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This is the Securities and Futures Commission's third Quarterly Report for the financial year from 1 April 2006 to 31 March 2007. The report aims to enhance the transparency and accountability of the Commission.

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Highlights

1 October to 31 December 2006

- Mr Eddy Fong was appointed by the HKSAR Chief Executive as the SFC Chairman effective from 20 October 2006.
- Mr Shengman Zhang was appointed as an SFC Non-Executive Director on 22 December 2006 and Mr Kenneth Kwok and Professor Liu Pak-wai were re-appointed as Non-Executive Directors for a further two years.

Regulation:

- The new sponsors regime, setting out the criteria to be met by those wishing to act as sponsors, became effective on 1 January 2007.
- Two former responsible officers and three former licensed representatives were banned from re-entering the industry for life for misappropriation of clients' assets.
- A former licensed representative was banned from re-entering the industry for life for market manipulation and attempting to frustrate an SFC investigation.

Facilitation:

- Investors now pay a lower levy rate of 0.004% for securities trading following the SFC's reduction of the levy on 1 December 2006.
- The SFC approved rule amendments enabling enhancements of Stock Segregated Account services.
- A survey of Hong Kong's hedge fund industry indicated that the industry has grown significantly in the last two years.
- The SFC facilitated an agreement between the Administrator of Whole Win Securities Limited, a failed brokerage business, and businessman Mr Vincent Woo Wing-Fai, enabling the full return of assets to affected clients.

Investor education:

- We have designated January as the Investor Education Month for the second year with the theme "Know Your Risk" to promote the importance of understanding risk in making investment decisions.



This is the Securities and Futures Commission's third Quarterly Report for the financial year starting 1 April 2006.

Market Overview

US markets were buoyant over lower oil prices and solid corporate earnings. The Fed's decisions to keep the interest rate unchanged were within market expectations. During the quarter, the Dow, S&P and Nasdaq rose 6.7%, 6.2% and 6.9% respectively. The European markets also advanced, with the DAX, FTSE and CAC rising 9.9%, 4.4% and 5.6% respectively.

Mainland markets were optimistic over easing concerns about more macro-economic controls. Optimism of a strengthening RMB, declining oil prices and over recent IPOs also lent support to the markets. During the quarter, the Shanghai Composite Index and the Shenzhen Composite Index gained 52.7% and 25.4% respectively.

Local market sentiment was also bullish during the quarter, and further strengthened by the buoyant performance of IPOs in December. On 28 December, the HSI rose to a record high of 20,002. H-shares outperformed the market with the strong performance of Mainland financial stocks amid the optimism over a strengthening RMB. During the quarter, the HSI and H-shares index rose 13.8% and 45.7% respectively. For the whole of 2006, the HSI and H-shares index rose 34.2% and 94.0% respectively.

Trading was active with average daily turnover at \$44.7 billion, 70.2% higher than the previous quarter. During the quarter, there were 18 days when the turnover on the Main Board amounted to more than \$50 billion (one day for the previous quarter). This strong growth can be attributed to several new Mainland listings. The average daily turnover of HSI stocks increased 70.1% to \$13.6 billion, while those of H-shares and red chips increased 125.4% to \$15.8 billion and 62.2% to \$5.4 billion.

IPO activities increased during the quarter with 24 IPOs on the Main Board and one on GEM, compared with nine on the Main Board and one on GEM in the previous quarter. The total amount of equity funds raised through IPOs was \$195.0 billion, compared with \$32.6 billion during the previous quarter. The high value was due to the IPO of ICBC, with its H-shares alone raising \$124.9 billion globally. For 2006 as a whole, the total amount of funds raised through IPOs in Hong Kong was \$333.9 billion, the world's highest after London.

At the end of December, open interest of HSI futures decreased 2.3% to 119,836 contracts, and that of HSI options increased 4.7% to 227,946 contracts. The open interest of H-shares index futures increased 4.6% to 59,345 contracts.



Regulation

Raising Market Standards

The new regime set out under the Guidelines for Sponsors and Compliance Advisers became effective on 1 January 2007. A focus team with dedicated staff was set up to assess the submissions of the 90 intermediaries which indicated that they wished to act as sponsors under the new regime, while 183 intermediaries were restricted from acting as sponsors/compliance advisors from 1 January. The SFC is carefully assessing representations made by intermediaries who have yet to meet the eligibility criteria set out in the Sponsors Guidelines. The SFC issued a circular on 30 December to assist intermediaries to understand the process.

Amendments to financial resources and other related rules, which aim to address risks arising from securities margin financing, came into operation on 1 October.

The SFC continued to work with the Government and HKEx on proposals to give statutory backing to major listing requirements. The proposal is expected to be submitted to the LegCo Financial Affairs Panel within the first quarter of 2007.

New marketing guidelines were implemented on 1 October as one of the measures in a Six-Point Plan to enhance regulation of the warrants market in Hong Kong. The SFC has been working with HKEx and the market on proposals to tighten liquidity provider provisions and require the use of plain language and summaries in listing documents.

