



20 Years of Transformation

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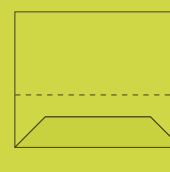
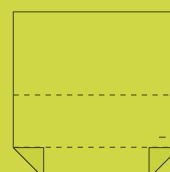
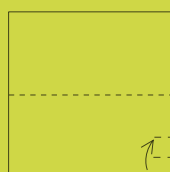
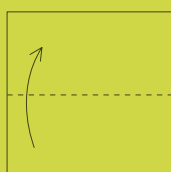
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20 Years of Transformation

Since its inception in 1989, the SFC has undergone various stages of development in tandem with the growth of Hong Kong's financial markets.

In more ways than one, the creative concept of this annual report reflects the process of change. Just as a butterfly emerges from different life stages, the SFC has evolved from a small team of professionals into an established regulator. To reinforce the message of transformation, the butterfly on the cover and objects used throughout the publication are real examples of origami, the age-old craft of folding paper to create an art form.



Milestones

1989

Founded on 1 May as an independent statutory body to regulate the securities and futures industry following the market crash of 1987, the Securities and Futures Commission (SFC) was tasked to strengthen the regulatory framework, to foster orderliness in the market and to protect investors.



The Report of the Securities Review Committee.

1990

A set of "fit and proper" criteria was formulated as a basis to license intermediaries and supervise their conduct.

1991

The SFC devolved the day-to-day administration of all listing matters to The Stock Exchange of Hong Kong Ltd (SEHK) to remove regulatory duplication, and signed a memorandum of understanding with SEHK to set out the listing-related functions of the two entities. This enabled the SFC to perform its supervisory role over SEHK more effectively.

Regulations governing disclosure of directors' interests and price-sensitive information were introduced to improve market transparency.

New guidelines were developed for authorising unit trusts and mutual funds. The authorisation regime facilitated



MOU signed with SEHK to clarify listing matters.

the healthy development of the fund industry, paving the way for Hong Kong becoming an Asian asset management hub.

1992

This year saw two firsts: the first prosecution for market manipulation in the trading of listed shares, and the first investor education campaign on television, "Know your Broker".

The Codes on Takeovers and Mergers and Share Repurchases were rolled out to afford fair treatment for shareholders affected by takeover and merger transactions and share repurchases.



Collaboration sought from Indonesian regulator.

1993

Amendments to the Listing Rules were approved and a regulatory co-operation agreement was signed with the Mainland regulatory authorities, enabling the launch of H shares and red chips on SEHK.

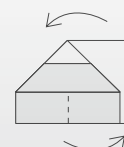
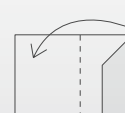
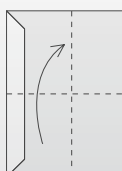
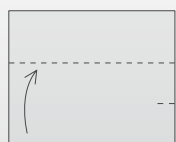


Hong Kong as a platform for Mainland capital activities.

Financial Resources Rules for licensed intermediaries were introduced to improve prudential monitoring of the industry.

1994

A statutory provision was enacted to empower the SFC to inspect books and records of listed companies in circumstances that suggest fraudulent management or failure to disclose information to shareholders.



A regulatory framework was set up to supervise the retail business of the leveraged foreign exchange trading industry.



A visit by the last Governor.

1996

A draft Securities and Futures Bill was published for public consultation.

The SFC's international standing was recognised with the appointment of the then Chairman Anthony Neoh to head the Technical Committee of the International Organization of Securities Commissions. The fourth Chairman Andrew Sheng took on the same role in 2004.

A new investor education unit was set up to explain regulatory protection, product risks and what investors need to do to safeguard their interests. To kick-start a series of education initiatives, free

bilingual publications were produced, followed by the first television programme "All about Investing" and publication of real-life investor stories in newspapers.

1998

A television commercial featuring Mrs Ewe and a herd of sheep was aired to remind investors not to blindly follow the crowd.

1999

In the aftermath of the Asian financial crisis, the SFC worked with the Government on major market reforms, including proposals to demutualise and merge the two exchanges and related clearing houses and to upgrade market infrastructure.



10th anniversary celebrations at Government House.

2000

Supervision of all securities and futures intermediaries was transferred from the exchanges to the SFC upon the founding of Hong Kong Exchanges and Clearing Ltd, the merged entity.



Active participation in global financial forums.

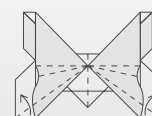
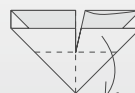
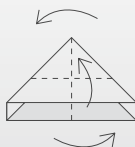
2002

For the first time, the court imposed immediate custodial sentences on persons convicted of stock manipulation following the SFC's prosecution.

Following consultation and issuance of the hedge fund guidelines, Hong Kong became one of the first markets in the world to offer hedge funds to the retail public.

2003

The implementation of the Securities and Futures Ordinance (SFO) marked the end of a decade-long effort to consolidate and modernise 10 ordinances regulating the securities and futures markets in Hong Kong, bringing the city's regulatory framework in line with international standards. The SFO gives the SFC wider regulatory scope, including powers under a dual filing system to review and object to listing applications as appropriate, powers to require more transparent disclosure of interests by substantial shareholders, powers to initiate civil proceedings via a Market Misconduct Tribunal to combat misconduct in addition



to criminal prosecutions, and powers to impose proportionate sanctions to deter malpractices of licensed persons. Educating the investing public was also made a statutory duty.



Securities and Futures Bill and Ordinance.

A new regulatory regime to authorise Automated Trading Services providers was introduced to facilitate the development of electronic trading services. In addition, a new Investor Compensation Fund that offered greater investor protection was introduced, along with a streamlined licensing regime that brought market practitioners cost-effective benefits.

An understanding was reached with the China Securities Regulatory Commission to mutually recognise the qualifications of each other's market practitioners under the Closer Economic Partnership Arrangement.

2005

The first Real Estate Investment Trust in Hong Kong and the first bond index-tracking exchange-traded fund in Asia were authorised for listing.

2007

The sponsor regime with stringent eligibility criteria and ongoing requirements for sponsors and compliance advisers was introduced.

The first disqualification of a director for misconduct under the SFO was obtained.



Investment by Mainland banks facilitated.

Under a memorandum of understanding signed between the SFC and the China Banking Regulatory Commission, Hong Kong became the first market for overseas investment by Mainland commercial banks.

2008

A regulatory co-operation agreement of understanding was signed with the China Insurance Regulatory Commission, which was the first agreement on regulatory co-operation and information exchange on the use of Mainland insurance funds outside of the Mainland.

The first criminal conviction for insider dealing under the SFO was obtained.

Following the collapse of Lehman Brothers (LB), the SFC commenced multiple investigations into the conduct of all distributors of LB Minibonds and made recommendations to the Government on possible reforms to enhance Hong Kong's regulatory system.

2009

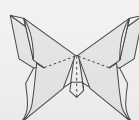
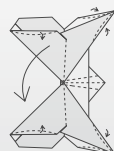
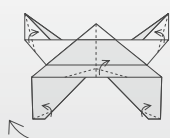
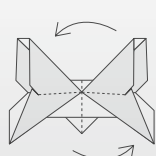
The first TV game show, "Outsmart", was launched as a new approach to further investor education.



A star-studded game show, "Outsmart".

For the first time, the SFC exercised its statutory power under the SFO to apply to intervene in the privatisation proposal of a listed company, PCCW Ltd, through court proceedings following complaints of vote-rigging in the court meeting to approve the privatisation proposal.

The District Court passed the first jail sentence for insider dealing following the transfer of the first indictable prosecution for such an offence under the SFO. This marked a major regulatory development in deterring the misconduct.



Chairman's Message



At the end of the day, all stakeholders have a role to play in maintaining a well-functioning and robust financial system, and this calls for the exercise of self-discipline, market discipline and regulatory discipline by all.

In my message last year, I cautioned that it would be an “extremely challenging year” ahead. The challenges that have emerged are far beyond the expectation of financial markets and authorities worldwide. We witnessed a breakdown of normal financial market functions that have led to a synchronised global economic downturn. This is the most powerful demonstration of the forces of globalisation in today’s highly inter-connected and inter-dependent world.

Hong Kong was not spared the ripple effects of this financial tsunami. Investors especially have suffered losses not only from local investments but also from underlying assets overseas. But despite the turmoil in global financial markets, Hong Kong’s financial system has remained stable, its markets have continued to function normally, and its financial institutions are largely intact.

Having witnessed more than a few crises over the past three decades, I believe that the current melt-down of global financial systems will have a far-reaching impact on the financial landscape and regulatory structure globally. For Hong Kong, just as the stock market crash of October 1987 led to the founding of an independent securities and futures regulator in 1989, this financial tsunami has sparked calls and debate for regulatory reforms to meet challenges in a fast-changing global environment. We shall work closely with the Government and other stakeholders to consider appropriate reforms for Hong Kong.



It is generally recognised that what is required in regulatory reforms is not merely more but better regulation. Regulation itself is not sufficient to prevent future crises. Similarly, no financial regulatory regime – no matter how water-tight – can guarantee zero failure of markets and their participants.

For a regulatory system to work, three elements have to be present. First, rules must be drawn up to ensure order in the industry. Second, an infrastructure must be in place to create appropriate incentives for market participants and adequate rules and disciplinary tools to ensure compliance or to elicit the desired behaviour by intermediaries and investors. Third, investors must be sufficiently informed to make decisions. At the end of the day, all stakeholders have a role to play in maintaining a well-functioning and robust financial system, and this calls for the exercise of self-discipline, market discipline and regulatory discipline by all.

For years, the Securities and Futures Commission (SFC) has been focusing on industry regulation, market development and investor education to strike that critical balance. While the general inclination nowadays may be to put more weight on stricter regulation of the financial sector, we must take care not to lose sight of the other elements necessary to achieve a sound equation. I am pleased to report that despite having to do much trouble-shooting last year, we continued to reach out to foster market development. A major lesson to be learned from the current financial tsunami is this: we need to harness the benefits of globalisation without losing sight of the risks that it also brings. With the open nature of markets, it is all the more important that Hong Kong fine-tunes this approach.

An international financial centre is not simply a hub for financial services, investment activities and capital raising. It is where business connections are made. In terms of having the infrastructure to make global business connections, Hong Kong is well ahead of many centres in the region and internationally. Hong Kong can leverage its vast pool of international talent, its advanced technological structure, its long history of interaction with the outside world and its role as a gateway for capital flows to and from Mainland China.

It has been 20 years since the SFC was founded on 1 May 1989. Back then, the local capital market was dominated by a few conglomerates and some home-grown industrial enterprises. Today, it is the seventh largest in the world in terms of market capitalisation with a well-balanced investor profile of domestic and international investors, institutional and retail players. Throughout its history, the SFC has supported market development, especially regarding the Mainland.

Hong Kong has been acting as a bridge between the Mainland and the rest of the world, initially by attracting capital to support the hinterland in its manufacturing base and subsequently by raising capital for its enterprises through our stock exchange. It is now at the stage of facilitating Chinese enterprises for overseas expansion.

Our co-operation with the Mainland is in the context of “one country, two systems” and through collaborative efforts to attain objectives that are mutually complementary, mutually beneficial and mutually engaging for both Hong Kong and the Mainland. We look forward to continued collaboration in the years ahead.

Looking ahead, the SFC stands ready to make the necessary changes to ensure the relevance and effectiveness of its regulatory framework, support market development without compromising investor interests, continue to work closely with the Mainland to develop its capital market to integrate more fully with the international community.

Events of the past year have placed huge demands on staff and the Board. They have embraced the challenges and served with unquestionable dedication and professionalism. To them, I express my deepest appreciation and gratitude. With such an excellent team, I am confident that the SFC will continue to achieve its statutory objectives and contribute to Hong Kong’s success as an international financial centre.

Eddy C Fong

Chairman

Chief Executive Officer's Statement



Crises often give rise to thoughts of regulatory reform. They require that we check how efficient and effective our regulatory system is in responding to problems and where necessary, seek ways to enhance it.

The past 12 months was undoubtedly an eventful period for the Securities and Futures Commission (SFC) and for regulators around the world. In addition to the collapse of Lehman Brothers (LB), which is still an issue for many, we also had to deal with a number of other concerns. Losses arising from investing in “accumulator” products, investigation into share trading and privatisation of major listed companies, and debates on short selling and the black-out period were some of the major issues. To this list, we must add the review of the existing regulatory regime of Hong Kong.

