	103	0	98	+5.1
Individuals	35,505	34,283	+3.6	30,717	+15.6
Total	37,109	35,862	+3.5	32,208	+15.2

Building on the success of the first Investment Triathlon held from September 2007 to January 2008, another competition "My Investment Story" attracted a good number of participants. Winners of the competition were invited to share their investment experiences with the public in August. The winning stories provided some useful lessons on how gaining product knowledge, good risk management and proper attitudes towards investing can help make sound investment decisions.

During the quarter, we revamped our investor education portal, InvestEd website. With a completely new look and navigation, the website has incorporated new sections and additional functions to enhance investors' efficient browsing in search of information. The revamped website was launched in October.

A series of short educational videos was broadcast on 1,600 public buses in August and September. Designed to provide the public with practical advice to help them make informed investment decisions, the videos featured a range of topics including risks of out-of-the-money warrants, risk of conducting on-line trading in public areas, how to filter investment advice by market commentators and investment advisors, and the benefits of opening Investor Accounts in the Central Clearing and Settlement System.

To help us target investment knowledge gaps and investor misconceptions, we conducted a benchmarking survey earlier this year, which explored in detail investors' investment behaviour in stocks, funds and equity-linked instruments. We shared the key findings of the survey with the public in December.

In our monthly educational pieces, we took into account the latest market developments, notably, the whiplash from the sub-prime-triggered credit crunch. During the quarter, our Dr Wise column alerted investors to high market volatility and unpredictability, and the proper way of choosing retail funds. The column also suggested the use of arbitration to resolve leveraged forex trading disputes.

A total of nine talks, seminars and university courses were organised during the quarter with around 900 people attending.

We continued to handle enquiries from retail investors on a wide range of topics. In the second quarter, we received 2,924 enquiries, compared with 1,720 in the same period a year ago. The surge of enquiries was triggered by the Lehman Brothers collapse.

Organisational Matters

We had 472 staff members as at 30 September, compared with 446 a year ago.

Total revenue for the quarter was \$476 million, compared with \$650 million in the same period last year and \$501 million in the previous quarter. Expenditure was \$163 million, 19% below our approved budget. This resulted in a surplus of \$313 million for the quarter, compared with \$516 million a year ago and \$347 million in the previous quarter. As at 30 September, our reserves stood at \$4.6 billion.

The Government re-appointed Mr Martin Wheatley as the SFC's Chief Executive Officer for another three-year term from 1 October 2008 and Mrs Angelina Lee as Non-Executive Director for a term of two years from 1 August. In the same quarter, the SFC appointed members to the Disciplinary Chair Committee, a new committee established under the SFO.

Securities and Futures Commission

Consolidated income and expenditure account

For the three months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Income		
Levies	357,627	537,305
Fees and charges	73,597	81,754
Investment income	42,530	28,835
Less: custody and advisory expenses	(508)	(306)
Investment income net of third party expenses	42,022	28,529
Recoveries from the Investor Compensation Fund	1,133	1,088
Other income	1,317	1,395
	475,696	650,071
Expenses		
Staff costs and directors' emoluments	122,315	109,560
Premises		
rent	14,599	5,293
other	5,450	4,130
Other expenses	15,453	11,973
Depreciation	5,350	2,837
	163,167	133,793
Surplus	312,529	516,278

Securities and Futures Commission

Consolidated income and expenditure account

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2008	30 September 2007
		\$'000	\$'000
Income			
Levies		765,122	879,167
Fees and charges		124,612	149,677
Investment income		83,957	53,054
Less: custody and advisory expenses		(982)	(573)
Investment income net of third party expenses		82,975	52,481
Recoveries from the Investor Compensation Fund		2,212	1,925
Other income		1,723	2,049
		976,644	1,085,299
Expenses			
Staff costs and directors' emoluments	8	244,365	218,651
Premises			
rent		23,246	10,586
other		10,670	8,328
Other expenses		29,280	22,157
Depreciation		9,171	5,377
		316,732	265,099
Surplus	2	659,912	820,200