Enforcement and Regulatory Actions

During the quarter, the SFC successfully prosecuted 12 entities for disclosure of interests breaches, unlicensed dealing, unlicensed leveraged foreign exchange trading, cold calling, misleading the SFC and issuing unauthorised advertisements. The 34 summonses incurred total fines of \$113,500 and costs of \$101,078. We offered no evidence against two entities for two summonses.

On discipline, the SFC took action against 22 entities during the quarter for various breaches:

1. *Ban from re-entering the industry* - Two former responsible officers and three former licensed representatives were prohibited from re-entering the industry for life for misappropriation of clients' assets. One former licensed representative was banned for life for market manipulation and attempting to frustrate the SFC investigation, while another was banned for three months for making unsolicited calls.
2. *Suspensions* - Two responsible officers were suspended for internal control failings for 10 weeks and three years respectively. Ten licensed representatives were suspended from two to 15 months for misconduct including manipulating the calculated opening price of the HSI futures contracts during the pre-market opening periods, cold calling, making misrepresentations as to account opening, turning a blind eye to possible illegal activities, failing to act in the best interests of clients or keep proper records.

3. *Reprimand* - A licensed corporation was reprimanded for failing to stop/prevent unlicensed activity.

4. *Reprimand and fine* - A responsible officer was reprimanded and fined \$210,000 for false witness. A licensed representative was reprimanded and fined \$44,000 for conducting personal trades in a client's account and concealing his trading activities from his employer.

Statistics of Enforcement Actions			
	Oct - Dec 2006	Jul - Sep 2006	Oct - Dec 2005
Successful prosecutions	12	13	23
Actions against entities			
(Note 1)	22	15	37
Warning letters issued	49	74	48
Cases under investigation			
(Notes 2 and 3)	447	457	457
Disciplinary inquiries in progress			
(Note 3)	119	115	114
Note 1: Number of entities may include settlement cases with or without formal sanctions. The number may include current and previously licensed entities.			
Note 2: Some cases are ongoing investigations from the previous quarter.			
Note 3: Number of cases as at the end of quarters.			

During the quarter, the SFC received 19 complaints of boiler room operations and acted on nine of them.

The SFC obtained for the first time in November a bankruptcy order against a former licensed person who failed to pay costs to the SFC, in relation to his unsuccessful attempt to appeal an SFC disciplinary decision. In another case, the SFC also obtained a bankruptcy order in December against a person who also failed to pay costs, and recovered indemnity costs from another.

The Administrators of Tiffit Securities (Hong Kong) Limited on 20 November obtained from the Court an interim order regarding the allocation and distribution of clients' securities held in the name of Tiffit with CCASS. The Court on 18 January 2007 made the order final. The Administrators are preparing a circular to inform clients of the details of their claims and the distribution process.

The Police on 7 August arrested Mr Yip Kwok Kay, the Responsible Officer and majority shareholder of Wing Yip Company Limited, and subsequently charged him with theft and false accounting. Yip was convicted and sentenced to 40 months' imprisonment on 14 December. Upon Wing Yip's Administrators' application, the Court made a preliminary order on 21 November directing the return of client assets. The Court on 8 January 2007 made the order final and the Administrators on 19 January informed clients of the allocation and distribution of their assets.

Statistical Information and Financial Position of the Securities Industry

	As at 31 Dec 2006	As at 31 Dec 2005
Total number of securities dealers and securities margin financiers	641	647
Total number of active cash clients (Note 2)	730,356	650,899
Total number of active margin clients (Note 2)	80,348	72,290
Balance Sheet (Note 3)	(\$ Million)	(\$ Million)
Cash in hand and at bank (Note 4)	150,573	106,798
Amounts receivable from margin clients (Note 5)	20,591	14,639
Amounts receivable from clients and other dealers arising from dealing in securities	160,604	102,724
Proprietary positions	114,788	96,892
Other assets	171,520	118,124
Total assets	618,076	439,177
Amounts payable to clients and other dealers arising from dealing in securities	244,766	155,237
Total borrowings from financial institutions	118,484	102,171
Short positions held for own account	62,714	34,480
Other liabilities	85,196	67,093
Total shareholders' fund (Note 6)	106,916	80,196
Total liabilities and shareholders' fund	618,076	439,177

Note 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.

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

Note 3: The increase in the various balance sheet items is primarily attributable to the significant increase in market turnover in 2006.

Note 4: Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$65,463 million (31/12/2005: \$38,496 million).

Note 5: 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):

<u>As at 31 Dec 2006</u>	<u>As at 31 Dec 2005</u>
5.2	4.8

Note 6: The value of shareholders' fund includes value of redeemable shares.

Facilitation

Facilitating Market Development

The Securities and Futures (Reduction of Levy) Order 2006, reducing the levy payable by sellers and purchasers by 20% in respect of trading in securities, futures or options contracts, came into effect on 1 December.

The SFC continued to monitor the latest developments in the Undertakings for Collective Investment in Transferable Securities (UCITS) III, the regulations issued by the European Union Commission that govern funds domiciled in the EU states. As of the end of December, the SFC had authorised 1,347 UCITS III funds, representing over 93% of the UCITS III fund applications received.

