



20 Years of Transformation

This third Quarterly Report of the Securities and Futures Commission for financial year 2009-10 covers the period from 1 October to 31 December. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

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Chief Executive Officer's Message

In December we reached the end of our investigations into the sale of Lehman Brothers Minibonds when we reached an agreement with the last of the 19 distributors. Although this distributor, a brokerage, had made voluntary repurchase offers to all its Minibond customers earlier, the agreement paved the way to resolving other related issues as it required the brokerage to implement special procedures to resolve, in a fair and reasonable manner, all complaints related to the sale and distribution of other structured products.

Along with the other agreements previously reached with 18 other banks and brokerages, more than \$5.2 billion is being repaid to around 24,400 bank customers and approximately \$109 million to 366 brokerage clients.

These Minibond related agreements set the stage for subsequent agreements with two banks to repurchase Lehman Equity Index-linked Principal Protected Notes, at 80% of the principal investment, from over 500 customers who had bought these notes on or after 5 August 2008.

The quarter saw the largest market manipulation case locally and the first indictable prosecution of its kind under the Securities and Futures Ordinance. The jail sentences of 26 to 30 months underline our determination to combat market violations that undermine the interests of the investing public.

We issued a major public consultation on proposals to enhance investor protection and to rationalise the regulatory requirements for public offers of structured products. In addition, we launched a consultation on proposals for an operating model for a scripless securities market with a view to improving market efficiency.

We continued to support the further development of Islamic finance in Hong Kong. The declaration signed with the Securities Commission of Malaysia (MSC) provides the framework for the Securities and Futures Commission's (SFC) and MSC's mutual recognition of Islamic collective investment schemes offered to the public.

In terms of investor education, we stepped up efforts to reach a wider segment of the investing public, including publishing an easy-to-understand SFC Guide and, for the first time, hosting seminars in collaboration with community organisations.

We welcomed the appointment by the International Organisation of Securities Commissions of a senior staff of the SFC to the position of chairman of its Standing Committee 3 on Regulation of Market Intermediaries. We see the appointment as another platform to allow the SFC to further contribute to initiatives on improving global market standards.

Martin Wheatley
Chief Executive Officer



Operational Review

Regulation

Agreement with last Minibond distributor wraps up cases

An agreement with Grand Cathay Securities (Hong Kong) Ltd, the last of the Minibond distributors, was reached to resolve issues relating to its sale of the Lehman Brothers retail structured product. The agreement was reached after the SFC had taken into account that the brokerage had made voluntary repurchase offers of US\$3.93 million to all 37 customers. Under the agreement, the brokerage is required to implement special procedures to resolve, in a fair and reasonable manner, all complaints related to the sale and distribution of other structured products.

The agreement marked the end of our investigations relating to the sale of Minibonds by 19 distributing banks and brokerages. Together with the other agreements previously reached with the banks and brokerages, more than \$5.2 billion is being paid to around 24,400 bank customers and approximately \$109 million to 366 brokerage customers.

Under the agreements, banks and brokerages are required to enhance procedures to resolve complaints concerning the sale of other structured products as well, thus paving the way for the resolution of issues relating to the sales of Lehman Equity Index-linked Principal Protected Notes (Lehman PPNs) by Dah Sing Bank and Mevas Bank.

Dah Sing and Mevas both agreed to repurchase the Lehman PPNs at 80% of the principal investment from their eligible customers who had bought the notes on or after 5 August 2008. Over 500 eligible customers, including those who had previously settled with the banks, will benefit from the repurchase offer. The customers who had settled with the banks directly at less than 80% of the amount invested will receive ex-gratia payments from the banks to make up the shortfall.

Separately, we issued a circular to remind licensed corporations that had distributed or sold Lehman Programs Securities¹ to notify their respective clients about the deadline for filing claims against Lehman Brothers Holdings Inc, on or before 2 November 2009, so as to preserve their claims against the company.

¹ This refers to securities included in the "Lehman Programs Securities" list dated 17 July 2009 and involved in the bankruptcy procedures of Lehman Brothers Holdings Inc in the United States. The list is available on www.lehman-docket.com, under the section "Bar Date Information and Forms".

Firm action taken against various breaches

Our action against market misconduct and breaches of the Securities and Futures Ordinance (SFO) continued.

In the largest market manipulation case to date, the District Court jailed four people for 26 to 30 months. The case was the first indictable prosecution for market manipulation under the SFO. The four are Chan Chin Yuen (jailed for 30 months), his sister-in-law Elaine Au Yeung Man Chun, his brother Chan Chin Tat and a friend Chui Siu Fung (each jailed for 26 months). The Court found the four conspired to manipulate the market in the shares of Asia Standard Hotel Group, which contributed to an increase of its share price by 78% and a rise in its market capitalisation by \$4 billion.