The SFC is 20 years old. Whilst the popular image of a securities regulator is that it is all about enforcement, the discharge of our responsibilities rests on three important pillars – regulation, education and market development.

Whatever else happens in the market, we will continue to maintain the necessary balance between regulating and promoting market development. We make full use of the powers available to us to deter misconduct through enforcement actions.



We will also look for ways to reduce regulatory burden and to support market and product development, ensuring in the process that investor interests and market integrity are not compromised.

There can never be too much investor education. The first line of defence against mis-selling is an informed investor. In 2008, we significantly increased resources for investor education. That was a good decision then and it remains so today – investor education is a key priority.

Managing crises

As an open market, Hong Kong has been through numerous domestic and global crises in the last 20 years. Past experience has taught us to stay vigilant at all times, to monitor the market for orderliness and to help investors better understand risks.

Throughout the reporting year, we kept up our surveillance of licensed corporations and reminded them of their obligations, including making adequate disclosure of material information to investors, ensuring client suitability and adopting prudent risk management policies and procedures. In terms of risk management, we reviewed the share margin financing policies and practices of brokerages and held seminars to share our findings with the industry. And recognising the increasing complexity of investment products on offer to retail investors, we increased our education efforts to explain product features and associated risks, especially risks associated with structured products and derivatives.

Since 2007 when the subprime crisis began to surface in the United States, we have witnessed a series of failures of financial institutions across the world. These include: the credit crisis of the British banks Northern Rock, Royal Bank of Scotland and Barclays, the failure of Icelandic banks, the insolvency of Landesbanks in Germany, government-backed rescues of Bear Stearns, Fannie Mae, AIG, Wachovia and Merrill Lynch in the United States (US), and last but not least, LB's closure. The direct and indirect effect of these failures has been felt by investors all around the world.

Immediately after LB filed for bankruptcy in September 2008 in the US, we issued restriction notices on its four companies in Hong Kong to preserve their assets and those of their clients. As in other major markets, retail investors complained of the domino effect of holding complex products linked to the collapsed US investment bank. Recognising their worries, we posted prominently on our homepage as well as InvestEd site, structural details about such products, including the ultimate counterparties, while urging intermediaries to take a more proactive role to explain to their clients the impact of LB's collapse. Meanwhile, we also issued circulars to intermediaries, reminding them to maintain good practices in risk disclosure, selling process, trading control and red-flag transactions reporting.

The investigation into the alleged mis-selling of Minibonds has been the SFC's highest priority since last September. We concluded the first two investigations and negotiated the full return of the principal invested to relevant investors. More details of our investigations are discussed in another chapter of this report.

Reviewing to improve

Crises often give rise to thoughts of regulatory reform. They require that we check how efficient and effective our regulatory system is in responding to problems and where necessary, seek ways to enhance it.

The root cause of the present financial crisis stems primarily from the US and was a mixture of macro-economic imbalances, increasing complexity of the securitised credit model, easy credit, as well as weak market discipline. However, this does not free us from questions about the effectiveness of Hong Kong's regulatory regime.

No regulatory model around the world has protected investors completely from this financial crisis. Although we are better off than some other markets that have had major institutional failures, I still believe that now is the right time to review the different regulatory models being adopted by jurisdictions around the world and to reconsider the different benefits and drawbacks that each brings.

Chief Executive Officer's Statement

Like other major markets, our disclosure-based approach requires the regulator to make sure that all product features and risks are fully disclosed when the products are brought to us for document approval. The system further requires due diligence on the part of the selling intermediaries to ensure suitability of a product for an investor. The big question we face today is whether our current regulatory structure is ideal. This same question is being contemplated by all leading economies in the world.

The regulatory philosophy of some major jurisdictions has been that product regulation would stifle innovation and that the regulator is a less appropriate agent than the market to judge whether products deliver customer value. However, the case of Northern Rock and the other recent failures of financial institutions have prompted regulators to reconsider whether market discipline was enough in controlling excessive risk taking. At the same time, the US is also discussing a new risk-based regulatory structure that reallocates responsibilities by the three functions of financial regulation – financial systemic risk, conduct, and prudential oversight.

Hong Kong is going through much the same process as financial regulators overseas. Along with the Hong Kong Monetary Authority, we have submitted a review of those elements of our structure that may need amending following the "Minibond" incident. Our suggestions cover review of regulation for point-of-sale activities, public offering regimes and definition of the professional investors, as well as introduction of a cooling-off period for certain kinds of products. We also recommended re-visiting our proposal to establish a stand-alone Investor Education Council, which will be responsible for co-ordinating and delivering investor education programmes across the entire financial services sector.

However, introducing changes to the current structure or adopting a different model altogether is not a simple matter and must be given careful consideration. No single system can prevent things

from going wrong. Rather, we should have balanced preventative measures and also examine how quickly a system can contain problems and minimise damage to investors.

Whatever steps Hong Kong takes in the final analysis, I believe three key guiding principles should be considered:

- good disclosure: Timely and meaningful disclosure of information to the market and the public is critical for creating a transparent market;
- regulating and enforcing: We must continue to monitor financial integrity, conduct and controls of market operators and intermediaries; and
- promoting and maintaining investor confidence. This is ultimately the only way to generate and sustain market activity.

The LB crisis has highlighted a need to strengthen cross-sector regulation in the industry for better protection of small investors. We look forward to co-operating fully with any future Government initiatives in regulatory reforms.

Keeping pace with world standards

Throughout the years, we have been keen to stay at par with international regulatory developments and standards. More specifically, we apply principles that are developed and recognised by the International Organization of Securities Commissions.

Recently, leaders at the Group of Twenty (G-20) Summit have agreed to establish a Financial Stability Board to provide early warnings about macro-economic and financial risks and to take actions to address them. It proposed that all systemically important financial institutions, markets, and instruments be subject to an appropriate degree of regulation and oversight. In particular, member countries have been asked to amend their



regulatory framework to ensure that their regulators can identify and handle macro-prudential risks across the financial system.

In addition, hedge funds or their managers will be required to be registered and to report appropriate information periodically to the relevant authorities. Institutions that have hedge funds as their counterparties must also adopt effective risk management.

The G-20 also raised the need to strengthen transparency of credit derivatives markets and reduce their systemic risks and to subject credit rating agencies to regulation.

Recommendations made by G-20 will have implications for all regulators around the world. In the near future, the SFC will be closely monitoring international efforts to implement reforms for the benefit of Hong Kong, a key international market.

Corporate priorities ahead

In line with our statutory obligations of protecting the investing public and ensuring market stability, we have set our corporate priorities to address these main areas in the year ahead.

We shall continue to promote Hong Kong's development as an international financial centre and a key financial market in Mainland China. Besides maintaining dialogue with Mainland regulators for possible co-operation, we shall keep pace with international regulatory developments to ensure that changes to Hong Kong's regulatory environment are consistent with its standing as an international financial centre.

Active support and supervision of an efficient, fair and orderly securities market is necessary. It can be achieved by close supervision and firm enforcement. We will increase resources to step up monitoring and enforcement work to combat and minimise market misconduct while allowing adequate flexibility for market growth.

Educating and protecting investors continues to be a priority. The LB bankruptcy has further highlighted the importance of investors understanding the features and risks of a financial product. Well-informed and financially-literate investors are the first line of defence against fraud and malpractice. We shall continue to upgrade efforts to educate retail investors with multiple investor education initiatives.

Improving corporate effectiveness and efficiency is another focus. Apart from maintaining high professional standards, we will continue to look for more direct and meaningful ways to perform our regulatory functions. We will review the effectiveness of our gatekeeping role in licensing and product authorisation and propose enhancements where appropriate. An on-line portal is already being developed to facilitate the submission of licensing forms, along with a comprehensive revamp of our licensing functions to further enhance the overall efficiency and effectiveness of our processes.

Finally, I would like to take this opportunity to thank the staff of the SFC for their hard work and commitment over the past busy year. In the past 20 years, we have expanded our role as a regulator of the securities and futures markets but more and more challenges are ahead. I am confident that with their continued commitment and support, we can take the organisation another step forward at this juncture of regulatory reforms.

Martin Wheatley
Chief Executive Officer

About Us

A sound financial regulatory regime is a key factor in maintaining Hong Kong's status as an international financial centre and a major financial market in Mainland China. We are the regulator charged with oversight of the securities and futures sectors of Hong Kong's financial markets and have three main functions: maintaining order in the marketplace, supporting market development and educating and protecting investors. We need to ensure these objectives are appropriately balanced and when necessary rebalanced, to match the constantly changing financial landscape.

We are an independent statutory body operating outside the civil service but held accountable to the Government. We were founded two decades ago in response to needs highlighted by the market crash of 1987. Following an in depth review of Hong Kong's needs, a new regulator and a new regulatory framework were put in place to allow our securities and futures markets to address both local needs as well as keep pace with global developments and standards. Following the Asian financial crisis in 1997, further changes were made to improve and consolidate this regulatory regime, resulting in the implementation of the Securities and Futures Ordinance (SFO) in 2003. This reform expanded our functions and powers and enabled us to further develop the scope and depth of our regulatory work.

During the past year, financial markets worldwide have witnessed unprecedented levels of disruption and downturn. As we and fellow regulators around the world examine issues highlighted by the current crisis, notably the increasing complexity of investment products, we anticipate yet another period of regulatory reform. As with previous reforms, we expect Hong Kong's regulatory infrastructure to emerge stronger, aligned with market developments and better suited to our current needs. However, we believe that no matter what changes are introduced, our fundamental objectives will remain the same: to encourage the orderly and healthy development of the securities and futures industry where participants are treated fairly and where investors are given the opportunity to make appropriate investment decisions.

Our Roles and Responsibilities

Our objectives

Under the SFO, we are given six regulatory objectives:

- Maintain a fair, efficient, competitive, transparent and orderly marketplace for the securities and futures industry;
- help the investing public understand how the industry works;
- protect the interest of investors in general;
- minimise crime and misconduct among market participants;
- reduce systemic risks in the industry; and
- help contribute to the financial stability of Hong Kong.



Who we regulate

We supervise these three main groups of market participants:

- Intermediaries (brokers, investment advisers, asset managers and investment bankers): Corporations engaged in these regulated activities must satisfy strict licensing criteria and comply with operational and financial resources requirements on an on-going basis. Individuals engaged in these activities must also satisfy certain licensing criteria before they are qualified to deal in securities or futures or give investment advice on securities and futures. Thereafter, they need to comply with regulatory standards of conduct in how they conduct their business.
- Issuers of securities (listed companies and investment funds): They must comply with disclosure and other requirements to offer securities to the investing public. Through an authorisation process, we examine offering documents and in some cases, marketing materials of products (other than listed securities) that are distributed to retail investors. Such a process ensures that adequate and unbiased information is available to permit informed investment decisions.
- Market operators (Hong Kong Exchanges and Clearing Ltd or HKEx): HKEx comes under our direct supervision. It is the holding company of The Stock Exchange of Hong Kong Ltd (SEHK), Hong Kong Futures Exchange Ltd (HKFE) and Hong Kong Securities Clearing Co, Ltd.

Funding

In keeping with our independent status, we have been self-funded through transaction levies and fees charged to market participants for the past 15 years. The SFC's share of the securities transaction levy has stood at 0.004% since 2006, significantly reduced from 0.0125% when the levy mechanism was first set up. As turnover increased, we accumulated significant reserves and we reduced the levy to 0.01% in 1993, 0.006% in 1994 and 0.004% in 1998. We raised the rate to 0.005% in 2000 following our contribution of \$330 million to the then Unified Exchange Compensation Fund but subsequently reduced it to the current level in 2006.

Areas of focus

Our operating framework is built on three pillars:

Regulation

Regulation is fundamental to an orderly market. We require those we regulate to meet obligations stated in the SFO as well as various codes and rules. Our goal in taking regulatory actions is to demonstrate that breaches of regulation are unacceptable, thereby encouraging voluntary compliance by all market participants.