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

Securities and Futures Commission

Consolidated balance sheet

At 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2008	At 31 March 2008
		\$'000	\$'000
Non-current assets			
Fixed assets		36,771	15,749
Held-to-maturity debt securities	3	2,941,277	2,123,610
		2,978,048	2,139,359
Current assets			
Held-to-maturity debt securities	3	1,453,052	1,646,043
Bank deposits		134,975	85,612
Debtors, deposits and prepayments		221,349	225,211
Cash at bank and in hand		4,192	2,725
		1,813,568	1,959,591
Current liabilities			
Fees received in advance		62,362	57,185
Creditors and accrued charges		85,642	53,533
		148,004	110,718
Net current assets		1,665,564	1,848,873
Total assets less current liabilities		4,643,612	3,988,232
Non-current liabilities	4	42,499	47,031
Net assets		4,601,113	3,941,201
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	4,558,273	3,898,361
		4,601,113	3,941,201

Securities and Futures Commission

Balance sheet

At 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2008	At 31 March 2008
		\$'000	\$'000
Non-current assets			
Fixed assets		36,729	15,737
Held-to-maturity debt securities	3	2,941,277	2,123,610
		2,978,006	2,139,347
Current assets			
Held-to-maturity debt securities	3	1,453,052	1,646,043
Bank deposits		134,975	85,612
Debtors, deposits and prepayments		221,136	225,016
Cash at bank and in hand		3,584	2,334
		1,812,747	1,959,005
Current liabilities			
Fees received in advance		62,362	57,185
Creditors and accrued charges		84,779	52,935
		147,141	110,120
Net current assets		1,665,606	1,848,885
Total assets less current liabilities		4,643,612	3,988,232
Non-current liabilities	4	42,499	47,031
Net assets		4,601,113	3,941,201
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	4,558,273	3,898,361
		4,601,113	3,941,201

Securities and Futures Commission

Consolidated cash flow statement

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	659,912	820,200
Adjustments for :		
Depreciation	9,171	5,377
Investment income	(83,957)	(53,054)
Interest received	81,537	35,384
Gain on sale of fixed assets	(59)	-
	666,604	807,907
Decrease / (increase) in debtors, deposits and prepayments	15,232	(89,480)
Increase in creditors and accrued charges	32,109	20,594
Increase in fees received in advance	5,177	862
Decrease in non-current liabilities	(4,532)	(4,447)
Net cash generated from operating activities	714,590	735,436
Cash flows from investing activities		
Held-to-maturity debt securities bought	(1,222,245)	(1,095,848)
Held-to-maturity debt securities redeemed	493,822	352,980
Held-to-maturity debt securities sold	94,797	-
Fixed assets bought	(30,201)	(4,304)
Fixed assets sold	67	-
Net cash used in investing activities	(663,760)	(747,172)
Net increase / (decrease) in cash and cash equivalents	50,830	(11,736)
Cash and cash equivalents at beginning of the six months period	88,337	57,151
Cash and cash equivalents at end of the six months period	139,167	45,415
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 30 September 2008	At 30 September 2007
	\$'000	\$'000
Bank deposits	134,975	43,108
Cash at bank and in hand	4,192	2,307
	139,167	45,415

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2008 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) in the SFC's condensed financial statements made up to 30 September 2008. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2008 to the interim financial report.

There were no significant changes in the operation of the SFC for the six months ended 30 September 2008.

There are no new standards or interpretations issued by the IASB with effect on or after 31 March 2008 which would apply to these condensed financial statements.

2. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the six months ended 30 September 2008 are as follows:

	Unaudited \$'000
Balance at 31 March 2008	3,898,361
Surplus	659,912
Balance at 30 September 2008	4,558,273

3. Held-to-maturity debt securities

As of 30 September 2008, the total market value of held-to-maturity debt securities amounted to \$4,406,173,000 (31 March 2008 : \$3,854,146,000), which was above the total carrying cost of \$4,394,329,000 (31 March 2008 : \$3,769,653,000).