Separately, the High Court disqualified Fung Chiu and Lian Eng Sheng, two former directors of GP Nano Technology Group Ltd, from acting as directors or being involved in the management of a corporation for seven and six years respectively. The two were found guilty of providing misleading information to the market regarding five questionable transactions in two announcements, abdicating their responsibilities as directors of the listed company, and committing other related misconduct.

The High Court also dismissed an appeal by Liu Su Ke against the conviction imposed by the Eastern Magistracy for failing to disclose his interest in shares in Warderly International Holdings Ltd. The Court found that the 231.8 million Warderly shares received by Liu was a notifiable interest, which he failed to disclose within three business days as required by the SFO.

During the reporting period, the Eastern Magistracy convicted Peter Ko Chung Ting, a former executive director of Green Energy Group Ltd, previously known as China Nan Feng Group Ltd, of disclosing false and misleading information in two announcements confirming the independent status of the placees in the placements and top-up subscriptions for the company's shares. He was ordered to serve 150 hours of community service for the offence.

In a separate case, the Eastern Magistracy convicted Choko Yeung Lai Ping of unlicensed dealings in leverage foreign exchange trading and fined her \$2,000.



During the quarter, we took 15 disciplinary actions against licensed corporations and individuals, imposing total fines of \$9.5 million.

- We reprimanded Asia Pacific Securities Ltd and fined it \$1.4 million and revoked the licence of its responsible officer, Canice Chan Yau Fung, for engaging in window dressing activities aimed to inflate the amount of liquid capital the firm was required to hold under the Securities and Futures (Financial Resources) Rules.
- We reprimanded Sun Hung Kai Investment Services Ltd and fined it \$4 million for internal control failures that contributed to false trading and price rigging by its employees. We also suspended its employee Connie Cheung Sau Lin for three years.
- We reprimanded Grand Investments (Securities) Ltd, fined it \$3 million and suspended its officers Lee Tak Lun and Wendy Chung Wing Han for 12 and 18 months respectively. The two had failed to prevent and stop two clients from abusively trading derivative warrants issued by Macquarie Bank, which falsely inflated the turnover of the relevant derivative warrants to give investors a false impression that the warrants were actively traded.
- We reprimanded Good Harvest Securities Company Ltd and Chu Ho Miu Hing for failing to segregate the front and back-office functions of Good Harvest and to ensure that the issuing process of trading documents, including statements and contract notes, was properly protected against tampering and abuse by unauthorised staff. We fined Good Harvest and Chu \$800,000 and \$300,000 respectively.
- We banned Allen Lam Kar Fai, a former director of investment banking at CLSA Equity Capital Markets Ltd, from re-entering the industry for life for insider dealing. We also banned Lin Ko Ming, a former responsible officer of Core Pacific-Yamaichi International (HK) Ltd, from the industry for seven years for his role in the listing of Shaanxi Northwest New Technology Industry Ltd.
- We also issued penalties to a number of licensed individuals for various infractions. We suspended three individuals for 10 weeks, six months and nine months and prohibited one

from re-entering the industry for four months for various breaches such as failing to recognise suspicious orders, failing to obtain proper written authorisation from clients before effecting transactions, failing to put in place proper accounting and settlement systems, and abusive trading, giving the market a misleading impression on the supply and demand for shares.

Market standards advanced

As a regulator, we believe that a viable market is one that strikes a fine balance between investment choices and investor protection. Following the release of the consultation on proposals to enhance investor protection in September, we conducted over 50 briefings with various stakeholders, including Legislative Council members, market participants, industry bodies, media representatives and academics, to explain issues and answer related questions. To help the industry better understand the implications of the proposed cooling-off periods and the disclosure of commission rebates, we invited experts from the United Kingdom's Financial Services Authority and the Australian Securities and Investments Commission to share their experience in their markets in a forum attended by around 240 industry representatives. We also launched a public awareness campaign that included a television commercial and other promotional initiatives.

As a technical sequel to the proposals to enhance investor protection, we began a consultation in October on initiatives to enhance the regime governing public offers of structured products. The proposal is about transferring the regulation of public offers of structured products from the Companies Ordinance to the SFO so that unless an exemption applies, unlisted structured products, their offering documents and marketing materials will have to be examined for authorisation under the requirements of the SFO before being offered to the public. The consultation ended in December 2009 and we aim to publish a conclusions paper in the second quarter of 2010.

We received a number of responses to the consultation paper on increasing short-position transparency. We will propose a reporting model in a conclusions paper to be issued in the first quarter of 2010. This will be followed by the new subsidiary legislation and other legislative changes needed to implement the proposed reporting model.

Operational Review

In light of recommendations made by the Group of Twenty, we are reviewing the various options that can be employed to bring credit rating agencies under the SFC's regulatory regime. During the quarter, we met with representatives of credit rating agencies to understand the latest regulatory proposals in Australia and Japan.