We do not hesitate to initiate criminal proceedings in the public interest or commence civil proceedings before the Market Misconduct Tribunal. Wrongdoers convicted of serious abuses can be subject to imprisonment. Licensees who are in breach of codes and guidelines face disciplinary actions such as reprimands, licence suspension, life ban from the industry and monetary fines. More recently, where circumstances are appropriate, we have been giving offending licensed corporations a chance to rectify infractions, on condition that they also promise to implement remedial measures and good compliance practices.

We keep a close eye on intermediaries and trading systems to ensure orderly trading activities and to deter wrongdoing. On-site inspections and meetings with management of licensed corporations enable us to identify possible risks and discuss areas of concern. When serious misconduct is detected that poses a major threat to investor assets, we take decisive action to restrict or stop the violating firm's business.

We work closely with SEHK to ensure full and proper disclosure in listing applications. We also take action against listed companies found to have provided false or misleading information or to have conducted transactions harmful to shareholder interests. We also refer cases involving fraud to the police and oversee activities related to takeovers and mergers of listed companies.

While we are not empowered to order compensation, our subsidiary, the Investor Compensation Co, Ltd, manages the Investor Compensation Fund. This fund is established to provide statutory compensation, subject to a limit of \$150,000 per claimant, in qualifying cases of loss when a licensed intermediary or registered institution goes into default.

Our Roles and Responsibilities

Development

As the regulator of the securities and futures markets, we are conscious of the need for us to support Hong Kong's continued development as an international financial centre. However, as market regulators, we also recognise the need to balance the desire of industry participants for innovation and expansion with the need for trust and confidence in our markets and our role in educating and protecting investors.

Over the years, we have therefore encouraged appropriate development and technological advancement by relaxing restrictions but without compromising investor protection. We are also streamlining our own administrative procedures to simplify the compliance burden for the industry. However, in considering any regulatory amendments, we continue to follow our philosophy of only introducing significant changes after fully consulting all key stakeholders via public consultation.

We also oversee the launch of new products by SEHK and HKFE. In close collaboration with the exchanges, we monitor the impact of new products on market stability and the adequacy of trading and clearing systems to deal with these in times of volatility.

International participation is a key element to our role as a leading regulator and our ability to stay abreast of global developments relevant to Hong Kong. We actively take part in the International Organization of Securities Commissions forum to provide input to set global regulatory standards.

In recent years, we have significantly expanded contacts and cooperation with our Mainland counterparts. We share knowledge and market information through meetings and seminars and give briefings to high-level officials during their visits to Hong Kong. We also actively support the development of financial products for the Qualified Domestic Institutional Investor Scheme.

Education

We strongly believe that knowledge is the best protection for investors. We launch education initiatives, on a continual basis, to enhance investors' understanding of the markets, products and investment risks.

Nevertheless, it is not possible to create a risk-free market; nor is it part of our mission. All investments carry risk and an important part of investor education is to help individuals understand how to identify the risks in investments and the need to make a rational decision. We thus emphasize the need to ask the right questions before making investment decisions. In view of the increasingly complex nature of products, we also conduct proactive educational programmes to help investors better understand product features and associated risks.

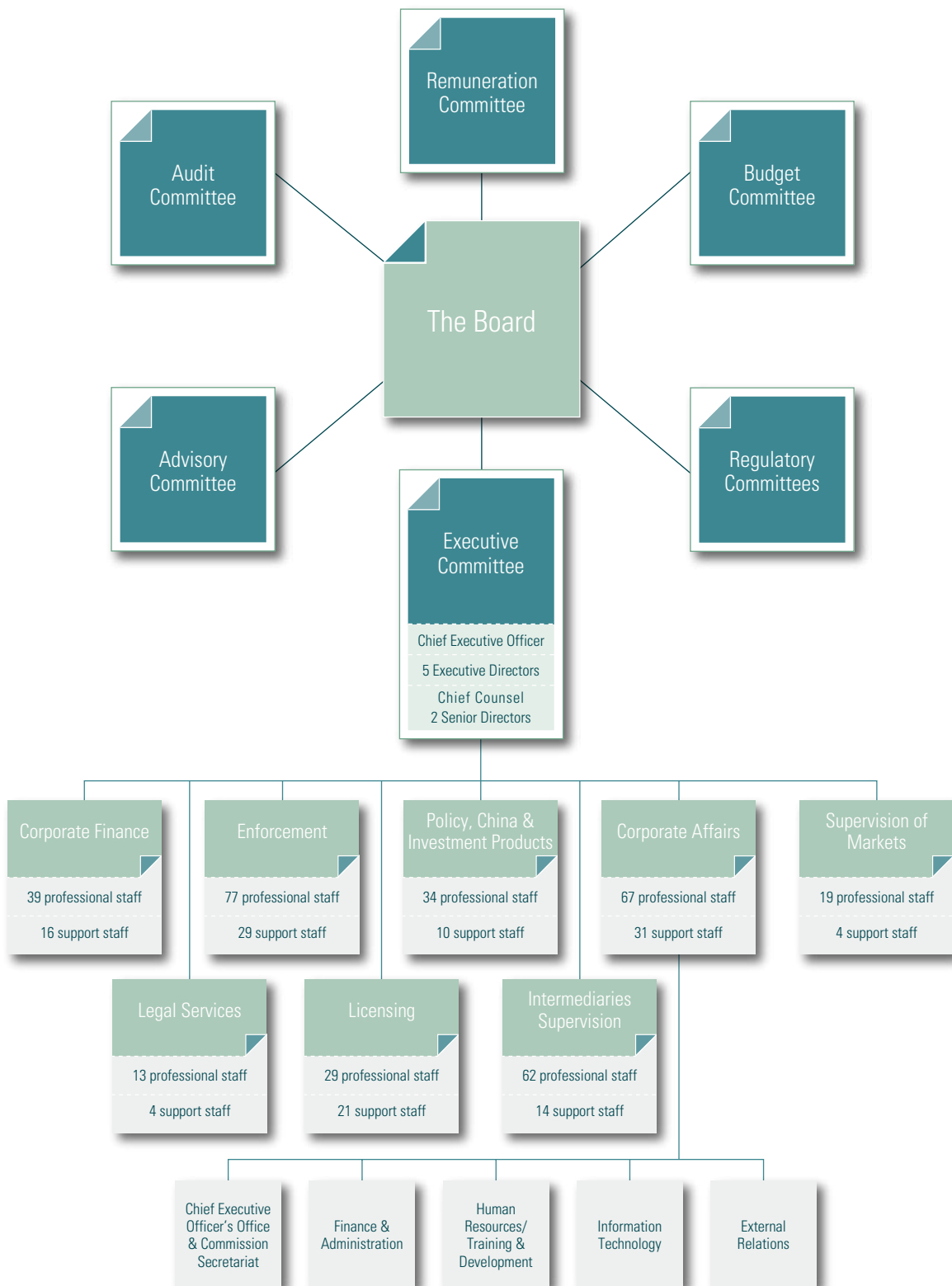
We reach out to the general public via various channels. In the earlier years, we mainly used leaflets, newspaper articles as well as radio and television programmes. More recently, we have also introduced extensive advertising campaigns, short videos on buses, competitions and game shows. In addition, we regularly organise seminars for the community and run courses jointly with universities, which are designed to cultivate a proper investment attitude among the younger generation.

The SFC's investor website, InvestEd (www.InvestEd.hk), regularly posts up-to-date, practical information on products and market developments. It also provides an on-line channel for investors to ask questions and lodge complaints. Our monthly Dr Wise education column explains investment topics that are of interest to the public. We constantly encourage investors to make good use of our educational materials to raise their financial knowledge.

Also using our website, we issue alerts to investors about scams and malpractices that come to our attention. To help us focus our educational efforts on areas of greater need, we conduct surveys every two years to gauge public awareness of investment risks, the growing sophistication of products as well as the investment attitude of retail investors.



Our Structure



Our Board

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

The Board has a number of statutory functions and also formulates overall policy and strategy. As of 31 March 2009, the Board consisted of 14 members: the Chairman, seven Non-Executive Directors, and six Executive Directors.

Chairman

Eddy C Fong, GBS, JP

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

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

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

Non-Executive Directors

The Hon Chan Kam-lam, SBS, JP

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

Member, Chinese People's Political Consultative Conference; Elected Member (Kowloon East), Legislative Council of the HKSAR; Chairman, LegCo Panel on Financial Affairs; Central Committee Member, Democratic Alliance for the Betterment and Progress of Hong Kong; Member, Advisory Committee on Corruption of the Independent Commission Against Corruption; Member, Hong Kong Housing Authority; Non-Executive Director, Urban Renewal Authority (2001 – 2008); Director, The Hong Kong Mortgage Corp, Ltd; Member, Deposit-taking Companies Advisory

Committee; Member, Travel Industry Compensation Fund Management Board.

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

Christopher W C Cheng, GBS, JP

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

Chairman: USI Holdings Ltd, Winsor Properties Holdings Ltd, Standing Committee on Judicial Salaries and Conditions of Service, Competition Policy Review Committee (2005 – 2006), Hong Kong General Chamber of Commerce (2001 – 2003). Independent Non-Executive Director: NWS Holdings Ltd, New World China Land Ltd, DBS Group Holdings Ltd, PICC Property and Casualty Co, Ltd, Temasek Foundation CLG Ltd. Steward:

Hong Kong Jockey Club. Member: Exchange Fund Advisory Committee, University of Hong Kong Council, Board of Overseers of Columbia Business school. Charter Member: President's Council on International Activities of the Yale University.

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

Kenneth H W Kwok, BBS, SC

(From 1 January 2005. Current appointment expires on 31 December 2010.)

Queen's Counsel (1993); Senior Counsel (1997); Chairman, Board of Review (Inland Revenue Ordinance); Member, Standing Committee on Legal Education and Training (Legal Practitioners Ordinance); Member, The University of Hong Kong Law Faculty Board; Member, The University





of Hong Kong Academic Board for the Postgraduate Certificate in Laws (PCLL); Governor, HKU Law Alumni Charity Ltd; Member, Advisory Committee on Legal Education (Legal Practitioners Ordinance) (1995 – 2004); Chairman, Takeovers Appeal Committee (2004); Member, Securities and Futures Appeals Tribunal (2003 – 2004); Member, Listing Committee, Main Board, The Stock Exchange of Hong Kong Ltd (1997 – 2003).

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

Angelina P L Lee, JP

(From 1 August 2006. Current appointment expires on 31 July 2010.)

Partner, Woo, Kwan, Lee & Lo; Solicitor; Certified Public Accountant; Non-Executive Director, Mandatory Provident Fund Schemes Authority; Independent Non-Executive Director, Great Eagle Holdings Ltd; Non-Executive Director, Cheung Kong Infrastructure Holdings Ltd; Non-Executive Director, Henderson

Land Development Company Ltd; Non-Executive Director, TOM Group Ltd; Chairman, Takeovers Appeal Committee (2005 – 2006); Member, Securities and Futures Appeals Tribunal (2003 – 2006); Member, Listing Committee, The Stock Exchange of Hong Kong Ltd (2000 – 2006); Member, Standing Committee on Company Law Reform (1991 – 2003).

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

Dr. York Liao, SBS, JP

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

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

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

Professor Liu Pak Wai, SBS, JP

(From 1 January 2005. Current appointment expires on 31 December 2010.)

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

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

Shengman Zhang

(From 1 January 2007. Current appointment expires on 31 December 2010.)

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

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



Left to right:
Eddy Fong; The Hon Chan Kam-lam;
Christopher Cheng; Kenneth Kwok; Angelina Lee;
Dr. York Liao; Professor Liu Pak Wai; Shengman Zhang

Our Management



Left to right:
Mark Steward; Alexa Lam; Paul Kennedy; Keith Lui;
Martin Wheatley; Brian Ho



Executive Directors

Martin Wheatley, JP

Chief Executive Officer

(From 23 June 2006. Current appointment expires on 30 September 2011.)

SFC: Chairman (from 1 October 2005 to 22 June 2006) and Executive Director, Supervision of Markets Division (from 6 June 2005 to 30 September 2005); Chairman, IOSCO Technical Committee Task Force on Short Selling; Member of Deposit-taking Companies Advisory Committee, Council of the Treasury Markets Association and HKEx Listing Nominating Committee. Deputy Chief Executive, London Stock Exchange (LSE) (2001 – 2004); Board Member, LSE (1998 – 2004); Chairman, FTSE International (2000, 2002, 2004); Member, Listing Authority Advisory Committee of the Financial Services Authority of England (2003 – 2004).