4. Non-current liabilities

The Group and the SFC

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

Securities and Futures Commission

5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 September 2008. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange fluctuation

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

7. Investments in subsidiaries

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

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

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

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

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

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

8. Related party transactions

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

- (a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$2,212,000 (2007 : \$1,925,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.

Securities and Futures Commission

(b) Remuneration for key management personnel (including all directors) comprised :

	Unaudited six months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Short-term employee benefits	14,695	14,196
Post employment benefits	1,032	931
	15,727	15,127

The total remuneration is included in "staff costs and directors' emoluments" on page 8. Discretionary pay is not included above as the decision to pay is not determinable at this point in time.

(c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$554,000 (2007 comparative period: \$707,000).

Securities and Futures Commission

Independent review report to the board of directors of the Securities and Futures Commission (the SFC)

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

Introduction

We have been instructed to review the interim financial report set out on pages 8 to 14 which comprises the consolidated balance sheet of the Securities and Futures Commission (SFC) as at 30 September 2008 and the related consolidated statements of income and expenditure, changes in equity and cash flows for the six month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

24 November 2008

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their half year report and the unaudited condensed financial statements for the six months ended 30 September 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 17 to 22.

3. Members of the Committee

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

On behalf of the Committee

Keith Lui

Chairman

17 November 2008

Investor Compensation Fund

Income and expenditure account

For the three months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Unaudited three months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Income		
Net investment (expenses) / income	(23,863)	40,526
Exchange difference	(3,175)	(5,915)
	(27,038)	34,611
Expenses		
Investor Compensation Company expenses	1,133	1,088
Compensation made	805	5,615
Auditor's remuneration	21	19
Bank charges	194	194
Professional fees	737	747
Sundry expenses	-	-
	2,890	7,663
(Deficit) / surplus for the period	(29,928)	26,948
Accumulated surplus brought forward	735,790	671,055
Accumulated surplus carried forward	705,862	698,003

Investor Compensation Fund

Income and expenditure account

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2008	30 September 2007
		\$'000	\$'000
Income			
Net investment (expenses) / income		(44,304)	66,217
Exchange difference		(1,319)	(5,481)
		(45,623)	60,736
Expenses			
Investor Compensation Company expenses	2	2,212	1,925
Compensation made / (write backs)	3	532	(11,317)
Auditor's remuneration		42	39
Bank charges		395	385
Professional fees		1,518	1,460
Sundry expenses		1	1
		4,700	(7,507)
(Deficit) / surplus for the period		(50,323)	68,243
Accumulated surplus brought forward		756,185	629,760
Accumulated surplus carried forward		705,862	698,003

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

Investor Compensation Fund

Balance sheet

At 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2008 \$'000	Audited At 31 March 2008 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,582,776	1,502,130
- Equity securities		152,006	202,926
Interest receivable		19,470	21,411
Unsettled regular purchases of financial assets		-	46,987
Due from Investor Compensation Company		554	536
Fixed and call deposits with banks		65,273	104,916
Cash at bank		714	4,784
		1,820,793	1,883,690
Current liabilities			
Provision for compensation	3	10,448	22,978
Accounts payable and accrued charges		842	886
		11,290	23,864
Net current assets		1,809,503	1,859,826
Net assets		1,809,503	1,859,826
Representing :			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		705,862	756,185
		1,809,503	1,859,826