During the quarter Mr Stephen Po, Senior Director and head of the SFC's Intermediaries Supervision Department, was appointed to the position of Chairman of the International Organisation of Securities Commissions' (IOSCO) Standing Committee 3 (SC3) on Regulation of Market Intermediaries. The SC3 is part of the IOSCO's standard-setting body responsible for reviewing and proposing standards on the regulation of market intermediaries in a cross-border environment. The SFC subsequently hosted an SC3 meeting in Hong Kong to discuss key regulatory issues such as direct electronic access, insolvency and liquidity management and suitability requirements for intermediaries.

We assisted the International Monetary Fund (IMF) in assessing the latest financial regulatory developments in Hong Kong. We also exchanged views with the United States' Financial Industry Regulatory Authority (FINRA) on regulatory issues related to products, markets, and intermediaries.

We published the report on our review of the performance of The Stock Exchange of Hong Kong Ltd (SEHK) in its regulation of listing

matters during 2008. We were of the view that the operational procedures and decision-making processes reviewed were appropriate to enable SEHK to discharge its statutory obligation to maintain an orderly, informed and fair market, and to make rules for the proper regulation and efficient operation of the market in the year reviewed.

Investor complaints received

During the quarter, the number of non-Lehman Brothers complaints increased by one-third from the last quarter, 297 of which were related to the trading in the shares of Asian Citrus Holdings Ltd on its listing debut.

The total number of Lehman Brothers-related complaints totalled 8,910 as of 31 December.

Development

Market and product development enhanced

In late December, we issued a joint consultation paper, with Hong Kong Exchanges and Clearing Ltd and the Federation of Share Registrars Ltd, inviting comments on a proposed operating model for a scripless securities market in Hong Kong. We also worked with the government on an initial set of related legislative

Analysis of complaints of market malpractices

Nature of complaints	For the quarter ended 31/12/2009	For the quarter ended 30/09/2009	For the quarter ended 31/12/2008
Conduct of licensed intermediaries and registered institutions	90	191	182
Listing-related matters and disclosure of interests	400	105	80
Market misconduct	53	86	187
Products	2	9	4
Other financial activities	104	89	72
Miscellaneous	0	4	3
Subtotal	649	484	528
Complaints related to Lehman Brothers	47	329	6,908
Total	696	813	7,436

Note: The figures reflect the number of complainants.



amendments to remove existing obstacles to implement the scripless initiative, such as the current provisions compelling the use of paper documents of title and paper instruments of transfer. The amendments were incorporated in the Companies (Amendment) Bill 2010 and tabled before the Executive Council in January 2010 and the Legislative Council in February 2010. The consultation period will end on 31 March 2010.

During the quarter, the first series of China A-share sector exchange-traded funds (ETFs) and the first Hong Kong equity value-based ETF managed by a Hong Kong-based fund manager were listed. The addition of six ETFs brought the total number of ETFs listed in Hong Kong to 43.

As at the end of December 2009, Hong Kong was the second-largest ETF market in Asia, after China in terms of turnover and Japan in terms of aggregate market capitalisation.

Hong Kong had a total of 2,583 authorised collective investment schemes as at 31 December, down 9% from the previous year. We authorised nine offering documents of unlisted structured products during the quarter.

Portal launched to raise process efficiency

As at end-2009, more than 80% of licensed corporations and 56% of individual licensees had used the new SFC On-line Portal, which was launched in September 2009. This new initiative streamlines the filing of various licensing documents and enhances communication between intermediaries and the SFC. Around 5,000 annual returns and 3,000 licensing-related notifications, which were previously filed in paper form by intermediaries, were received online during the first three months of its launch.

During the quarter, we received 2,562 licence applications, down 16% down from the previous quarter but up 20% from the same period last year. The total number of licensees and registrants as at 31 December 2009 was 36,060, down 3.4% from a year-ago.

The hedge fund industry continued to grow in terms of the number of licensed corporations and licensed individuals despite the economic slowdown. As of 31 December 2009, the number of corporate licensed hedge fund managers/advisers had increased by 20% from the previous year.

Number of authorised collective investment schemes

	As at 31/12/2009	As at 31/12/2008
Unit trusts and mutual funds	1,955	2,218
Investment-linked assurance schemes	238	235
Pooled retirement funds	35	36
MPF master trust schemes	37	36
MPF pooled investment funds	298 ¹	305
Others	20 ²	21
Total	2,583	2,851

¹ In this category, 132 of the funds were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

² Other schemes comprised 13 paper gold schemes and seven REITs.

Unlisted structured products¹ offered to the public

	For the quarter ended 31/12/2009
Offering documents authorised	9
Advertisements authorised	0

¹ Comprising the more common structured products such as structured notes, ELLs and ELDs.