In December, the SFC approved rule amendments enabling enhanced services for Stock Segregated Account (SSA) holders and increased capacity of CCASS to handle more SSAs. The SFC will continue to work with HKSCC on further enhancements of the SSA service.

As of 31 December, the capitalisation of the REIT market in Hong Kong was US\$6.8 billion. To help the market understand the REIT Code better, the SFC issued further FAQs to explain the application of the Code in relation to the issuance of convertible instruments by a REIT, and the application of a Code provision in the context of the special purpose vehicle of a REIT.

Number of SFC Authorised Collective Investment Schemes			
	31 Dec 2006	30 Sep 2006	31 Dec 2005
Unit Trusts and Mutual Funds	1,973	1,955	1,964
Investment-Linked Assurance Schemes	194	197	194
Pooled Retirement Funds	37	37	37
MPF Master Trust / Industry Schemes	38	39	44
MPF Pooled Investment Funds (Note 1)	282	281	277
Real Estate Investment Trusts	6	4	3
Other Schemes (Note 2)	138	127	98
Total	2,668	2,640	2,617
Note 1: This category included funds that were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.			
Note 2: The schemes included equity-linked deposits.			

The SFC is closely monitoring the development of QDII in the Mainland. Late last year, the SFC participated in its first joint meeting with the China Banking Regulatory Commission, State Administration of Foreign Exchange and the Hong Kong Monetary Authority to discuss matters relating to the development of bank QDII.

The SFC and HKEx jointly announced on 14 December a conditional waiver of general effect to listed property developers from the shareholders' approval requirement of the Listing Rules in acquisitions of



land or property development projects in Hong Kong from Government or Government-controlled entities through public auctions or tenders. It was intended that the waiver should provide temporary relief pending consultation and Listing Rules amendment.

Partnership with the Industry

The number of persons licensed by the SFC continued to rise, with a slight increase of 2% to 28,139 as at 31 December, as compared to end-September. During the quarter, there were 2,219 new licence applications, 28% lower than the previous quarter. In addition, there were 421 applications for additional regulated activities from existing intermediaries wishing to diversify into other business.

The SFC continued to deploy dedicated resources to handle the licence applications of non-conventional fund managers. During the quarter, licences were granted to 11 hedge fund managers and two REIT managers.

Amid the growing importance of hedge funds and their increased activities in Hong Kong, the SFC conducted a survey last June amongst licensed corporations whose business involved the management and/or provision of advisory services to hedge funds. The survey aimed to keep the SFC abreast of the hedge fund activities carried out by SFC licensees in Hong Kong as at 31 March and to improve the transparency, and hence the understanding by investors, of the hedge fund industry in Hong Kong.

The results of the survey were published on 18 October. They showed that the hedge fund industry had grown significantly in recent years with aggregate assets managed from Hong Kong by SFC's licensed hedge fund managers and advisors reaching US\$33.5 billion as at 31 March, up 268% from March 2004.

Since July 2006, the SFC had worked closely with the Administrator of Whole Win Securities Limited and businessman Mr Vincent Woo Wing Fai on facilitating an agreement between the parties for the restructuring of Whole Win. On 3 November, the Administrator reached a Restructuring Deed with Mr Woo, who agreed to provide funds to satisfy the claims of clients and other creditors of Whole Win. The Court sanctioned the Restructuring Deed on 29 November. The SFC on 1 December varied a Restriction Notice imposed against Whole Win enabling the full return of assets to affected clients.

International Co-operation and External Relation

The Chairman visited Beijing in November and met Mr Shang Fulin, Chairman of the China Securities Regulatory Commission. They discussed matters of mutual interest including the Mainland's state-owned shares reform and the experience and benefits of Mainland companies' listing in Hong Kong. During his visit, the Chairman also visited Mr Zhou Xiaochuan, Governor of The People's Bank of China and Mr Cai Esheng, Vice President of the China Banking Regulatory Commission.



During the quarter, the SFC received 67 requests from overseas regulators, 53 relating to licensing status and history, eight seeking non-public information, four seeking investigatory assistance, one relating to product authorisation issues and another seeking other assistance. The SFC made two requests to overseas regulators for investigatory assistance.

Communication & Education

Communication with the Industry

The SFC's Annual Report continued to receive market recognition for its quality of disclosure. In November, the SFC's Annual Report 2005/06 took the Gold Award in the Non-profit Making and Charitable Organisations Category in the Hong Kong Management Association's Best Annual Reports Awards 2006 and was also the winner of the Citation for Achievement in Corporate Governance Disclosure. The judges regarded the report as an all-round and excellent report that served as an outstanding example on transparency and good corporate governance practices.

The report was also given the Platinum Award in the Public Sector/Not-for-profit Organisations Category in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards 2006. The judges found that the corporate governance section of the report was an indication of high degree of transparency and accountability, while the operation review was first rate for a public sector organisation, with a clear focus on performance evaluation and commitments.

In November, the SFC corporate website at www.sfc.hk was named a Gold Award recipient in the Web Care Award 2006, organised by the Internet Professional Association to promote barrier-free and equal opportunities for information sharing through the Internet.