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

Brian Ho

Executive Director, Corporate Finance Division

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

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

Chairs Public Shareholders Group. Member of Executive Committee.

Paul Kennedy

Executive Director and Chief Operating Officer

(From 16 October 2006. Current appointment expires on 15 October 2009)

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

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

Alexa Lam

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

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

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

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

Keith Lui

Executive Director, Supervision of Markets Division

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

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

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

Mark Steward

Executive Director, Enforcement Division

(From 25 September 2006. Current appointment expires on 24 September 2009.)

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

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

Corporate Social Responsibilities

As a statutory body, serving the public is the reason for our being. Apart from fulfilling our statutory obligations to foster orderly growth in the securities and futures markets, we also strive to be a good corporate citizen by adopting policies and practices that encourage a positive contribution to society.

Corporate social responsibility (CSR) is about two sides of a coin. First is accountability, which in our case, means being responsible for the impact of our actions and/or activities on our stakeholders, our employees, the community as well as the environment. Second is sustainable development. We believe that it is only through improving the quality of life of those we affect and benefiting our operating environment that we can reach a win-win situation.

To strengthen our efforts in this area, we recently formalised our CSR programme to evolve around the three pillars of corporate governance, people and the community as well as the environment. Each of these pillars is approached on the principle of developing a simple win-win proposition for both the organisation and the community.

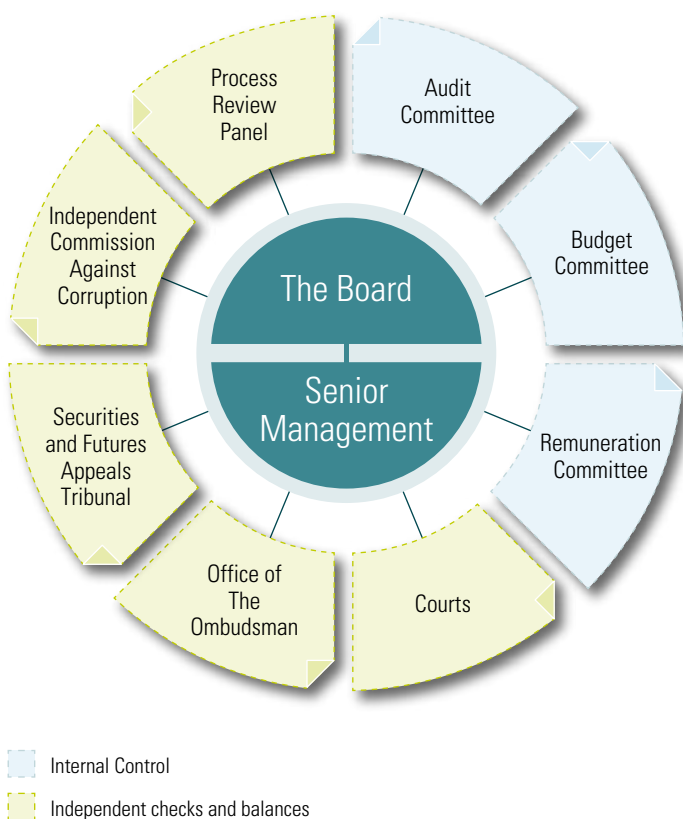
Corporate Governance

As the regulator of the securities and futures markets, we aim to set a good example for both those that we regulate as well as the business community at large. We believe that sound corporate governance enhances the viability of an organisation, and in the context of securities markets, protects and enhances shareholder value.

In terms of policy, we adhere to the guidelines of the Hong Kong Institute of Chartered Public Accountants by addressing the four dimensions of personnel integrity, organisational structures and processes, management and controls, and transparency requirements to ensure proper governance.

Framework of control

The SFC's corporate governance framework is made up of multiple control levels as well as checks and balances as depicted in the following diagram.



Senior management and board of directors

Last year, Mr Eddy Fong continued to head the Board of Directors as its non-executive Chairman. The Board leads the organisation to meet statutory objectives, sets policies, provides strategic guidance to senior management and monitors the performance of executive functions carried out by the Executive Committee (ExCo). It meets at least once a month to approve matters under the Securities and Futures Ordinance (SFO) as well as important policies and issues. Last year, 15 Board meetings were held.



During the year, four Non-executive Directors (NEDs) from various fields were re-appointed to the Board by the Financial Secretary of the Hong Kong Special Administrative Region (HKSAR), keeping the number of NEDs at seven. Mrs Angelina Lee was re-appointed for two years from August 2008. Mr Kenneth Kwok, Professor Liu Pak-wai and Mr Shengman Zhang were re-appointed for two years from January 2009. As stipulated by the SFO, a majority of the Board members must be independent.

On 1 October 2008, Mr Martin Wheatley was re-appointed as Chief Executive Officer (CEO) to head ExCo for a three-year term. The ExCo, which comprises six Executive Directors (EDs), the Chief Counsel and two Senior Directors, operates as follows:

- Performs administrative, financial and management functions as delegated by the Board of Directors;
- considers policy issues for recommendation to the Board; and
- oversees functions delegated to EDs.

Appendix

| Meetings attended/held | | | | | |
|---|------------|-----------------|------------------------|------------------|---------------------|
| | Commission | Audit Committee | Remuneration Committee | Budget Committee | Executive Committee |
| Chairman | | | | | |
| Eddy C Fong | 15/15 | | 2/2 | | |
| Executive Directors | | | | | |
| Martin Wheatley | 13/15 | | | 1/1 | 20/24 |
| Alexa Lam | 12/15 | | | 1/1 | 20/24 |
| Brian Ho | 14/15 | | | | 22/24 |
| Paul Kennedy | 13/15 | | | 1/1 | 22/24 |
| Keith Lui | 14/15 | | | | 23/24 |
| Mark Steward | 15/15 | | | | 23/24 |
| Non-executive Directors | | | | | |
| Chan Kam-lam | 12/15 | | 1/2 | | |
| Christopher W C Cheng | 12/15 | | 2/2 | 1/1 | |
| Kenneth H W Kwok | 11/15 | 2/2 | 2/2 | | |
| Angelina P L Lee | 10/15 | 2/2 | 2/2 | 1/1 | |
| York Liao | 13/15 | | 2/2 | | |
| Liu Pak Wai | 10/15 | 2/2 | 2/2 | 1/1 | |
| Shengman Zhang | 12/15 | 1/2 | 1/2 | | |
| Chief Counsel & Senior Directors | | | | | |
| Stephen Po | | | | | 20/24 |
| Stephen Tisdall | | | | | 21/24 |
| Andrew Young | | | | | 23/24 |

Internal control

During the year, key internal controls were overseen by the following committees.

The Audit Committee, comprising only NEDs and chaired by Mrs Angelina Lee, which met twice in the year to consider:

- audited interim results and financials for the full year;
- reports on internal controls;
- re-appointment of the external and internal auditors; and
- three complaints against staff, none of which was substantiated.

The Remuneration Committee, comprising only NEDs and chaired by Dr York Liao, met twice in the year to review overall remuneration policy in the context of market pay trends and advise on ED appointments and ED remuneration packages.

The Budget Committee chaired by NED Mr Christopher Cheng and comprising both NEDs and EDs, held one meeting mid-year to set the basis for next year's budget and review that of the current year.

Independent checks and balances

On top of internal controls, various external and independent checks and balances are in place to ensure fairness, due process and the proper use of regulatory powers.

1. Process Review Panel (PRP): Established in November 2000 as the first such external review mechanism for securities regulators in the world, the PRP has been instrumental in reviewing and advising on the adequacy of the SFC's internal procedures and operational guidelines. It is empowered to review files of completed or discontinued cases relating to the performance of the SFC's regulatory functions to ensure consistency in application of its internal procedures.

With the addition of one member in February, the PRP now has 11 members, nine of whom are from the financial sector or academia, the legal profession or the accounting field. The two ex-officio members are a representative of the Secretary for Justice and the SFC Chairman.

The PRP's report published last September concluded, from a review of 60 cases conducted in 2007, that the SFC had in general adhered to established internal procedures in its decisions and actions. Last year, the PRP reviewed a further 55 completed cases, including the SFC's handling of complaints about enforcement actions, product authorisation and its licensing and inspection of intermediaries.

2. Securities and Futures Appeals Tribunal (SFAT): Chaired by a High Court judge and comprising two Government-appointed members, the SFAT can call new evidence, stay proceedings in the review, confirm, vary or set aside SFC decisions.

During the year, there were six appeals lodged with the SFAT. One was determined, three were withdrawn and two are in progress. Of the 15 cases carried forward from 2007/08, nine cases were determined, three were heard with determination reserved and three were withdrawn. Among the 10 determined cases, seven were upheld, and penalty was reduced in three cases.

3. Ombudsman: During the year, The Ombudsman received one new complaint from the public, which was not substantiated. No case was brought forward from 2007/08.
4. Judicial review: During the year, the SFC was the subject of four applications for judicial review, of which three were rejected by the courts and one was dismissed with the consent of the parties. Applicants in one of the cases, as well as one case brought forward from 2007/08, are appealing to the Court of Appeal.



Standards of conduct

We believe that to win public confidence, our employees must maintain high standards of integrity and proper conduct at all times. They must abide by our Code of Conduct pertaining to confidentiality, conflict of interests, personal investments and bribery.

To deal with grievances in an efficient and transparent manner, we encourage open communication within the SFC and with the public. A set of Procedures for Handling Complaints Against SFC Staff is posted on our website to ensure that public grievances about the way SFC staff carry out their duties are dealt with promptly. Standard procedures are also in place to handle matters of public interest and discrimination. Confidential reports can be made by employees, or anyone on secondment, or even an independent consultant.

Transparency

We act firmly, fairly and in a transparent and accountable manner when exercising our powers and carrying out our duties. We have in place policies and procedures to guide regulatory decisions and the use and management of financial resources.

We give a quarterly account of our operations to the Financial Secretary, the Secretary for Financial Services and the Treasury, and the Financial Services and the Treasury Bureau. We report publicly by voluntarily publishing quarterly reports. We also consult the Financial Secretary before exercising certain powers.

Our financial control procedures clearly set out the appointment of consultants, collection of fees, investment of surplus funds, and purchasing or disposal of fixed assets, etc.

Our proposed budget is submitted to the Financial Secretary for approval and tabled before the Legislative Council after consideration by the Board. The Director of Audit may also examine any books, accounts, vouchers, records or documents that we keep.

Through on-line quarterly and annual reports and other periodic publications as well as the mass media, we explain our work to our stakeholders and the general public. We also consult the public before making any change to rules and codes, be they statutory or otherwise. During the year, we launched three consultation papers.

External accountants are appointed to conduct annual internal control reviews. The focus of this review is approved annually by the Audit Committee and forms part of the SFC's overall annual internal control review programme.

Risk management

We invest our income according to the investment guidelines approved by the Financial Secretary to achieve a level of return consistent with our investment objectives of capital protection and the maintenance of a specified level of liquidity. We closely monitor security of our information systems. Our business continuity plan is reviewed periodically to ensure it is up-to-date and practical. Our market contingency plan comprises procedures for dealing with emergency situations that may affect operations of the local securities and futures markets.

In addition, we have an internal contingency plan that handles emergency situations such as fires or a natural disaster. In any given year, exercises are conducted to test measures for recovering and resuming the business of all divisions during and after any emergencies. A drill on the use of short messaging system to notify key staff of urgent office closure, for instance, was completed successfully in late February 2009. These plans were also activated in response to the alert on Influenza A H1N1 (human swine flu) in late April 2009.