Number of licensees and registrants

	As at 31/12/2009	As at 30/09/2009	Change in %	As at 31/12/2008	Change in %
Licensed Corporations	1,608	1,589	+1.2%	1,547	+3.9%
Registered Institutions	107	105	+1.9%	102	+4.9%
Individuals	34,345	34,515	-0.5%	35,696	-3.8%
Total	36,060	36,209	-0.4%	37,345	-3.4%

Co-operation with Mainland, Taiwan strengthened

To support the cross-border co-operation initiatives, we participated in the first Hong Kong-Guangdong Financial Expert Group Meeting. During the quarter, we assisted the Government in reviewing the Guangdong-Hong Kong Co-operation Framework Agreement, the Greater Pearl River Delta Business Council's proposals on the Hong Kong-Guangdong financial co-operation, and the initiatives in preparation for the Shenzhen-Hong Kong co-operation meeting. We also spoke at a number of high-level financial co-operation forums, including the Beijing-Hong Kong Financial Cooperation Forum and the Shenzhen International Finance Exposition.

Through various training sessions, we shared our experience in a number of specific regulatory issues with Mainland, overseas and local authorities. The issues based on the Hong Kong experience included:

- regulatory structure and requirements regarding intermediaries supervision;
- supervision of fund managers and identification of red flags;
- inspection of sponsors;
- enforcement regime;
- handling of frauds by brokers and fund managers; and
- regulation of Hong Kong's financial markets in light of lessons learned from the financial crisis.

To enhance our staff's understanding of China's macro financial policies and facilitate Mainland officials' understanding of Hong Kong's financial regulatory landscape, we organised training for our staff at the Tsinghua University and held training with the

Chinese General Chamber of Commerce under a programme of the China National School of Administration for 21 senior Mainland officials.

Under the signed Memorandum of Understanding, we held the first meeting with the Taiwan Financial Supervision Commission (FSC) to conduct an in-depth exchange on wide-ranging securities regulatory issues. Following the meeting, a two-week secondment programme was organised for FSC representatives to give them an overview of Hong Kong's securities regulatory framework and facilitate regulatory exchange between the two regulators.

Initiatives on renminbi, CEPA capitalised

To support the Government's initiative to develop Hong Kong into a renminbi offshore centre, we visited the State Administration of Foreign Exchange and met with key Mainland financial institutions to exchange strategic views on the subject matter. On a separate occasion in Hong Kong, we met with the Assistant Governor of People's Bank of China to exchange views on the initiative and deliver an update on Hong Kong's latest financial developments.

To facilitate the implementation of measures for the securities sector under Supplement VI to the Closer Economic Partnership Agreement (CEPA VI), we met with various Mainland authorities and key industry players to discuss the preparation for implementing CEPA VI measures.

Further initiative on Islamic finance taken

In November, we signed a Declaration on Mutual Cooperation on Development of Islamic Capital Market and Islamic Collective Investments Schemes with the Malaysia's Securities Commission (MSC). The declaration provides the framework for the SFC's and MSC's mutual recognition of Islamic collective investment



schemes offered to the public. The Declaration will foster the further development of Islamic fund management in Hong Kong and contribute to the Government's objective to promote Islamic finance in Hong Kong.

Communication with industry continues

We published the 11th issue of the Takeovers Bulletin in December. Among other items, the Bulletin reminded market practitioners of the responsibility of financial advisers or placing agents to verify and confirm independence of placees in placing and top-up transactions. It also reminded exempt fund managers and exempt principal traders to make timely disclosures.

The Enforcement Reporter issued in December highlighted the largest market manipulation case brought before a Hong Kong court to date in which four people were sent to jail for conspiring to manipulate the market. The Reporter also noted the jailing of a former investment banker for seven years, the longest term ever imposed on a person found guilty of insider dealing and the maximum sentence available to the trial judge.

Education

During the quarter, we continued our mass-media and interactive activities to educate the Hong Kong public on investing and its associated risks.

In October, we launched The SFC Guide, a user-friendly booklet in plain language to help the investing public better understand the SFC's role in the overall financial regulatory structure. Copies were distributed using mass channels, including at public libraries and through insertions in two free newspapers. As of end of December, over 115,000 copies have been distributed.

Our third Investment Triathlon, a financial knowledge contest, kicked off in October with quizzes in the Hong Kong Economic Times. Semi-finalists competed in the second round held on Radio 1 of Radio Television Hong Kong (RTHK) between November and December. The final challenge for the championship was broadcast on Cable Television in early 2010. The contest drew 660 entries from the public, representing a 17% increase from the previous year.

The on-line game launched in September on the InvestEd website continued to attract a good number of contestants in its second round. In the game, contestants tested their investment knowledge in a game of traditional flight chess. The game attracted over 4,000 contestants. Given the good response, we will develop more interactive initiatives with a fun element to educate investors.