The SFC continued to maintain active dialogue with the industry and participated in over 130 meetings with the industry during the quarter to discuss issues of mutual interests and explain the SFC's regulatory regime on intermediaries and collective investment schemes under the SFO.

During the quarter, the SFC gave talks to winter interns from various local law firms, undergraduates and post-graduates from The Hong Kong Polytechnic University, The Chinese University, and management of Mainland companies from Yunnan and Anhui.

We published the Second Quarterly Report for the financial year 2006/2007 in November to inform the public of our finances and work progress during July to September.

We continued to publish the bi-monthly newsletter SFC Alert, the monthly SFC Enforcement Reporter, and the autumn issue of Quarterly Bulletin to communicate with the public and the industry on our work and enforcement actions and to educate the investing public. All these publications are available on the SFC website.



Investor Education

The SFC published in November findings of its first Structured Product Investor Survey, which showed that many investors who purchased unlisted, retail structured products for their perceived higher returns did not fully understand the nature of these products.

In October, the SFC participated in the Financial World Expo 2006 to promote the importance of personal financial planning.

During the quarter, Dr Wise's Column discussed the roles of independent non-executive directors, retail structured notes and risk management. We also reminded investors to be wary of a new form of online fraud reported in the United States in which online securities accounts were compromised, resulting in losses of stocks and money.

Statistics of Investor Enquiries and Public Complaints			
	Oct - Dec 2006	Jul - Sep 2006	Oct - Dec 2005
Enquiries	1,308	1,697	1,218
Complaints	239	282	257

Organisational Matters

Staff

The total number of staff as at 31 December was 445, comprising 404 regular and 41 temporary staff. There were 433 staff a year ago.

In support of our regular community services, 33 staff and their family members organised a Christmas party on 16 December for over 50 elderly people at the Enhanced Home and Community Care Services of the Tung Wah Group of Hospitals.

Finance¹

Total revenue for October - December increased 40% from \$266 million in the previous quarter to \$372 million. Levy income increased 54% to \$295 million from \$192 million as the average daily stock market turnover increased from \$28 billion to \$50 billion². Expenditure (including depreciation) was \$133 million, 9% higher than last quarter but still within our approved budget.

As a result, the SFC recorded a surplus of \$239 million for the third quarter, compared with the \$145 million in the previous quarter. Our reserves stood at \$1.8 billion at the end of December.

¹ We have consolidated the financial results of Investor Compensation Company Limited in this financial report.

² For income purpose, the turnover figure includes the amount of new fund raisings, which also attract transaction levy.



Based on current information and by managing our resources prudently, we expect to meet our budgetary goals for our financial year ending 31 March 2007.

Looking Ahead

Amid volatile markets and the emergence of more complex products, scams and malpractices, we believe investors should be reminded of the different aspects of "risk" in their investments. Hence, we have designated January as the Investor Education Month of 2007, and also have a variety of investor education activities throughout the year. These include seminars jointly organised with the Open University of Hong Kong, a new TV drama series and other on-going initiatives through the mass media to encourage the public to "Know Your Risk" when making investment decisions.

To meet the market's needs and promote the growth of the futures and options markets, the SFC proposed adjusting the prescribed limits of H-shares index futures and options from 6,000 contracts per futures contract month or options contracts series to an aggregate delta limit of 12,000 applicable to all futures contract months and options series. The amendments were gazetted on 2 February. Subject to negative vetting by the LegCo, the new limit will come into operation on 30 March.

We are reviewing the position limits of HSI futures and options contracts, and will consult the market within the next few months. We are also studying the other recommendations under the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" including those relating to contracts limits, reportable positions, and short selling, to enhance market efficiency.

Martin Wheatley
Chief Executive Officer

22 February 2007

Securities and Futures Commission

Consolidated Income and Expenditure Account

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

		Unaudited Nine Months Ended		Unaudited Three Months Ended	
	Note	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
		\$'000	\$'000	\$'000	\$'000
Income					
Levies		717,078	401,210	295,046	140,572
Fees and charges		160,267	144,138	56,406	50,155
Investment income		47,972	24,887	18,717	9,837
Recoveries from the Investor Compensation Fund		2,756	2,499	1,100	941
Other income		<u>7,285</u>	<u>1,850</u>	<u>447</u>	<u>255</u>
		935,358	574,584	371,716	201,760
		-----	-----	-----	-----
Expenses					
Staff costs and directors' emoluments	8	295,721	278,414	103,481	92,672
Premises rent		15,986	16,074	5,293	5,358
other		11,323	10,277	3,752	3,408
Other expenses		<u>47,010</u>	<u>39,430</u>	<u>16,356</u>	<u>14,910</u>
		370,040	344,195	128,882	116,348
		-----	-----	-----	-----
Depreciation		9,187	15,084	3,519	5,590
		<u>379,227</u>	<u>359,279</u>	<u>132,401</u>	<u>121,938</u>
		-----	-----	-----	-----
Surplus	2	<u><u>556,131</u></u>	<u><u>215,305</u></u>	<u><u>239,315</u></u>	<u><u>79,822</u></u>