Performance pledges

In fulfilling our regulatory roles, we pledge to be responsive to the public, market participants and intermediaries under our supervision.

| | | % of cases meeting the pledge in 2008-09 | 2007-08 | 2006-07 |
|--|------------------|--|---------|---------|
| Investor enquiries | | | | |
| Preliminary response to telephone enquiries | 4 business days | 100% | 100% | 100% |
| Preliminary response to written enquiries | 2 weeks | 99.6% ¹ | 99.4% | 100% |
| General enquiries | | | | |
| Preliminary response to public enquiries (excluding those from investors) | 4 business days | 99.6% ¹ | 99.6% | 99.7% |
| Public complaints | | | | |
| Preliminary response to verbal & written complaints | 2 weeks | 99.4% ² | 99.8% | 99.8% |
| Processing of licensing applications³ | | | | |
| Representatives (provisional licence) | 7 business days | 89% ⁴ | 88% | 90% |
| Representatives (normal licence) | 8 weeks | 86% ⁴ | 83% | 65% |
| Representatives (responsible officers) | 10 weeks | 95% ⁴ | 94% | 90% |
| Corporations | 15 weeks | 99% ⁴ | 99% | 97% |
| Transfer of accreditation | 7 business days | 73% ⁴ | 65% | 87% |
| Applications for subordinated loan or modification/waiver of requirements under SFO | | | | |
| Acknowledgement of receipt upon receiving any application | 2 business days | 99.3% ⁵ | 100% | 100% |
| Investment products authorisation | | | | |
| Take-up of applications upon receipt | 2 business days | 100% | 100% | 100% |
| Preliminary response to applicants after take-up for unit trusts, mutual funds, investment-linked assurance schemes and Mandatory Provident Fund pooled investment funds | 7 business days | 100% | 100% | 100% |
| Preliminary response to applications after take-up for other schemes | 14 business days | 100% | 100% | 100% |

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

² Due to the exceptionally heavy workload when the complaints were received, 61 cases failed to meet the pledge.

³ Compliance with our performance pledges related to applications is measured only upon receipt of all required documentation from applicants in a comprehensive and efficient manner and in which no delays for which we have no responsibility occurs.

⁴ Some cases failed to meet the pledges largely due to resource constraints and/or unexpected complications.

⁵ One case failed to meet the pledge as we had to consider it together with another case from the same applicant.



Care for Staff and Society

Our people are essential to our success. As a caring employer, we aim to provide a congenial, comfortable yet stimulating working environment for our staff and strive to achieve a reasonable work-life balance. As a public body, we also have a particular responsibility to be socially aware. We identify charity organisations and/or disadvantaged segments and encourage staff to donate for good causes. Our employees also take initiatives to contribute their time, skills, efforts and money.

Providing a congenial workplace

On top of competitive remuneration packages and staff benefits, the SFC offers a friendly yet stimulating working environment where a diverse workforce of multiple nationalities and different areas of expertise freely exchange ideas and work towards common objectives.

We believe that staff will be most productive when they balance their work with enough leisure time for family and personal interests. We also organise health talks periodically on various topics, taichi lessons during lunch hours, and offer staff consultations with professional counsellors on emotional and stress-related issues.



Colleagues rush for "laiseses" from the COO in the guise of a God of Fortune.



Chairman and Executive Directors cut a roasted pig to celebrate Lunar New Year.

In mid-2008, our office premises were re-arranged to meet expansion needs and offset over-crowding. This involved relocating four departments of the Corporate Affairs Division to two floors of the Li Po Chun Chambers and reconfiguring our existing premises at Chater House.

To promote social interaction within the workplace, we organise regular social activities including staff parties at Christmas and Lunar New Year. At the Spring Lunch, some Executive Directors dressed up as Gods of Fortune to give out "laiseses".

Care for Staff and Society

Last year, we were again recognised as a Caring Organisation by the Hong Kong Council of Social Service for our achievements in promoting employee volunteer work, providing family-friendly work arrangements and staff activities, and assisting social service organisations.

Commission Possible Volunteers Group show their care to the community by visiting disadvantaged households and children.



Our staff play with children during a Christmas carnival for children at Nam Cheong Estate in December 2008.

Helping the community

As a public body, we are not at liberty to donate our financial resources. But that does not stop us from exploring other ways to give back to society. Last year, we picked Operation Smile as the beneficiary of a “donation in lieu of corporate gift” programme, whereby small sums are given to the charity on behalf of those who otherwise would have been getting small gifts of thanks from the SFC. From May to June 2008, a sum of \$210,400 was raised by staff for victims of the Sichuan earthquakes. We also participated in fund-raising activities of the Community Chest, such as the Dress Special Day last September. During the year, we were a corporate partner of the Tung Wah Group of Hospitals on joint community projects as well as the Haven of Hope for voluntary community visits.

A number of our employees continued to volunteer their time and service during the year. Among our employees are Civil Aid Service volunteers, mentors to university students and carers for the elderly and disabled. Meanwhile, Commission Possible Volunteers Group, an organised entity among employees, led its 104 members to contribute a total of 450 hours to help about 105 disadvantaged households and 130 children. They organised a number of parties and gatherings to provide mainly emotional support to the needy ahead of major festivals. Its various activities are funded by donations from the staff.



Protecting the Environment

As a responsible corporate entity, we recognise the need to preserve resources in our operating environment for the sake of the community and future generations.

We encourage all staff to observe the practice of the Four Rs – reduce, reuse, repair and recycle – not just internally but also in dealings with stakeholders and the public. Our conservation efforts have also resulted in monetary savings in utility expenditure.

Reducing waste

In terms of stationery, multiple collection points are placed within our offices to recycle non-confidential documents or printed materials while confidential documents are handled separately. We re-use envelopes for internal delivery of documents, and arrange for recycling of waste paper, carton boxes and newspapers. Used laser-jet printer cartridges are returned to vendors. In addition, we use paper manufactured from well-managed forests run by the Forest Stewardship Council for printing and photocopying.

We cut the supply of plastic stirrers in pantries, provide more mugs and glasses to replace paper cups. We also collect burnt-out light tubes for toxic disposal and provide bags/boxes to deposit empty cans and plastic bottles for recycling. During the year, our usage of paper cups and plastic stirrers was reduced by 12% and 13% respectively.

Conserving energy

To save electricity consumption, we urge all staff to switch off lighting and equipment before they leave their work area for the day. Similarly, staff must turn off lights and projectors when leaving a meeting venue. We use energy-saving florescent tubes and low-voltage down lights.

The room temperature throughout our premises is set at between 23 to 25 degree Celsius, a level advised by the Government. To avoid excessive air conditioning, staff may wear smart casual dress to work.

Going paperless

We adopt e-filing and e-faxing systems to reduce the use of paper. E-mails and Intranet are used widely for paperless information transmission within the organisation and with external parties wherever possible.

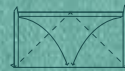
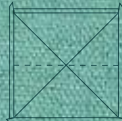
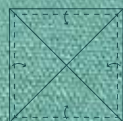
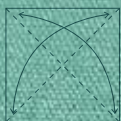
Many of our periodic publications are now either posted on our official website or released by e-mail distribution to minimise printed documents. As another step forward, we are considering establishing a new electronic portal to facilitate new measures to allow the submission of certain licensing forms by SFC licensees online, with the ultimate aim of processing most licensing matters via the Internet. We are also planning an electronic submission system for Disclosure of Interest Notices to replace paper-form submissions.

Improving air quality

Wherever possible, printers and photocopiers are enclosed or installed away from workstations to minimise air contamination and avert possible health hazards. Additionally, we use ceiling-mounted air cleaners to enhance indoor air quality and clean the air-conditioning system regularly.



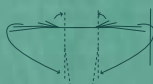
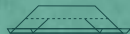
The screensaver reminds staff to turn off computers when they leave the office for the day.





Our People

Everyone knows that when people join hands and work towards a common goal, the resultant impact and synergy is far greater than an individual's lone effort. At the SFC, we believe strongly in teamwork and we foster a culture of sharing and support as we work to discharge our responsibilities.



People as Our Most Valuable Asset

At the SFC, we regard our employees as our most valuable asset. This year as we look back over our 20 years of history, we remind ourselves that it is their professionalism and dedication that have taken us to where we are today.

Over the years, the SFC has sought to attract qualified individuals from a variety of professional disciplines. Besides competitive remuneration and a congenial work environment, we also work hard to provide our staff with opportunities for career growth and development.

In line with our strategic priority to improve business capability and effectiveness, we have set a clear focus on people resources throughout the organisation. We are pursuing key initiatives in the areas of learning and development, performance management, organisational development and employee recognition.



Colleagues actively participate in a teambuilding game.

Enhancing capabilities and market knowledge

As a regulator in an international financial centre, it is vital for us to build our internal capabilities and market knowledge by keeping up with market dynamics. Last year, we invited experts from the Securities and Exchange Commission and the Financial Industry Regulatory Authority of the United States to share their experience and knowledge with us on hedge fund supervision, sales practices and advertising of investment products by conducting on-site workshops. Separately, our in-house experts were seconded to work overseas with regulatory counterparts to bring home new skills and industry knowledge.



SFC staff attend a workshop on Islamic Finance.



To encourage and promote a strong learning culture, we launched an e-learning portal last year, offering a wide range of modules on financial products and market knowledge to our staff.

We have helped our staff keep pace with the latest market trends and events by organising frequent updates from market experts, well-known economists or prominent academics. Updates are complemented by technical training programmes on both core and new regulatory areas throughout the year.

Other than offering staff opportunities to build functional skills, workshops have also been organised to help them develop management and leadership skills so that they become well-rounded professionals. Training on giving feedback, managing performance, communication, negotiation and dealing with difficult situations were among the courses offered last year.

Managing performance and development

At the SFC, we believe that helping employees reach their full potential is a win-win situation as it adds value to both the individual and the organisation. During the year, we successfully launched and implemented an enhanced performance management framework linking corporate priorities to individual performance, career development, remuneration and rewards. Through a structured process of planning, enabling and reviewing, we are now in a better position to differentiate levels of performance and drive desired outcomes and behaviour.

Developing a more effective organisation

We went through a thorough manpower planning process last year, which highlighted the importance of introducing young professionals at the lower end of the organisational hierarchy to strengthen our talent pipeline. This has resulted in almost 65% of all new planned headcount this year being at junior professional positions, which aligns with our objective of grooming people from within.

In support of the Government's initiative to generate employment opportunities for local graduates during the current economic downturn, we have designed a structured SFC Experience Programme to offer a 12-month attachment opportunity for up to 15 high-calibre young local graduates to develop personally and professionally. The programme is expected to run from July 2009 to June 2010. We see this pool of young graduates as another potential source of talent to meet our longer-term manpower needs.

We build employee engagement by encouraging open and interactive communication. On a regular basis, senior management update our employees on significant industry issues and corporate developments. During such briefings, employees are encouraged to ask questions and share their concerns.

Recognising employee contribution

The SFC Employee Awards aim to identify individuals and teams who make outstanding contributions to the organisation. Each year, we give out the awards to deserving individuals and teams.



CEO updates on latest corporate developments.

Last year, the team awards went to:

- the Sun Hung Kai Investigation Team for their effectiveness and strong teamwork, which resulted in the financial group's voluntary buy-back offer to eligible Minibond clients and the issue of a public reprimand;
- the Office Re-stacking Team for delivering the seamless relocation of four departments within a tight timeframe with minimal interruption to business operation during the establishment of our second office in Li Po Chun Chambers; and
- the eFRR Team for successfully implementing electronic submission of financial returns, which helped improve efficiency and also reduced the paper trail for intermediaries thus supporting a greener operating environment.

In the Eyes of Young Recruits



They are bright, capable and well educated; they are also articulate, alert and lively. What they lack in experience they make up for in enthusiasm. If they really put their mind to it, the world is theirs for the asking.

They are some of our young recruits, our “investments” in the future and the foundation of our human resources policy of grooming from the base. Filled with aspirations and keen to explore, young recruits are a vital source of energy who will add value to the organisation as they mature. They are also the building blocks for succession planning, which, in itself, is critical to the sustainable success of any organisation.

On the next two pages, four junior executives from various disciplines – Fiona Tse, Becky Chung, Amy Fung and Ernest Kong – share with us how the SFC appeals to them as an employer as well as their views on their current work and their future aspirations.

The young interviewees are unanimously upbeat about the SFC as an employer. When they came to the SFC, they were looking for work that they would enjoy and a structured environment for career development. And they are glad to note that the SFC has more than met their expectations.

Fiona, who has a Master’s of Law from the University of Oxford, speaks with a strong sense of mission. “I really would like to serve the wider community,” she says. An assistant manager of Policy, China and Investment Products, Fiona assists in relationship building with the Mainland and overseas regulatory authorities, regulatory developments and policy recommendation. She believes her job offers a good fit with her personal interest in global financial and economic law. “The prospect of having to ride with the dynamics of the market and to work in a multiple-stakeholder environment is really interesting,” she says.