After launching the "Know How to Invest Wisely" infomercial series on TVB Jade in September, we extended our media coverage to other television channels, outdoor light emission displays, public buses and trains. The full five-minute version was also run on Cable TV's Finance Info Channel. The infomercials covered a range of topics including risk of leveraging, corporate takeover actions, investing in equity-linked deposits, and setting up discretionary accounts.

We continued to deliver educational messages on topical issues to the public through our Dr Wise column. The November issue described how fraudsters have resorted to using fake regulators to lend themselves legitimacy, as observed in recent boiler-room cases. To forewarn the public, we also included in the Alert List of our InvestEd website a new category called "fake regulators".

Our on-going radio programme "Education Tips by Dr Wise" on Metro Radio and our weekly column in Headline Daily featured a number of topics. These include: the risks of investing in bonds and initial public offerings, boiler-room scams, role of warrant liquidity providers, and messages to solicit public feedback on a consultation on proposals to enhance investor protection. We also arranged for industry to discuss on Now TV topics such as issues relating to shareholders' rights in corporate takeovers and risk disclosure of authorised funds.

We also arranged two further exhibitions of the winning entries from our photo competition which was held in the second quarter. The photos were displayed in malls in Tseung Kwan O and in Tsim Sha Tsui.

This quarter, a total of 12 investor education seminars were conducted for about 2,000 attendees. As part of our effort to reach different segments of the public, we went beyond academic institutions and government departments to collaborate with community groups such as Caritas-Hong Kong and the Eastern District Council to host these events.

Organisational Matters

At 31 December we had 501 staff members, compared with 474 a year ago.

Total revenue for the quarter was \$448 million, compared with \$389 million a year ago and \$462 million in the previous quarter. Expenditure was \$186 million, 12% below our approved budget. This resulted in a surplus of \$262 million for the quarter, compared with \$217 million in the same quarter last year and \$285 million in the previous quarter. Our reserves stood at \$5.8 billion at the end of December 2009.

We welcomed the re-appointment of Mr Eddy Fong as Chairman for a further two-year term, effective from 20 October 2009. We also welcomed the re-appointment of the Hon Chan Kam-lam and appointment of Mr Lawrence Lee Kam-hung by the Government as Non-Executive Directors for a term of two years, effective from 15 November 2009.

Consolidated statement of comprehensive income

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
		\$'000	\$'000	\$'000	\$'000
Income					
Levies		1,146,599	1,058,464	376,986	293,342
Fees and charges		125,616	176,297	34,583	51,685
Investment income		104,833	126,486	33,982	42,529
Less : custody and advisory expenses		(1,648)	(1,470)	(564)	(488)
Investment income net of third party expenses		103,185	125,016	33,418	42,041
Recoveries from the Investor Compensation Fund		3,081	3,273	1,032	1,062
Other income		3,856	2,850	1,737	1,129
		1,382,337	1,365,900	447,756	389,259
Expenses					
Staff costs and directors' emoluments	9	402,940	371,859	134,221	127,824
Premises					
rent		43,517	37,752	14,506	14,506
other		17,495	16,111	5,925	5,443
Other expenses		54,489	46,259	22,082	16,980
Depreciation		21,836	16,477	9,089	7,306
		540,277	488,458	185,823	172,059
Surplus for the period	3	842,060	877,442	261,933	217,200

The notes on pages 13 to 15 form part of the condensed consolidated financial statements.

Consolidated statement of financial position

At 31 December 2009

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2009	At 31 March 2009
		\$'000	\$'000
Non-current assets			
Fixed assets		48,582	42,015
Held-to-maturity debt securities	4	3,596,820	3,588,538
		3,645,402	3,630,553
Current assets			
Held-to-maturity debt securities	4	1,371,257	858,870
Debtors, deposits and prepayments		209,371	181,908
Bank deposits		730,316	454,140
Cash at bank and in hand		2,627	2,264
		2,313,571	1,497,182
Current liabilities			
Fees received in advance		11,893	65,582
Creditors and accrued charges		120,096	70,704
		131,989	136,286
Net current assets			
		2,181,582	1,360,896
Total assets less current liabilities			
		5,826,984	4,991,449
Non-current liabilities			
	5	31,441	37,966
Net assets			
		5,795,543	4,953,483
Funding and reserves			
Initial funding by Government			
		42,840	42,840
Accumulated surplus			
	3	5,752,703	4,910,643
		5,795,543	4,953,483

The surplus for the current period and prior period are the only changes in equity in the respective periods.

The notes on pages 13 to 15 form part of the condensed consolidated financial statements.