Investor Compensation Fund

Cash flow statement

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Cash flows from operating activities		
(Deficit) / surplus for the period	(50,323)	68,243
Net investment expenses / (income)	44,304	(66,217)
Exchange difference	1,319	5,481
(Increase) / decrease in amount due from Investor Compensation Company	(18)	156
Decrease in unsettled regular purchase of financial assets	46,987	-
Decrease in provision for compensation	(12,530)	(22,686)
(Decrease) / increase in accounts payable and accrued charges	(44)	28
Net cash generated from / (used in) operating activities	29,695	(14,995)
Cash flows from investing activities		
Purchase of debt securities	(797,402)	(799,090)
Sale or maturity of debt securities	687,573	805,326
Sale of equity securities	507	454
Interest received	35,914	36,527
Net cash (used in) / generated from investing activities	(73,408)	43,217
Net (decrease) / increase in cash and cash equivalents	(43,713)	28,222
Cash and cash equivalents at beginning of the six-month period	109,700	28,063
Cash and cash equivalents at end of the six-month period	65,987	56,285
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 30 September 2008	At 30 September 2007
	\$'000	\$'000
Cash at bank	714	535
Fixed and call deposits with banks	65,273	55,750
	65,987	56,285

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2008
(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2008 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2008 to the interim financial report.

There were no significant changes in the operation of the Fund for the six months ended 30 September 2008.

There are no new standards or interpretations issued by the IASB with effect on or after 31 March 2008 which would apply to these condensed financial statements except for the following matter:

On 13 October 2008 the IASB issued amendments to IAS 39 'Financial Instruments: Recognition and Measurement', which effective from 1 July 2008 would permit reclassification of non-derivative financial assets out of the 'fair value through profit or loss' category if certain requirements are met. No reclassifications out of the 'fair value through profit or loss' category have been made during the six months ended 30 September 2008.

2. Investor Compensation Company expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the six months ended 30 September 2008, ICC incurred \$2,212,000 for its operation (For the six months ended 30 September 2007 : \$1,925,000).

3. Provision for compensation

	Unaudited \$'000
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
Add: provision made during the six months ended 30 September 2008	4,216
Less: provision reversed during the six months ended 30 September 2008	(3,684)
Less: compensation paid during the six months ended 30 September 2008	(13,062)
Balance as at 30 September 2008	10,448

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

Investor Compensation Fund

4. Related party transactions

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

5. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$450,000 (31 March 2008 : \$2,403,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

In September 2008, following the Lehman Group Inc default, the SFC approved the issue of restriction notices on four entities of Lehman Brothers in Hong Kong to preserve the assets of the companies and their clients, and to protect the interests of these clients and the investing public. At the date of this report, the assessment of whether and to which extent an obligation of ICF exists under the Securities and Futures Ordinance (Cap. 571) in respect of such default, if any, has not been completed, and therefore it is not practical to estimate any financial effect at this stage. No claims in respect of the Lehman Group Inc default have been received up to the date of this report.

Investor Compensation Fund

Independent review report to the board of directors of the Securities and Futures Commission (the SFC)

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

Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 18 to 22 which comprises the balance sheet of the Investor Compensation Fund (the Fund) as of 30 September 2008 and the related statements of income and expenditure, changes in equity and cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

24 November 2008

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 2008.

1. Establishment of the Fund

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

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

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 25 to 31.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 2008 and up to the date of this report were: -

Mr Keith Lui (Chairman)

Mr Gerald Greiner

Mrs Alexa Lam

Mr Kenneth H W Kwok, BBS, SC

Mr Eric Yip

4. Interests in contracts

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

On behalf of the Committee

Keith Lui

Chairman

17 November 2008

Unified Exchange Compensation Fund

Income and expenditure account

For the three months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Income		
Interest income	298	1,017
Recoveries	(162)	(72)
	136	945
Expenses		
Compensation expenses (reversed) / made	-	(4)
Recoveries re-distributed	-	33,210
Auditor's remuneration	9	9
Professional fees	13	12
	22	33,227
Surplus / (deficit)	114	(32,282)
Accumulated surplus brought forward	14,111	45,579
Accumulated surplus carried forward	14,225	13,297

Unified Exchange Compensation Fund

Income and expenditure account

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2008	30 September 2007
		\$'000	\$'000
Income			
Interest income		537	2,006
Recoveries	2	(190)	26,965
		347	28,971
Expenses			
Compensation expenses (reversed) / made		-	1,643
Recoveries re-distributed	3	-	33,210
Auditor's remuneration		13	18
Professional fees		13	12
Sundry expenses		1	1
		32	34,884
Surplus / (deficit)		315	(5,913)
Accumulated surplus brought forward		13,910	19,210
Accumulated surplus carried forward		14,225	13,297