“The work I get to do each day can be very different, and it’s very action-packed!”

– Fiona Tse

Becky, an executive trainee in Enforcement who also has law credentials, opted to be with a regulator as opposed to being regulated after a brief stint in compliance work with a securities



house. After just a few months at the SFC, she is happy to declare that her new job more than matches her expectations. "Being new and junior, I expected to be assigned all sorts of tedious, boring tasks," she says. "But it's turned out to be totally different." She gets to carry out inspections of intermediaries, participate in investigations and even in court cases.

"I get to participate in investigating cases, conduct site inspection at broker firms, go to court, interview people and many other things."

– Becky Chung

Amy, who has risen from the ranks of executive trainee to assistant manager in less than two years, took her familiarity with securities trading systems and operational flow as her selling point when she joined the SFC's Intermediaries Supervision Department. Coming from a securities systems vendor that she describes as "rather disorganised", she has been especially impressed by the operational structure of the SFC and has been quick to apply her knowledge of the securities market's operational flow to her current job.

"The increasing external expectation of the SFC has been a source of motivation to upkeep our standards and always strive for improvement."

– Amy Fung

"Regulators are a rather special category of organisations in the market, and it was this nature that appealed to me the most," says Ernest, a manager specialising in media relations in the External Relations Department. "My general interest in financial regulation issues was also a reason why I joined the SFC." For a former financial journalist, the SFC job was an "about-turn" that takes him from a "rather passive position of reporting fed information to an active role of managing what information to release". He describes this as "a very interesting and eye-opening experience" that gives him "a fuller picture of the market".

The four describe life at the SFC as hectic but fulfilling. Amy thinks that the combination of on-site and off-site inspection work has been giving her well-rounded training not commonly available in the commercial sector. Ernest, who started his new job on the same day that Lehman Brothers collapsed, has been kept "busier" than he wished. But he values the incredible

experience gained from managing during a crisis and is thankful for the checks and controls on work processes that keep him meticulous at all times. Fiona, whose days are often action-packed, says she has plenty of opportunities to learn. Becky finds internal training programmes very practical.

One common goal among the interviewees is their desire to contribute to a better market for participants and investors. Amy believed that the increasing external expectation of the SFC has been a source of motivation to always strive for improvement. "I really hope that our work will help make a difference to the market and that our hard work will be recognised," she says. Although work has been increasing partly due to the recent global financial turmoil, Fiona takes pride in contributing in the forefront of regulatory development.

Although work is hard, no one complains partly because of the "family feeling". Both Becky and Ernest appreciate how "friendly and helpful" their colleagues and supervisors are. Fiona recalls fondly the "excellent team atmosphere" at the divisional Christmas party. Ernest also expresses surprise that the Chief Executive Officer and Chief Operating Officer actually take time to host regular sharing sessions with staff.

Despite the relatively short time they have spent with the SFC, they are quick to learn what it takes to succeed in the organisation. For key qualities, they highlight a can-do attitude, stamina, integrity, and sensitivity to changes in the social and political scenes. And despite their high academic achievements, they all agree that they still have a lot to learn. Fiona finds it a fulfilling experience to be working with "an amazing pool of talent". Becky agrees. "With all the smart, knowledgeable and highly-qualified colleagues around me, I'm very inspired to further my study, and I know I still have so much to learn here," she says.

"The culture of having regular sharing sessions with top management is something which I appreciate."

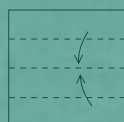
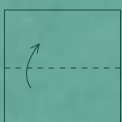
– Ernest Kong

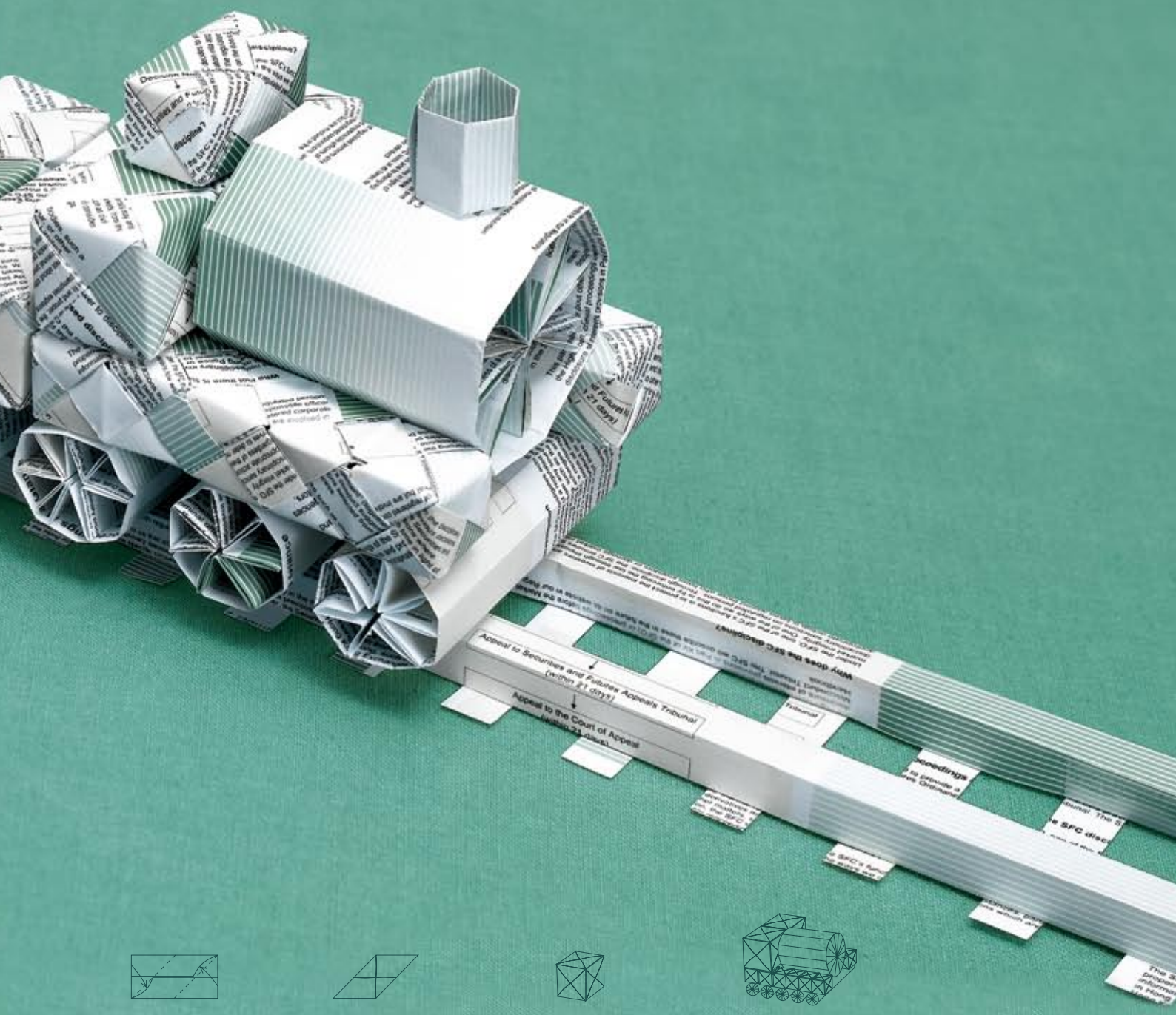
In the eyes of these young people, the "foreseeable future" means a few years down the road. In that time span, their target is to move up the ladder in their various disciplines within the SFC – a pragmatic and very achievable goal.



Regulation

A modern rail network operates within a complex system of tracks, signals, switches and controls that allow the whole network to operate smoothly. In much the same way, the securities and futures markets and their participants must operate within a framework of rules and regulations to function efficiently and effectively. This is where the SFC has a clear role – ensuring that the industry and its participants stay on track.





The global financial tsunami has presented new and major regulatory challenges during the year. As the impact of the global economic downturn spread throughout the world, managing risks, addressing misconduct and restoring market confidence became our main priorities.

We applied investigative and disciplinary powers to ensure compliance of intermediaries and orderliness of market activities. We reviewed disclosure requirements in public offers of securities and listened attentively to investor concerns.

Enhancing investigation efficiency

The number of major, complex cases arising directly or indirectly from global, regional and local market events has increased dramatically. We have responded swiftly and aggressively to circumstances that have called for prompt action.

Although we needed to devote considerable resources to a number of major investigations, we still managed to complete 85% of our investigations within seven months, thus meeting our internal commitment to further improve efficiency.

The investigation into Minibond mis-selling complaints has been our highest priority since last September. To resolve approximately 29,000 complaints lodged with the SFC and the Hong Kong Monetary Authority (HKMA) as efficiently and effectively as possible, we have adopted a “top-down” approach, which avoids fragmentation of investigations and claims. This also allows us to address the largest number of complaints within the shortest period of time. Adopting this approach, we examined, among other matters, the selling practices of the intermediaries and registered persons involved, the

intermediaries’ internal controls and systems, training of staff and point-of-sale supervision.

This approach allowed us to complete the first of these investigations within four months. We believe that the outcome of the case was a triple-win formula for the SFC, the intermediary concerned and its clients. Eligible clients of this intermediary were able to receive a return of their capital without going through the uncertainty, expense and time of litigation. Up to \$85 million is being returned to investors. The firm was also sanctioned with a public reprimand and a probationary suspension conditional on their rectifying specified concerns. If similar issues are identified again within a specific time, its licence may be suspended for an agreed period.



Newspapers give wide coverage to the first settlement by an intermediary to all of their Minibond mis-selling complaints.

Similarly, a second Minibond distributor agreed in early April 2009 to a reprimand and to repurchase from its eligible clients all outstanding Minibonds at a value equal to their principal investment.

Our investigations into Minibond mis-selling allegations by more than 20 other distributors are continuing.

In early 2009 we took prompt action to intervene in proceedings commenced by PCCW Ltd for court approval of its privatisation and delisting scheme. This marked the first use of the power to intervene under section 385¹ of the Securities and Futures Ordinance (SFO). We provided the court with evidence relevant to



whether the scheme should be approved and made submissions about the purpose of the voting requirements in the Companies Ordinance, in particular, the legislation's protection of minority shareholders. We interviewed more than 90 witnesses in three weeks, gathering evidence on the conduct, outcome of the shareholders' meeting and circumstances surrounding hundreds of share transfers of single board lots shortly before the shareholders' meeting. We applied for a stay of the order by the Court of First Instance to sanction the scheme within hours of the court's judgment and lodged an appeal two days later. Subsequently, the Court of Appeal ruled in our favour and decided

for 26 months and 12 months respectively in the first indictable trial for this offence under the SFO. Three other defendants in the case were ordered to serve significant periods of community service. All five defendants were ordered to pay significant fines, equivalent to the profits they had made by insider dealing. This landmark case demonstrated our determination to use all remedies, including criminal prosecutions, to counter insider dealing. In another case, a listed company manager was sentenced to six months' imprisonment, suspended for two years in recognition of her guilty plea and mitigating circumstances.



We collect evidence to investigate alleged vote rigging at PCCW's shareholders' meeting on its privatisation plan.

not to approve the proposed privatisation, stating in its judgment that there was clear manipulation of the vote.

Actions taken to deter misconduct

We have continued the approach, mentioned in last year's annual report, of concentrating our resources on market misconduct. We have further focused our efforts on cases that we consider to be of a more serious nature, including insider dealing. While this has reduced the number of minor cases we have investigated and also our overall case numbers, it has been reflected in the positive enforcement results we have achieved and in the continued improvement of our investigation efficiency.

Following the above strategy we saw a number of enforcement firsts during the year.

- **The first convictions and jail sentences for insider dealing:** The court sentenced two persons to imprisonment

- **The first indictable prosecution for market manipulation under the SFO:** Criminal proceedings were brought against four persons for conspiring to manipulate the market for a listed stock, resulting in an inflated market capitalisation of \$4 billion.
- **The first proceedings against executives seeking payment of compensation to the listed companies they oversaw:** We are seeking compensation from a former chairman, a former director and two incumbent directors of a listed company for losses allegedly as a result of their misconduct.
- **The first exercise of our disciplinary power to revoke the licence of a corporation:** We revoked the company's licence, banned its major shareholder from re-entering the industry for life, and prohibited its responsible officer from becoming licensed or registered for three years.