Statement of financial position

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2009	At 31 March 2009
		\$'000	\$'000
Non-current assets			
Fixed assets		48,553	41,977
Held-to-maturity debt securities	4	3,596,820	3,588,538
		3,645,373	3,630,515
Current assets			
Held-to-maturity debt securities	4	1,371,257	858,870
Debtors, deposits and prepayments		209,274	181,734
Bank deposits		730,316	454,140
Cash at bank and in hand		1,918	1,784
		2,312,765	1,496,528
Current liabilities			
Fees received in advance		11,893	65,582
Creditors and accrued charges		119,261	70,012
		131,154	135,594
Net current assets		2,181,611	1,360,934
Total assets less current liabilities		5,826,984	4,991,449
Non-current liabilities	5	31,441	37,966
Net assets		5,795,543	4,953,483
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	3	5,752,703	4,910,643
		5,795,543	4,953,483

The surplus for the current period and prior period are the only changes in equity in the respective periods.

The notes on pages 13 to 15 form part of the condensed consolidated financial statements.

Consolidated statement of cash flows

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2009	31 December 2008
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	842,060	877,442
Adjustments for:		
Depreciation	21,836	16,477
Investment income	(104,833)	(126,486)
Loss/(gain) on sale of fixed assets	43	(59)
	759,106	767,374
(Increase)/decrease in debtors, deposits and prepayments	(35,467)	65,825
Increase in creditors and accrued charges	49,392	54,134
(Decrease)/increase in fees received in advance	(53,689)	7,114
Decrease in non-current liabilities	(6,525)	(6,799)
Net cash generated from operating activities	712,817	887,648
Cash flows from investing activities		
Interest received	149,624	126,932
Held-to-maturity debt securities bought	(1,197,994)	(1,449,440)
Held-to-maturity debt securities redeemed	640,537	948,022
Held-to-maturity debt securities sold	–	94,797
Fixed assets bought	(28,445)	(41,288)
Fixed assets sold	–	67
Net cash used in investing activities	(436,278)	(320,910)
Net increase in cash and cash equivalents	276,539	566,738
Cash and cash equivalents at beginning of the nine months period	456,404	88,337
Cash and cash equivalents at end of the nine months period	732,943	655,075

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2009	At 31 December 2008
	\$'000	\$'000
Bank deposits	730,316	650,694
Cash at bank and in hand	2,627	4,381
	732,943	655,075

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2009 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 31 December 2009. 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 2009 to the interim financial report, except for the changes in presentation that are expected to be reflected in the 2009 annual financial statements. Details of these changes are set out in note 2.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2009.

2. Changes in accounting policies

The IASB has issued one new International Financial Reporting Standard (IFRS), a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the SFC. Of these, the following development is relevant to the SFC's financial statements:

-IAS 1 (revised 2007), Presentation of financial statements

Under the revised standard, the income and expenditure account is renamed as the "statement of comprehensive income", the balance sheet is renamed as the "statement of financial position" and the cash flow statement is renamed as the "statement of cash flows". These changes in presentation have no effect on reported surplus or deficit, total income and expense or net assets for any period presented.

3. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the nine months ended 31 December 2009 are as follows:

	Unaudited \$'000
Balance at 31 March 2009	4,910,643
Surplus for the period	842,060
Balance at 31 December 2009	5,752,703

4. Held-to-maturity debt securities

As of 31 December 2009, the total market value of held-to-maturity debt securities amounted to \$5,059,633,000 (31 March 2009: \$4,508,399,000), which was above the total carrying cost of \$4,968,077,000 (31 March 2009: \$4,447,408,000).

5. 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 consolidated statement of comprehensive income on a straight line basis over the lease period from 2004 to 2013 as an integral part of the lease expense.

6. 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 31 December 2009. Therefore we do not provide an ageing analysis of debtors and creditors.

7. Exchange fluctuation

All items in the statement of financial position are denominated in either United States dollars or Hong Kong dollars, and, as a result, we are not exposed to significant exchange rate risk.

8. 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 2009, 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 statement of financial position which is expressed in thousands of dollars.

FinNet has not commenced operations. The statement of financial position of FinNet as at 31 December 2009 and the statement of comprehensive income 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.

9. 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 \$3,081,000 (2008: \$3,273,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all non-executive directors) comprised :

	Unaudited nine months ended	
	31 December 2009	31 December 2008
	\$'000	\$'000
Short-term employee benefits	23,220	22,255
Post employment benefits	2,012	1,897
	25,232	24,152

The total remuneration is included in "staff costs and directors' emoluments" on page 9. 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 \$328,000 (31 March 2009: \$477,000).

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 2009.

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 21.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2009 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 end of the reporting period or at any time during the nine months.