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

The notes on pages 15 to 18 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Consolidated Balance Sheet

At 31 December 2006

(Expressed in Hong Kong Dollars)

	Note	Unaudited At 31 Dec 2006 \$'000	Audited At 31 Mar 2006 \$'000
Non-current assets			
Fixed assets		17,222	17,934
Held-to-maturity debt securities	3	<u>1,089,174</u>	<u>580,962</u>
		<u>1,106,396</u>	<u>598,896</u>
Current assets			
Held-to-maturity debt securities	3	647,208	617,931
Debtors, deposits and prepayments		121,913	96,562
Bank deposits		53,681	47,505
Cash at bank and in hand		<u>3,400</u>	<u>2,378</u>
		<u>826,202</u>	<u>764,376</u>
Current liabilities			
Fees received in advance		49,324	52,195
Creditors and accrued charges		<u>56,089</u>	<u>33,343</u>
		<u>105,413</u>	<u>85,538</u>
Net current assets			
		<u>720,789</u>	<u>678,838</u>
Total assets less current liabilities			
		1,827,185	1,277,734
Non-current liabilities	4	<u>56,460</u>	<u>63,140</u>
Net assets		<u>1,770,725</u>	<u>1,214,594</u>
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	<u>1,727,885</u>	<u>1,171,754</u>
		<u>1,770,725</u>	<u>1,214,594</u>

The notes on pages 15 to 18 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Balance Sheet

At 31 December 2006

(Expressed in Hong Kong Dollars)

	<u>Note</u>	<u>Unaudited</u> <u>At 31 Dec 2006</u> \$'000	<u>Audited</u> <u>At 31 Mar 2006</u> \$'000
Non-current assets			
Fixed assets		17,159	17,866
Held-to-maturity debt securities	3	<u>1,089,174</u>	<u>580,962</u>
		<u>1,106,333</u>	<u>598,828</u>
Current assets			
Held-to-maturity debt securities	3	647,208	617,931
Debtors, deposits and prepayments		121,598	96,223
Bank deposits		53,681	47,505
Cash at bank and in hand		<u>1,748</u>	<u>1,014</u>
		<u>824,235</u>	<u>762,673</u>
Current liabilities			
Fees received in advance		49,324	52,195
Creditors and accrued charges		<u>54,059</u>	<u>31,572</u>
		<u>103,383</u>	<u>83,767</u>
Net current assets		<u>720,852</u>	<u>678,906</u>
Total assets less current liabilities		1,827,185	1,277,734
Non-current liabilities	4	<u>56,460</u>	<u>63,140</u>
Net assets		<u>1,770,725</u>	<u>1,214,594</u>
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	<u>1,727,885</u>	<u>1,171,754</u>
		<u>1,770,725</u>	<u>1,214,594</u>

The notes on pages 15 to 18 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Consolidated Cash Flow Statement For the nine months ended 31 December 2006 (Expressed in Hong Kong dollars)

	Unaudited Nine months Ended 31 Dec 2006 \$'000	Unaudited Nine months Ended 31 Dec 2005 \$'000
Cash flows from operating activities		
Surplus for the period	556,131	215,305
Adjustments for :		
Depreciation	9,187	15,084
Investment income	(47,972)	(24,887)
Gain on sale of fixed assets	(18)	(11)
	<u>517,328</u>	<u>205,491</u>
Increase in debtors, deposits and prepayments	(9,850)	(3,157)
Increase in creditors and accrued charges	23,089	24,249
(Decrease) / increase in fees received in advance	(2,871)	7,100
Decrease in non-current liabilities	<u>(6,680)</u>	<u>(6,684)</u>
Net cash generated from operating activities	<u>521,016</u>	<u>226,999</u>
Cash flows from investing activities		
Interest received	30,455	25,405
Held-to-maturity debt securities bought	(811,653)	(502,988)
Held-to-maturity debt securities redeemed	276,180	289,517
Fixed assets bought	(8,818)	(10,469)
Fixed assets sold	<u>18</u>	<u>11</u>
Net cash used in investing activities	<u>(513,818)</u>	<u>(198,524)</u>
Net increase in cash and cash equivalents	7,198	28,475
Cash and cash equivalents at beginning of the nine-month period	<u>49,883</u>	<u>71,348</u>
Cash and cash equivalents at end of the nine-month period	<u>57,081</u>	<u>99,823</u>

Analysis of the balance of cash and cash equivalents :

	Unaudited At 31 Dec 2006 \$'000	Unaudited At 31 Dec 2005 \$'000
Bank deposits	53,681	96,848
Cash at bank and in hand	<u>3,400</u>	<u>2,975</u>
	<u>57,081</u>	<u>99,823</u>

Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 31 December 2006

(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 2006 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of Investor Compensation Company Limited (ICC) in the SFC's condensed financial statements made up to 31 December 2006. 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 2006 to the interim financial report.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2006.