In May 2007, we saw the first disqualification order against a listed company director for misconduct. This year we obtained the second and third disqualification orders issued against two directors for misconduct. They were barred from acting as a director of any company for five years and any listed company for six years respectively.

Continuing the approach we started in 2007/08, we reached an agreement over compliance issues with two ICEA entities. The two ICEA entities were fined a total of \$38 million, the highest fine ever imposed, and they also undertook to engage an independent audit firm to review their compliance systems. A similar material breach within an agreed period could lead to licence revocation.

¹ Under section 385 of the SFO, the SFC may, after consultation with the Financial Secretary, apply to the court to intervene and be heard in proceedings which concern a matter provided for in the SFO or in which the SFC has an interest by virtue of its functions under the SFO, and where the Commission considers it is in the public interest to do so.

Operational Review

The same approach was also used in resolving compliance issues with three Core Pacific-Yamaichi entities and Win Wong Securities Ltd. The outcome achieved with these entities indicated their willingness to take remedial action, embrace good compliance practices and prevent future misconduct.

The Judge held that a disqualification order would be necessary to “.....firstly,..... [protect] the public against the future conduct of persons whose past records as directors of listed companies have shown them to be a danger to those who have dealt with the companies, including creditors, shareholders, investors and consumers; and secondly, [serve as] general deterrence in that the sentence must reflect the gravity of the conduct complained of so that members of the business community are given a clear message that if they break the trust reposed in them they will receive proper punishment.”

Upholding investors’ interests

Firm action was taken in cases where the interests of investors and market integrity were compromised.

- We reprimanded Deutsche Securities Asia Ltd and fined it \$6 million for failing to put in place adequate systems in its facilitation trading programme, a process involving principal-to-principal dealings, to identify and resolve potential conflicts of interest arising from commingled proprietary and client trades.

- We reprimanded Standard Chartered Bank (Hong Kong) Ltd for failing to treat its mutual fund clients fairly. It allowed one client to obtain same-day pricing for switching in and out of the funds while denying other clients the same arrangement, giving them next-day pricing. Our action resulted in the firm agreeing to compensate the disadvantaged clients.
- We reprimanded BOCI Securities Ltd and fined it \$3 million for failing to properly safeguard client securities. For almost a year, its settlement staff used the shares of cash and margin clients to settle transactions for institutional clients who were late in delivering shares for settlement. The fine took into account that no client suffered loss.
- We took prompt action to preserve assets of clients and made an urgent application in the High Court on 12 September 2008 to seek the appointment of administrators over Gartlett Investments Ltd, which we alleged had been conducting an unlicensed business. A court order to wind up the company was obtained on 26 March 2009.
- We reprimanded Macquarie Equities (Asia) Ltd (Macquarie) and fined it \$4 million for failing to exercise due skill, care and diligence in operating a commission rebate scheme for trading in selected warrants issued by Macquarie Bank Ltd. Our investigations found two clients from two brokerages traded heavily with each other in the said warrants with no apparent economic or commercial purpose. They made profits as the commission rebate they received from Macquarie was higher than the brokerage fee they paid to execute these trades.



Team discussions are part of our investigation process.

| Enforcement activities | |
|--|-----------|
| Number of trading inquiries to brokers | 2,810 |
| Number of investigations started | 208 |
| Number of investigations completed | 179 |
| Number of investigations completed within seven months (%) | 152 (85%) |
| Number of persons charged in criminal proceedings | 40* |
| Number of criminal charges laid | 128* |
| Number of Notices of Proposed Disciplinary Actions | 53 |
| Number of Notices of Final Decision | 50 |
| Number of civil cases commenced | 9 |
| Compliance advice letters issued | 339 |

* We brought a total of 128 criminal charges against 40 persons, with 70 charges laid against 15 people for market manipulation and insider dealing.



Under our supervision, the Investor Compensation Co, Ltd (ICC) continued to process claims from clients of three brokerages that went into default in prior years and paid out \$15.94 million in compensation to 219 clients.

In July 2008, the ICC signed a memorandum of understanding with the Hong Kong Deposit Protection Board to facilitate the claim and payment process in the event of default of a bank that is both a member of the Deposit Protection Scheme and a registered institution of the SFC.

Confirming our enforcement decisions

The Court of Final Appeal (CFA) dismissed an individual's application for leave to appeal against the Court of Appeal's judgment, which dismissed the individual's challenge against our power to require him to answer questions in an interview. The CFA's judgment effectively confirmed the use of our investigation powers, which are important tools to help us protect the interests of the investing public and the markets.

The CFA also backed our power to prosecute listed companies and their directors who make false and misleading statements to The Stock Exchange of Hong Kong Ltd (SEHK) under the dual filing regime. An appeal by the former chairman of a listed company against his conviction for providing the SFC with false and misleading information was dismissed, highlighting the importance of listed companies and their directors making accurate and truthful statements to the public through SEHK.

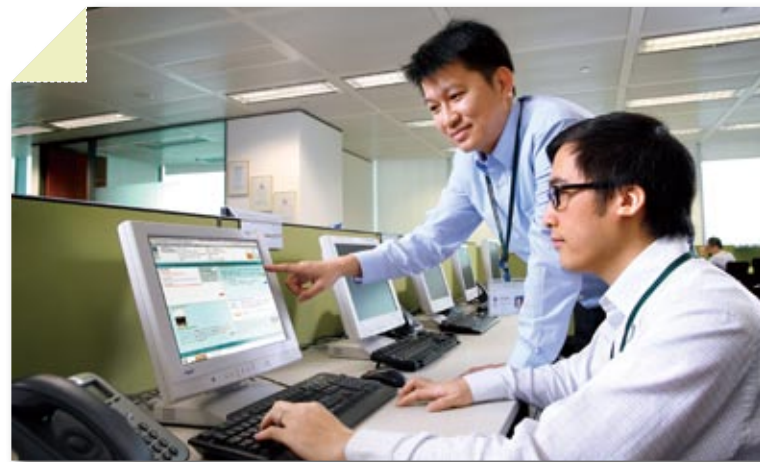
Our position remained strong with respect to appeals to review our disciplinary decisions. During the year, the Securities and Futures Appeals Tribunal upheld the SFC's decisions in seven cases and reduced penalty in three cases.

Monitoring the market

Over the past year, we have closely monitored SFC-authorized collective investment schemes² (CIS) and exchanged information with local and overseas regulators on potential market impact on SFC-authorized funds.

The day after Lehman Brothers (LB) Holding Inc filed for bankruptcy protection in the United States, we issued restriction notices on four licensed LB companies in Hong Kong to preserve their assets and those of their clients. We allowed Lehman Brothers Futures Asia Ltd to conduct an orderly close-out of

outstanding positions, and permitted Lehman Brothers Asset Management Asia Ltd to continue operating, subject to tight monitoring of its compliance with the Financial Resources Rules. We have also been working with Hong Kong Exchanges and Clearing Ltd (HKEx) to identify ways of mitigating the potential impact of any future failure of a major brokerage on HKEx's operations.



We actively monitor the market's trading activities.

Enhancing industry awareness of compliance issues has been a priority for us. We have reminded licensed corporations to strengthen their systems and controls and also to adopt measures to combat money laundering and terrorist financing.

- We conducted two rounds of special reviews of a number of brokerages to assess their securities margin financing practices and risk management controls. We later shared the findings of the first round of reviews with the industry to highlight the need for stricter risk management.
- We reminded intermediaries to implement good supervision and risk management practices and oversight of senior management responsibility, trading controls and reporting of red-flag transactions.
- We shared our findings from a theme inspection of some local hedge fund managers with the industry and highlighted

² Collective investment schemes refer to mutual funds, unit trusts, real estate investment trusts, investment-linked assurance schemes, the Mandatory Provident Fund, pooled retirement funds and paper gold schemes.

Operational Review

our expectations regarding appropriate standards of conduct, risk management and control procedures, valuation of investments, disclosure to investors and operational efficiency.

- We asked intermediaries to conduct a formal self-examination of controls and procedures on suitability obligations and to maintain documentary evidence to show the effective application of such controls and procedures.

We have taken a number of measures to ensure the financial and operational integrity of licensed corporations, including:

- more stress testing of the liquid capital level to assess sensitivity to extreme market conditions;
- 38 special inspections of risky firms with a focus on their compliance with liquid capital requirements;
- 273 meetings with licensed corporations and industry bodies to understand their business operations in the context of the latest market developments; and
- 160 risk-based, on-site inspections of licensed corporations to assess the compliance level of intermediaries. From these inspections and on-going supervision work, we identified 547 infractions of rules and control deficiencies, 24 cases of more serious breaches that warranted further investigation, and seven cases of serious failures for which the licensed corporations were required to appoint external accountants to conduct internal control reviews and/or circularisation of client accounts.

Maintaining high market standards

We conducted two joint seminars with two accounting bodies and shared with their members some common control deficiencies and breaches that were detected in our supervision of brokerages.

In view of the widespread public concern over the offering of retail investment products in the wake of the financial turmoil, we conducted sessions with industry participants in the insurance industry and the fund management industry respectively to provide them with guidance on enhanced disclosure requirements

of offering documents and marketing materials in relation to SFC-authorized CIS. We also reminded all management companies of SFC-authorized funds of their obligation to properly monitor counterparty risks and related risk mitigation.

In light of market volatility last October, the Takeovers and Mergers Panel (Takeovers Panel) considered whether the trigger and creeper provisions in the Code on Takeovers and Mergers should be temporarily relaxed. The Takeovers Panel was opposed to the relaxation as the proposals ran counter to the principle of equal treatment of all shareholders. Separately, it made a recommendation to introduce additional safeguards regarding confirmation of sufficiency of financial resources by financial advisers in code-related transactions.

During the year, we handled 74 transactions, including general offers, privatisations, whitewashes and share repurchases and 192 applications under the Codes on Takeovers and Mergers and Share Repurchases. The Takeovers Panel met eight times to rule on issues relating to live transactions and policy issues.



Staff conduct research for their policy work.

We continued to play a gate-keeping role in reviewing listing applications under the dual listing regime. During the year, we identified two cases involving possible false or misleading disclosure and other public interest concerns, and both applications were withdrawn after the applicants were informed of our concern and the likelihood of our formally objecting to the proposed listings.



We approved the Listing Rules amendments proposed by HKEx, after obtaining affirmative feedback from the public. Of the 15 rule amendments, 14 took effect from 1 January 2009. The proposal to extend the black-out period restricting directors from trading in shares of their listed companies before results announcements was curtailed and implementation postponed until 1 April 2009 in light of subsequent market concerns.

During the volatile period following LB's collapse we increased our monitoring of short selling in Hong Kong and developed contingency plans for additional restrictions should they have been required. We also stepped up surveillance to detect potentially abusive activities in the market. However, while we put on hold the lifting of the uptick rule, a mechanism meant to moderate the stock prices of short-sell orders, we did not feel the need to introduce additional restrictions. Our market surveillance during this period, together with the experience of various overseas markets that imposed significant restrictions on short selling, have subsequently shown Hong Kong's short selling regulations to be well balanced and effective.

There was considerable concern during the year regarding volatility experienced during the new closing auction introduced by HKEx. Following public concern about this volatility and the possibility that price manipulation had taken place, HKEx decided to suspend the closing auction session from 23 March 2009. We supported HKEx's decision due to concerns about any appearance of abuse and the need to maintain public confidence.

Addressing public concern

Last year, we received 10,070 public complaints, a record high, of which 8,252 were on issues related to LB's collapse. We, in turn, referred 7,608 complaints to the HKMA for preliminary review as they pertained to alleged mis-selling by banks.

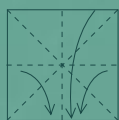
Our various operational divisions reviewed 908 non-LB related complaints and found grounds to investigate 68 cases. A further 203 were referred to HKEx or other financial regulators as the subject matter fell within their various spheres of responsibility.



Investor leaflets on a wide range of topics are available at the SFC's reception area.

