

Honourable Chairman Chan Kam-lam, SBS, JP
Honourable Members of the Financial Affairs Panel

1. I am pleased to have the opportunity to brief the Honourable Members on our budget. I shall give a very brief introduction to the forecast for 2007/08 and budget for 2008/09 as full details are already set out in the Annex to the Administration's paper, which has been submitted to the Honourable Members.

Forecast for 2007/08

Revenue

2. During the financial year 2007/08, the performance of the stock market has been very robust. The average daily turnover for the first seven months of the year to 31 October 2007 was \$100 billion/day, more than 2.5 times higher than that assumed in the approved budget while trading in the futures market was about 83% more active than expected. Fees and charges income during 2007/08 increased by 36.3% as a result of higher than expected fee income from Part XV waivers for derivative warrants and increased number of licensing applications. On these bases, we expect our income to reach \$2,477.77 million by the end of March, doubling that of the approved budget.

Expenditure

3. With a policy of tightly controlling all expenditure, we always endeavor to keep our operating expenditure within the approved estimates. The forecast operating expenditures i.e. expenditure before funding to external parties, will be about \$2.7 million over our approved budget for 2007/08, due mainly to additional premises expenses.
4. The surplus for the year is forecast to reach \$1,872.94 million as compared to \$478.52 million in the approved budget. This will bring the reserves to about \$3.85 billion at the end of this financial year.

Budget for 2008/09

Revenue

5. The expected income for 2008/09 is \$2,776.14 million, 12% above the forecast for 2007/08. This has taken into account a \$50 million reduction in Corporate Finance fees due to a change in the way in which Part XV waivers are granted to issuers of derivative warrants. Our budget indicates that a surplus of approximately \$2 billion

will be generated in 2008/09 leaving our overall reserves at \$5.8 billion by the end of that financial year.

Expenditure

6. We are forecasting a significant increase in operating expenditure for 2008/09. The total operating expenditure for 2008/09 is projected to be \$779.68 million, 28.9% higher than the 2007/08 forecast.
7. The personnel expenses are estimated to be \$569.9 million, 21.6% higher than the 2007/08 forecast. Let me explain why we are proposing a larger than normal increase in personnel expenses. Over the years, we have exercised a disciplined approach to budgetary preparation and cost control which has been successful in containing the growth in our overall costs below the rates of growth in our underlying work thereby enhancing efficiency. However, the approach has not been able to take into account market growth in recent years and has not allowed the organization to recover from certain cost control measures which were put in place during the 2001 to 2004 recessionary period, which reduced our capacity in some areas and eroded our

and Futures Ordinance. In performing our functions and duties, we shall continue to tightly control all expenditure as befits a publicly funded organization to ensure that costs stay within budget commitments.

12. I am pleased to say that we have projected a surplus in our 2008/09 budget. Thus, it will not be necessary for the Commission to request the Government to seek an appropriation from the Legislative Council. In fact, we