2. ACCUMULATED SURPLUS

The Group and the SFC

Movements of accumulated surplus during the nine months ended 31 December 2006 are as follows :

	<u>Unaudited</u> \$'000
Balance at 31 March 2006	1,171,754
Surplus	556,131
Balance at 31 December 2006	<u>1,727,885</u>



Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

3. HELD-TO-MATURITY DEBT SECURITIES

As of 31 December 2006, the total market value of held-to-maturity debt securities amounted to \$1,739,021,000 (31 March 2006 : \$1,187,471,000), which was above the total carrying cost of \$1,736,382,000 (31 March 2006 : \$1,198,893,000).

4. NON-CURRENT LIABILITIES

The Group and the SFC

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

5. AGEING ANALYSIS OF DEBTORS AND CREDITORS

There was no material debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 31 December 2006. Therefore we do not provide an ageing analysis of debtors and creditors.

6. EXCHANGE FLUCTUATION

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



Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

7. INVESTMENTS IN SUBSIDIARIES

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

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 31 December 2006, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the balance sheet which is expressed in thousands of dollars.

FinNet has not commenced operations. The balance sheet of FinNet as at 31 December 2006 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

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

- a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$2,756,000 (2005 : \$2,499,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.

Securities and Futures Commission

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

8. RELATED PARTY TRANSACTIONS - Cont'd

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

	Unaudited Nine Months Ended	
	<u>31 Dec 2006</u>	<u>31 Dec 2005</u>
	\$'000	\$'000
Short-term employee benefits	15,536	20,140
Post employment benefits	510	106
	16,046	20,246

The total remuneration is included in "staff costs and directors' emoluments" on page 11.

c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$1,999,000 (2005 : \$1,726,000).



Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2006.

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 20 to 25.

3. MEMBERS OF THE COMMITTEE

The members of the Committee during the nine months ended 31 December 2006 and up to the date of this report were:-

Mr. Keith Lui (Chairman)	(appointed on 19 September 2006)
Mrs. Alexa Lam	
Mr. Gerald Greiner	
Mr. Kenneth Kwok, SC	(appointed on 16 January 2007)
Mr. Eddy Fong, SBS, JP	(resigned on 16 January 2007)
Mr. Martin Wheatley	(resigned on 18 September 2006)
Ms. Anna H.Y. Wu, SBS, JP	(resigned on 11 August 2006)

4. INTERESTS IN CONTRACTS

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

On behalf of the Committee

Keith Lui
Chairman

31 January 2007

Investor Compensation Fund

Income and Expenditure Account

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

		Unaudited Nine Months Ended		Unaudited Three Months Ended	
	Note	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
		\$'000	\$'000	\$'000	\$'000
Income					
Net investment income		80,641	55,355	36,776	19,850
Exchange difference		1,656	(5,503)	(1,757)	(521)
Transaction levy from the SEHK		-	144,814	-	46,911
Contract levy from the HKFE		-	11,465	-	3,540
		<u>82,297</u>	<u>206,131</u>	<u>35,019</u>	<u>69,780</u>
Expenses					
ICC expenses	2	2,756	2,499	1,099	941
Provision for compensation	3	48,447	-	1,035	-
Auditors' remuneration		54	110	18	80
Bank charges		560	944	190	172
Professional fees		1,983	1,771	674	610
Sundry expenses		<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
		<u>53,801</u>	<u>5,325</u>	<u>3,016</u>	<u>1,803</u>
Surplus for the period		28,496	200,806	32,003	67,977
Accumulated surplus brought forward		571,528	353,479	568,021	486,308
Accumulated surplus carried forward		<u>600,024</u>	<u>554,285</u>	<u>600,024</u>	<u>554,285</u>

The notes on pages 24 and 25 form part of the condensed financial statements.

Investor Compensation Fund

Balance Sheet

At 31 December 2006

(Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2006 \$'000	Audited At 31 Mar 2006 \$'000
Current assets		
Financial assets designated at fair value through profit or loss		
- Debt securities	1,446,474	1,357,440
- Equity securities	164,857	145,608
Interest receivable	24,536	17,848
Due from ICC	1,999	1,726
Fixed and call deposits with banks	75,080	152,341
Cash at bank	<u>39,957</u>	<u>9</u>
	1,752,903	1,674,972
	-----	-----
Current liabilities		
Provision for compensation	48,447	-
Accounts payable and accrued charges	<u>791</u>	<u>766</u>
	49,238	766
	-----	-----
Net current assets	1,703,665	1,674,206
	-----	-----
Net assets	<u>1,703,665</u>	<u>1,674,206</u>
Representing:		
<u>Compensation fund</u>		
Contributions from UECF	994,718	994,718
Contributions from CECF	108,923	107,960
Accumulated surplus	<u>600,024</u>	<u>571,528</u>
	<u>1,703,665</u>	<u>1,674,206</u>

The notes on pages 24 and 25 form part of the condensed financial statements.

Investor Compensation Fund

Statement of Changes in Equity

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended 31 Dec 2006 \$'000	Unaudited Nine Months Ended 31 Dec 2005 \$'000
Compensation fund balance as at 1 April	1,674,206	1,456,157
Surplus for the period	28,496	200,806
Contributions from CECF	963	-
Compensation fund balance as at 31 December	<u>1,703,665</u>	<u>1,656,963</u>

The notes on pages 24 and 25 form part of the condensed financial statements.