Unified Exchange Compensation Fund

Balance sheet

At 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2008	At 31 March 2008
		\$'000	\$'000
Current assets			
Equity securities received under subrogation	2	475	670
Interest receivable		140	100
Fixed and call deposits with banks		66,061	59,223
Cash at bank		1,000	373
		67,676	60,366
Current liabilities			
Accounts payable and accrued charges	7	10,953	4,308
Provision for compensation	3	27	27
		10,980	4,335
Net current assets		56,696	56,031
Net assets		56,696	56,031
Representing :			
Compensation fund			
Contributions from the SEHK	4	46,900	46,550
Excess transaction levy from the SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from the SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		14,225	13,910
		1,051,414	1,050,749
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		56,696	56,031

Unified Exchange Compensation Fund

Statement of changes in equity

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Compensation fund balance as at 1 April	56,031	60,881
Net contributions from the SEHK	350	200
Surplus / (deficit) for the period	315	(5,913)
Compensation fund balance as at 30 September	56,696	55,168

Unified Exchange Compensation Fund

Cash flow statement

For the six months ended 30 September 2008
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2008	30 September 2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus / (deficit) for the period	315	(5,913)
Interest income	(537)	(2,006)
Decrease / (increase) in equity securities received under subrogation	195	(279)
Increase / (decrease) in accounts payable and accrued charges	6,645	(3)
Increase in recoveries to be re-distributed	-	33,210
Decrease in provision for compensation	-	(1,796)
Net cash generated from operating activities	6,618	23,213
Cash flows from investing activities		
Interest received	497	2,013
Net cash generated from investing activities	497	2,013
Cash flows from financing activities		
Contributions from the SEHK	350	200
Net cash generated from financing activities	350	200
Net increase in cash and cash equivalents	7,465	25,426
Cash and cash equivalents at beginning of the six-month period	59,596	66,337
Cash and cash equivalents at end of the six-month period	67,061	91,763
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 30 September 2008	At 30 September 2007
	\$'000	\$'000
Cash at bank	1,000	71
Fixed and call deposits with banks	66,061	91,692
	67,061	91,763

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2008 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2008 to the interim financial report.

There were no significant changes in the operation of the Fund for the six months ended 30 September 2008.

There are no new standards or interpretations issued by the IASB with effect on or after 31 March 2008 which would apply to these condensed financial statements.

2. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 September 2008 after deducting relevant processing fees and charges for collecting and selling the securities received.

3. Provision for compensation

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

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

Unified Exchange Compensation Fund

4. Contributions from the SEHK

During the six months, deposits of \$500,000 in respect of ten new trading rights were received from the SEHK.

The SEHK also advised the SFC of fourteen trading rights in total having been relinquished since October 2007. The SFC had refunded to the SEHK the deposit of \$150,000 in respect of three of these fourteen trading rights during the six months ended 30 September 2008. The SFC shall refund to the SEHK the deposit of \$550,000 in respect of the remaining eleven trading rights at the end of a six-month period after the relinquishment took effect.

5. Related party transactions

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

6. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund except for the claim set out in note 3.

Shares were allocated to the Fund under its subrogation rights in relation to the C.A. Pacific case (refer to note 2). As at 30 September 2008, shares with a market value \$475,000, 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.

7. Accounts payable and accrued charges

Accounts payable and accrued charges include liabilities for compensation payments re-established of \$10,922,000 as at 30 September 2008 (\$4,273,000 as at 31 March 2008). These amounts are determined based on cashier's orders expired and corresponding bank debit notes.

Unified Exchange Compensation Fund

Independent review report to the board of directors of the Securities and Futures Commission (the SFC)

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

Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 26 to 31 which comprises the balance sheet of the Unified Exchange Compensation Fund (the Fund) as of 30 September 2008 and the related statements of income and expenditure, changes in equity and cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

17 November 2008