On behalf of the Committee

Keith Lui
Chairman

2 February 2010

Statement of comprehensive income

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 December 2009 \$'000	31 December 2008 \$'000	31 December 2009 \$'000	31 December 2008 \$'000
Income					
Net investment income/(loss)		128,257	(42,594)	24,663	1,710
Exchange difference		472	(2,623)	511	(1,304)
Recovery income	3	1,307	-	1,307	-
		130,036	(45,217)	26,481	406
Expenses					
Investor Compensation Company expenses	4	3,081	3,273	1,032	1,061
Compensation expenses	5	162	937	-	405
Auditors' remuneration		64	63	21	21
Bank charges		581	573	189	178
Professional fees		2,225	2,176	757	658
Sundry expenses		-	1	-	-
		6,113	7,023	1,999	2,323
Surplus/(Deficit) for the period		123,923	(52,240)	24,482	(1,917)
Accumulated surplus brought forward		711,964	756,185	811,405	705,862
Accumulated surplus carried forward		835,887	703,945	835,887	703,945

The notes on page 20 and 21 form part of the condensed financial statements.

Investor Compensation Fund

Statement of financial position

At 31 December 2009

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2009 \$'000	Audited At 31 March 2009 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities		1,568,888	1,554,614
– Equity securities		179,948	113,112
Interest receivable		19,344	20,253
Due from Investor Compensation Company		328	477
Fixed and call deposits with banks		144,954	116,037
Cash at bank		32,407	20,074
		1,945,869	1,824,567
Current liabilities			
Provision for compensation	5	5,455	8,032
Accounts payable and accrued charges		886	801
Fair value adjustment on unsettled trades		-	129
		6,341	8,962
		1,939,528	1,815,605
Net current assets			
		1,939,528	1,815,605
Net assets			
Representing:			
<u>Compensation fund</u>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		835,887	711,964
		1,939,528	1,815,605

The surplus for current period and the deficit for the prior period are the only changes in equity in the respective periods.

The notes on pages 20 and 21 form part of the condensed financial statements.

Statement of cash flows

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2009	31 December 2008
	\$'000	\$'000
Cash flows from operating activities		
Surplus/(deficit) for the period	123,923	(52,240)
Net investment (income)/loss	(128,257)	42,594
Exchange difference	(472)	2,623
Decrease in amount due from Investor Compensation Company	149	72
Decrease in unsettled regular purchase of financial assets	-	46,987
Decrease in provision for compensation	(2,577)	(15,003)
Increase/(decrease) in accounts payable and accrued charges	85	(100)
Net cash (used in)/generated from operating activities	(7,149)	24,933
Cash flows from investing activities		
Purchase of debt securities	(1,158,241)	(991,438)
Sale or maturity of debt securities	1,160,937	832,697
Sale of equity securities	513	722
Interest received	45,190	48,291
Net cash generated from/(used in) investing activities	48,399	(109,728)
Net increase/(decrease) in cash and cash equivalents	41,250	(84,795)
Cash and cash equivalents at beginning of the nine-month period	136,111	109,700
Cash and cash equivalents at end of the nine-month period	177,361	24,905

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2009	At 31 December 2008
	\$'000	\$'000
Cash at bank	32,407	1,983
Fixed and call deposits with banks	144,954	22,922
	177,361	24,905

Notes to the condensed financial statements

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2009 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 2009 to the interim financial report, except for the changes in presentation that are expected to be reflected in the 2009 annual financial statements. Details of these changes are set out in note 2.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2009.

2. Changes in accounting policies

The IASB has issued one new International Financial Reporting Standard (IFRS), a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

-IAS 1 (revised 2007), Presentation of financial statements

-Amendment to IFRS 7, Financial instruments: Disclosures - improving disclosures about financial instruments

Under the revised standard, the income and expenditure account is renamed as the "statement of comprehensive income", the balance sheet is renamed as the "statement of financial position" and the cash flow statement is renamed as the "statement of cash flows". These changes in presentation have no effect on reported surplus or deficit, total income and expense or net assets for any period presented. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report.

3. Recovery income

In relation to the winding up of Wing Yip Company Limited, the liquidators had advised the Fund that a first dividend was declared. The Fund recognised the dividend received from the liquidators as recovery income.

4. 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 nine months ended 31 December 2009, ICC incurred \$3,081,000 for its operation (For the nine months ended 31 December 2008 : \$3,273,000).

5. Provision for compensation

	Unaudited \$'000
Balance as at 1 April 2008	22,978
Add: provision made during the year ended 31 March 2009	4,679
Less: provision reversed during the year ended 31 March 2009	(3,685)
Less: compensation paid during the year ended 31 March 2009	(15,940)
Balance as at 31 March 2009	8,032
Add: provision made during the nine months ended 31 December 2009	162
Less: compensation paid during the nine months ended 31 December 2009	(2,739)
Balance as at 31 December 2009	5,455

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 & 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 31 December 2009, all provisions were expected to be paid within one year.

6. Related party transactions

We have related party relationships with the SFC, the ICC, the Stock Exchange of Hong Kong Limited, the Hong Kong Futures Exchange Limited and the Unified Exchange Compensation Fund. During the nine months, there were no significant related party transactions other than those disclosed in the financial statements.

7. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 5, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$300,000 (31 March 2009 : \$450,000). 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 Brothers group's 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 the Fund exists under the SFO 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 Brothers' companies in Hong Kong have been received up to the date of this report.

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 2009.

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 23 to 28.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2009 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 end of the reporting period or at any time during the nine months.

On behalf of the Committee

Keith Lui
Chairman

4 February 2010

Statement of comprehensive income

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 December 2009 \$'000	31 December 2008 \$'000	31 December 2009 \$'000	31 December 2008 \$'000
Income					
Interest income		133	973	17	436
Recoveries	3	328	(315)	192	(125)
		461	658	209	311
Expenses					
Auditor's remuneration		27	28	8	10
Professional fees		13	13	-	-
Sundry expenses		-	1	-	-
		40	42	8	10
Surplus for the period		421	616	201	301
Accumulated surplus brought forward		15,103	13,910	15,323	14,225
Accumulated surplus carried forward		15,524	14,526	15,524	14,526

The notes on pages 27 and 28 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Statement of financial position

At 31 December 2009

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2009 \$'000	Audited At 31 March 2009 \$'000
Current assets			
Equity securities received under subrogation	3	616	307
Interest receivable		6	44
Fixed and call deposits with banks		67,952	67,270
Cash at bank		265	334
		68,839	67,955
Current liabilities			
Accounts payable and accrued charges	7	10,294	10,281
Net current assets			
		58,545	57,674
Net assets			
		58,545	57,674
Representing:			
<u>Compensation fund</u>			
Contributions from the SEHK	4	47,450	47,000
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		15,524	15,103
		1,053,263	1,052,392
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		58,545	57,674

The notes on pages 27 and 28 form part of the condensed financial statements.

Statement of changes in equity

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2009	31 December 2008
	\$'000	\$'000
Compensation fund balance as at 1 April	57,674	56,031
Net contribution from the SEHK	450	350
Surplus for the period	421	616
Compensation fund balance as at 31 December	58,545	56,997

The notes on pages 27 and 28 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Statement of cash flows

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2009	31 December 2008
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	421	616
Interest income	(133)	(973)
(Increase)/decrease in equity securities received under subrogation	(309)	339
Increase in accounts payable and accrued charges	13	6,642
Net cash (used in)/generated from operating activities	(8)	6,624
Cash flows from investing activities		
Interest received	171	887
Net cash generated from investing activities	171	887
Cash flows from financing activities		
Contributions from the SEHK	1,050	800
Contributions refunded to the SEHK	(600)	(450)
Net cash generated from financing activities	450	350
Net increase in cash and cash equivalents	613	7,861
Cash and cash equivalents at beginning of the nine-month period	67,604	59,596
Cash and cash equivalents at end of the nine-month period	68,217	67,457

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2009	At 31 December 2008
	\$'000	\$'000
Cash at bank	265	251
Fixed and call deposits with banks	67,952	67,206
	68,217	67,457

Notes to the condensed financial statements

For the nine months ended 31 December 2009
(Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund prepares the interim financial report in accordance with International Accounting Standard (IAS) 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 2009 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 2009 to the interim financial report, except for the changes in presentation that are expected to be reflected in the 2009 annual financial statements. Details of these changes are set out in note 2.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2009.

2. Changes in accounting policies

The International Accounting Standards Board has issued one new International Financial Reporting Standard (IFRS), a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Fund. Of these, the following development is relevant to the Fund's financial statements:

-IAS 1 (revised 2007), Presentation of financial statements

Under the revised standard, the income and expenditure account is renamed as the "statement of comprehensive income", the balance sheet is renamed as the "statement of financial position" and the cash flow statement is renamed as the "statement of cash flows". These changes in presentation have no effect on reported surplus or deficit, total income and expense or net assets for any period presented.

3. 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 31 December 2009 after deducting relevant processing fees and charges for collecting and selling the securities received.

4. Contributions from the SEHK

During the nine months, deposits of \$1,050,000 in respect of twenty one new trading rights were received from the SEHK.

The SEHK also advised the SFC of twenty one trading rights in total having been relinquished since September 2008. The SFC had refunded to the SEHK the deposit of \$600,000 in respect of twelve of these twenty one trading rights during the nine months ended 31 December 2009. The SFC shall refund to the SEHK the deposit of \$450,000 in respect of the remaining nine trading rights at the end of a six-month period after the relinquishment took effect.

Unified Exchange Compensation Fund

5. Related party transactions

The Fund has 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, there were no outstanding claim against the Fund.

Shares were allocated to the Fund under its subrogation rights in relation to the C.A. Pacific case (refer to note 3). As at 31 December 2009, shares with a market value \$616,000, 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 \$10,253,000 as at 31 December 2009 (\$10,242,000 as at 31 March 2009). These amounts are determined based on cashier's orders expired and corresponding bank debit notes.