Investor Compensation Fund

Cash Flow Statement

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended 31 Dec 2006 \$'000	Unaudited Nine Months Ended 31 Dec 2005 \$'000
Cash flows from operating activities		
Surplus for the period	28,496	200,806
Net investment income	(80,641)	(55,355)
Exchange difference	(1,656)	5,503
Decrease in levies receivable	-	6,536
Increase in amount due from ICC	(273)	(1,379)
Increase in provision for compensation	48,447	-
Increase / (decrease) in accounts payable and accrued charges	25	(105)
Net cash (used in) / generated from operating activities	<u>(5,602)</u>	<u>156,006</u>
Cash flows from investing activities		
Purchase of debt securities	(1,363,805)	(2,534,660)
Sale or maturity of debt securities	1,287,669	2,413,729
Sale of equity securities	547	472
Interest received	<u>42,915</u>	<u>36,482</u>
Net cash used in investing activities	<u>(32,674)</u>	<u>(83,977)</u>
Cash flows from financing activities		
Contributions received from CECF	<u>963</u>	<u>-</u>
Net cash generated from financing activities	<u>963</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents	(37,313)	72,029
Cash and cash equivalents at beginning of the nine-month period	<u>152,350</u>	<u>118,958</u>
Cash and cash equivalents at end of the nine-month period	<u>115,037</u>	<u>190,987</u>
Analysis of the balance of cash and cash equivalents:		
	Unaudited At 31 Dec 2006 \$'000	Unaudited At 31 Dec 2005 \$'000
Cash at bank	39,957	56,721
Fixed and call deposits with banks	<u>75,080</u>	<u>134,266</u>
	<u>115,037</u>	<u>190,987</u>

Investor Compensation Fund

Notes to the Condensed Financial Statements

For the nine months ended 31 December 2006

(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.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2006 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 2006 to the interim financial report.

2. ICC EXPENSES

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the nine months ended 31 December 2006, ICC incurred \$2,756,000 for its operation (For the nine months ended 31 December 2005 : \$2,499,000).

3. PROVISION FOR COMPENSATION

	<u>Unaudited</u> \$'000
Balance as at 31 March 2006	-
Add: provision made during the nine months ended 31 December 2006	<u>48,447</u>
Balance as at 31 December 2006	<u><u>48,447</u></u>

We made provision for liabilities arising from claims received resulting from two default cases (Tiffit Securities (Hong Kong) Limited and Wing Yip Company Limited) for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.



Investor Compensation Fund

Notes to the Condensed Financial Statements
For the nine months ended 31 December 2006
(Expressed in Hong Kong dollars)

4. RELATED PARTY TRANSACTIONS

We have related party relationships with the SFC, the ICC, the SEHK, the HKFE, the UECF and the CECF. The CECF was wound up in May 2006 and the remaining balance of \$962,535 transferred to the Fund in accordance with Section 75(9) of the SFO. 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, the Fund has 93 outstanding claims in respect of three intermediaries. The validity of these claims is under investigation. SFC or ICC has not yet published any notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules in respect of these cases. We have not made any provision for these claims. The maximum contingent liability of the Fund to these claims is \$8,862,000 (As at 31 March 2006 : \$900,000).

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2006.

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 condensed financial statements on pages 27 to 32.

3. MEMBERS OF THE COMMITTEE

The members of the Committee during the nine months ended 31 December 2006 and up to the date of this report were: -

Mr. Keith Lui (Chairman)	(appointed on 19 September 2006)
Mrs. Alexa Lam	
Mr. Gerald Greiner	
Mr. Kenneth Kwok, SC	(appointed on 16 January 2007)
Mr. Roger Lee	(appointed on 1 April 2006)
Mr. Eddy C. Fong, SBS, JP	(resigned on 16 January 2007)
Mr. Martin Wheatley	(resigned on 18 September 2006)

4. INTERESTS IN CONTRACTS

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

On behalf of the Committee

Keith Lui
Chairman

31 January 2007

Unified Exchange Compensation Fund

Income and Expenditure Account

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

		Unaudited Nine Months Ended		Unaudited Three Months Ended	
	Note	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
		\$'000	\$'000	\$'000	\$'000
Income					
Net investment income		1,945	1,252	653	548
Recoveries	2	7,377	2,295	(63)	1,405
Replenishments from the SEHK		-	1	-	-
		<u>9,322</u>	<u>3,548</u>	<u>590</u>	<u>1,953</u>
		-----	-----	-----	-----
Expenses					
Provision for compensation made /(reversed)	3	1,667	(106)	1,796	(121)
Auditors' remuneration		25	28	9	9
Bank charges		-	1	-	1
Professional fees		11	10	-	-
Sundry expenses		1	1	-	-
		<u>1,704</u>	<u>(66)</u>	<u>1,805</u>	<u>(111)</u>
		-----	-----	-----	-----
(Deficit) / Surplus		7,618	3,614	(1,215)	2,064
Accumulated surplus brought forward		<u>9,584</u>	<u>7,455</u>	<u>18,417</u>	<u>9,005</u>
Accumulated surplus carried forward		<u><u>17,202</u></u>	<u><u>11,069</u></u>	<u><u>17,202</u></u>	<u><u>11,069</u></u>

The notes on pages 31 and 32 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Balance Sheet

At 31 December 2006

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2006 \$'000	Audited At 31 Mar 2006 \$'000
Current assets			
Equity securities received under subrogation	2	466	721
Interest receivable		85	91
Fixed and call deposits with banks		64,433	57,236
Cash at bank		<u>10</u>	<u>14</u>
		64,994	58,062
		-----	-----
Current liabilities			
Accounts payable and accrued charges		4,298	4,254
Provision for compensation	3	<u>1,823</u>	<u>2,553</u>
		6,121	6,807
		-----	-----
Net current assets		<u>58,873</u>	<u>51,255</u>
		-----	-----
Net assets		<u>58,873</u>	<u>51,255</u>
		=====	=====
Representing:			
<u>Compensation fund</u>			
Contributions from the SEHK	4	46,100	46,100
Excess transaction levy from the SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from the SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		<u>17,202</u>	<u>9,584</u>
		1,053,591	1,045,973
Contributions to Investor Compensation Fund		<u>(994,718)</u>	<u>(994,718)</u>
		58,873	51,255
		=====	=====

The notes on pages 31 and 32 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Statement of Changes in Equity

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended <u>31 Dec 2006</u> \$'000	Unaudited Nine Months Ended <u>31 Dec 2005</u> \$'000
Compensation fund balance as at 1 April	51,255	49,126
Surplus for the period	<u>7,618</u>	<u>3,614</u>
Compensation fund balance as at 31 December	<u><u>58,873</u></u>	<u><u>52,740</u></u>

The notes on pages 31 and 32 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Cash Flow Statement

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

	Unaudited Nine Months Ended 31 Dec 2006 \$'000	Unaudited Nine Months Ended 31 Dec 2005 \$'000
Cash flows from operating activities		
Surplus for the period	7,618	3,614
Net investment income	(1,945)	(1,252)
Decrease in equity securities received under subrogation	255	7,161
Increase / (Decrease) in accounts payable and accrued charges	44	(40)
Decrease in provision for compensation	(730)	(1,052)
Net cash generated from operating activities	<u>5,242</u>	<u>8,431</u>
Cash flows from investing activities		
Interest received	<u>1,951</u>	<u>1,184</u>
Net cash generated from investing activities	<u>1,951</u>	<u>1,184</u>
Net increase in cash and cash equivalents	7,193	9,615
Cash and cash equivalents at beginning of the nine-month period	<u>57,250</u>	<u>47,080</u>
Cash and cash equivalents at end of the nine-month period	<u>64,443</u>	<u>56,695</u>
Analysis of the balance of cash and cash equivalents:		
	Unaudited At 31 Dec 2006 \$'000	Unaudited At 31 Dec 2005 \$'000
Cash at bank	10	14
Fixed and call deposits with banks	<u>64,433</u>	<u>56,681</u>
	<u>64,443</u>	<u>56,695</u>



Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

1. BASIS OF PREPARATION

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2006 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 2006 to the interim financial report.

2. EQUITY SECURITIES AND RECOVERIES

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators have advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the sale proceeds and the revaluation of the remaining shares at market value as of 31 December 2006.

During the nine months, the Fund recognised recoveries in total of \$7,377,455 in respect of the C.A. Pacific and Chark Fung cases.

Unified Exchange Compensation Fund

Notes to the Condensed Financial Statements

For the nine months ended 31 December 2006

(Expressed in Hong Kong dollars)

3. PROVISION FOR COMPENSATION

	<u>Unaudited</u> \$'000
Balance as at 1 April 2005	1,492
Less: amount paid during the year ended 31 March 2006	(944)
Add: provision made	<u>2,005</u>
Balance as at 31 March 2006	2,553
Less: amount paid during the nine-month ended 31 December 2006	(2,397)
Less: provision reversed in second quarter	(129)
Add: provision made in third quarter	<u>1,796</u>
Balance as at 31 December 2006	<u><u>1,823</u></u>

We maintain provision for claims in respect of one SEHK exchange participant for which the SEHK has published a notice calling for claims.

4. CONTRIBUTIONS FROM THE SEHK

The SEHK advised the SFC of one trading right having been relinquished in December 2006. The SFC should refund to the SEHK the deposit of \$50,000 in respect of this trading right at the end of a six-month period after the relinquishment took effect.

5. RELATED PARTY TRANSACTIONS

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

6. CONTINGENT LIABILITIES

As at the date of this report, the validity of outstanding claims received against two exchange participants is still under investigation by the SEHK. They are subject to the normal \$8 million ceiling pursuant to section 109 of the repealed Securities Ordinance. We have not made any provision for these claims. The maximum contingent liability of the Fund to these claims is \$16 million (As at 31 March 2006 : \$24 million).