Public complaints overview

| Nature of complaints | 2008-09 | 2007-08 | % change |
|--|---------------|--------------|------------|
| Conduct of licensed intermediaries and registered institutions | 513 | 452 | 14% |
| Listing-related matters and disclosure of interests | 505 | 434 | 16% |
| Market misconduct | 422 | 231 | 83% |
| Products | 37 | 14 | 164% |
| Other financial activities | 294 | 259 | 14% |
| Miscellaneous | 47 | 20 | 135% |
| Subtotal | 1,818 | 1,410 | 29% |
| Complaints related to Lehman Brothers | 8,252 | 0 | N/A |
| Total | 10,070 | 1,410 | |





Development

Flowers will only bloom if they are in a favourable environment with appropriate nutrients. Committed to nurturing a wholesome environment for all market participants, the SFC strives to provide guidance and processes that allow market players of different sizes and forms to achieve healthy growth.



Ensuring continued and sustainable development of the Hong Kong securities and futures markets has always been part of the core mission of the SFC. However, the market downturn and the global upheaval in financial systems have naturally shifted the attention of international regulators and industry participants alike to more immediate and pressing issues. Ever conscious of the need to balance (and rebalance) market development and regulation, our own efforts have also reflected this environment.

Promoting market development

We authorised seven exchange-traded funds (ETFs) during the year, raising the total number of SFC-authorized ETFs to 24. Total market capitalisation (excluding the gold ETF) amounted to US\$13.9 billion as at 31 March 2009, reaffirming Hong Kong's position as the largest ETF market in Asia (excluding Japan). Below is a summary of our efforts in helping to develop the ETF market:

- Since last July, we have extended to all market makers of The Stock Exchange of Hong Kong Ltd (SEHK) the levy exemptions previously available only to market makers of Pilot Programme securities or certain ETFs. This will allow market makers to provide better prices, thus benefiting investors.
- In August 2008, a technical delegation comprising the SFC, Hong Kong Exchanges and Clearing Ltd (HKEx) and Hong Kong ETF issuers met with the regulatory bodies and industry players in Taiwan. Technical studies on regulatory frameworks for cross-straits ETFs have been conducted while a proposal for mutual recognition and cross-listing of ETFs is being finalised. This will help further broaden investors' choices of ETF investments in Hong Kong and facilitate relevant SFC-authorized ETFs to be listed in Taiwan.



CEO Mr Martin Wheatley talks about a regulator's role in the fund management industry at a Hong Kong Investment Funds Association conference.



- We approved exemptions for corporate-form ETFs from the disclosure-of-interests requirements under the Securities and Futures Ordinance (SFO) and the requirement to be or use an approved share registrar under the Securities and Futures (Stock Market Listing) Rules. The exemptions will facilitate the listing of ETFs in different forms in Hong Kong and provide a level-playing field for all forms of ETFs. Hong Kong's approach will broadly be aligned with international practices, thus enhancing the development of the ETFs market in Hong Kong.



Chairman Mr Eddy Fong speaks about rebuilding confidence in the capital market at the Asian Financial Forum.

Meanwhile, we have continued to encourage product variety. The gold ETF was authorised in July 2008. It is a passive investment vehicle investing solely in gold bullion with the aim of tracking the price of gold. The gold futures contract was also launched by Hong Kong Futures Exchange Ltd (HKFE) in October 2008 after obtaining approval from the SFC. We also approved HKFE's proposal to facilitate members of the Chinese Gold and Silver Exchange Society to acquire trading rights of HKFE.

We contributed to developing a policy and approved the Listing Rules amendments proposed by SEHK to re-position the Growth Enterprise Market (GEM) as a stepping stone to the Main Board

and to allow the listing of overseas companies in Hong Kong by way of depositary receipts. Effective since July 2008, the amendments aim to attract more enterprises from overseas to list in Hong Kong and to streamline the transfer of listing from GEM to the Main Board.

We have been working with a mercantile exchange to process its application to operate a futures exchange. We also authorised the 13th provider of automated trading services (ATS) in Hong Kong. With this authorisation, the ATS provider can offer market participants in Hong Kong access to its market for the trading of its product.

The levy on futures contracts is a flat rate per contract. When Mini H-share Index futures contracts were launched in July 2008, we went through a legislative process to cut them to one-fifth of the standard for H-share Index futures contracts, thus lowering the charges of the new mini contracts.

To further enhance market liquidity, we conducted a consultation from February to March 2009 proposing legislative amendments to allow overseas participants remote access to Hong Kong's futures markets, on the condition that they do not establish a place of business nor conduct any dealing activities locally.

Streamlining procedures

We have revised relevant product codes and advertising guidelines so that where permissible under current legislation, certain categories of notices and advertisements of SFC-authorized products no longer require authorisation prior to issue. In addition to streamlining procedures, the revised advertising guidelines also seek to enhance disclosure in marketing materials. Consideration will be given to putting forward the legislative changes necessary to deal with the remaining categories of notices and advertisements based on our initial experience with these changes. All new applicable marketing materials have had to comply with the revised advertising guidelines since 1 January 2009, with certain grace periods for compliance for well justified cases.

Operational Review

The Codes on Takeovers and Mergers and Share Repurchases were amended on 1 August 2008 to provide greater clarity and guidance to the market. The amendments related to (i) dealings by connected discretionary fund managers and principal traders before and during an offer period; (ii) transactions involving



Deputy CEO Mrs Alexa Lam gives a keynote address at the Lipper Funds Award 2009 ceremony.

the disposal by a company of its assets or operations and the possibility of delisting of its shares; and (iii) securities borrowing and lending.

To facilitate submission of financial returns by licensed corporations, we rolled out a new, paperless e-submission system with a built-in validation function and greater flexibility for licensed corporations, in November 2008.

An on-line portal is being developed to facilitate the submission of licensing forms, along with a comprehensive revamp of our licensing process. The first phase will be rolled out during 2009 followed by the launch of the full system in 2010. When fully completed, most parts of the licensing process will be conducted via the Internet.

For the full year, we approved 7,150 licence applications, down 21% from 2007/08 due to market downturn. However, the total number of SFC licensees still grew by 9% to reach 37,310. To help lighten the financial hardship of intermediaries during the downturn, we announced a one-off, one-year waiver of licence fees for over 37,000 licensees from 1 April 2009. This is expected to provide savings of \$138 million to the industry.

Following the conclusion of a public consultation, in which market participants and users indicated their overall support for electronic submission of Disclosure of Interest Notices, we have been working with the Government and HKEx on implementation details. This will further improve the timeliness of disseminating information to the public and promote environmental friendliness.

We applied flexibility to deal with unexpected market changes and demands. When more than 500 ex-Lehman Brothers employees sent in applications to transfer their licence



We consult the public on proposed measures to enhance efficiency of the securities and futures markets.



accreditation, we reallocated resources to cope with the sudden influx efficiently and quickly. We also provided the necessary regulatory approval to the Hong Kong licensed subsidiaries of a number of global financial institutions, after changes to their corporate control as a result of government “bailouts”.

We approved amendments to the rules of SEHK and HKFE to streamline admission and registration of Exchange Participants (EPs) and their staff in May 2008. It is estimated that about 5,000 documents each year will no longer need to be submitted by EPs to HKEx.

Developing closer ties with Mainland China

We continued our efforts to reinforce Hong Kong’s role as a capital-raising centre for Mainland enterprises and strengthened our ties with overseas regulators. We did so via a number of platforms, including explaining Hong Kong’s regulatory regime to prospective players, participating in meetings and task forces, and sharing knowledge and experience with regulatory counterparts through secondments, seminars and training sessions.

“In particular, the CSRC will continue to lend support to qualified Mainland enterprises who are considering a Hong Kong listing, to Mainland securities and futures institutions seeking to set up branch operations in Hong Kong, as well as to qualified Mainland enterprises hoping to achieve synergy through collaboration with Hong Kong listed companies,”

Vice Chairman of the CSRC, Mr Yao Gang, said during his visit to the SFC in December 2008.

We have maintained close dialogue with Mainland authorities and fund management companies qualified to operate in Hong Kong. Initiatives taken during the year include:

- Developing customised licensing materials to facilitate the entry of Mainland firms into the Hong Kong market.
- Participating in a seminar organised by the China Securities Regulatory Commission (CSRC) in Qingdao in May 2008 to share views on foreign advisory entities for qualified domestic institutional investor (QDII) investments.
- A senior SFC representative continued to sit on the CSRC’s QDII expert committee which approves QDII funds.
- Exchanging views on the regulation of investment-linked assurance schemes with the China Insurance Regulatory Commission and participating in the 39th Memorandum of Regulatory Co-operation meeting for Mainland and Hong Kong regulators and stock exchange operators.

In the first quarter of 2009, we participated in two rounds of Senior Official Meeting led by the Government for the signing of Supplement VI of the Closer Economic Partnership Arrangement in order to bring new business opportunities and enhance the existing close economic co-operation and integration between the securities sectors of Mainland and Hong Kong.

Following the release of Pearl River Delta Development Plan 2008-2020 by the National Development and Reform Commission, we have been looking into various initiatives for our securities and futures industry to cooperate with counterparts in neighbouring Pearl River Delta cities. In October 2008, we attended the Hong Kong-Guangdong joint working conference led by the Government. It was agreed that Hong Kong and Guangdong would explore further co-operation concerning financial corporations, markets, businesses and professionals.

Co-operating with overseas authorities

We need to keep Hong Kong's regulatory approach in line with international standards through our involvement in the International Organization of Securities Commissions (IOSCO). During the year, we participated in a self-assessment of an overseas regulator to implement IOSCO principles in its market.

We remained active in all five Standing Committees of IOSCO, which examine many aspects of securities regulation and related issues. In particular, we provided input to set international accounting standards. Our CEO led the Task Force on Short Selling to eliminate gaps in various regulatory approaches to naked short selling, including delivery requirements and disclosure of short positions. The Task Force also examined how to minimise adverse impacts on legitimate securities lending, hedging and other types of transactions that are critical to capital formation. We



The SFC signs an MOU with the Dubai Financial Services Authority in support of the Government's initiative to develop Islamic finance.

participated in other various taskforces and initiatives to identify issues related to disclosure for retail investors, risk management of brokerages, price movements and volatility in commodity futures market as well as transparency and oversight of unregulated financial entities, markets and products.

In April 2008 we signed a memorandum of understanding with the Dubai Financial Services Authority for mutual co-operation on capacity building and human capital development in Islamic finance, as well as the promotion and development of the Islamic capital market.

In July 2008 we signed a Declaration on Mutual Recognition of Cross-border Offering of Collective Investment Schemes with the Australian Securities and Investments Commission (ASIC), providing the framework for the mutual recognition by the SFC and the ASIC of schemes offered to retail investors.

In late 2008, the G-20 Summit agreed on five principles to guide financial reform: strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international co-operation and reforming international financial institutions. We have provided input to the relevant G-20 working groups to implement these principles.

Separately, we co-hosted the Organisation for Economic Co-operation and Development Asian Roundtable on Corporate Governance in May 2008. Discussion at the Roundtable focused on effective monitoring of related-party transactions of listed companies around the world and recent corporate governance initiatives in the 20 participating countries.

Supporting development of Islamic finance

In support of the Government's initiative to develop Islamic finance, we have been working with different regulators and the Islamic finance community to enhance Hong Kong's



attributes in becoming an Islamic finance platform and to discuss opportunities on developing Islamic products across the border.

Locally, we organised a workshop for our own staff, other regulatory bodies and government agencies. At the workshop, experienced market practitioners of the Islamic finance industry shared the latest developments in Islamic capital markets and case studies on issuance of “sukuk” (an Islamic equivalent of a bond). We spoke at forums on the growth opportunities and value of the Islamic finance industry and Hong Kong’s role as a gateway for Islamic finance in Mainland China.



A declaration of mutual recognition is signed with the Australian Securities and Investments Commission via video link.

To explore avenues for development of Islamic finance with our regulatory counterparts and industry participants, we joined a delegation to Kuala Lumpur led by the Hong Kong Securities Institute in April 2008 and participated in the Malaysia Islamic Capital Market Conference in June 2008 to meet with Malaysia’s securities regulator, its exchange as well as government and market institutions. To raise Hong Kong’s profile, we gave talks

at the Malaysian Islamic Finance Issuers and Investors Forum and the Islamic Funds Asia 2009 in Malaysia. We participated in an Islamic finance road show in Dubai and Jordan. In November 2008, we joined the Government on a visit to Dubai to exchange information and views on developing Islamic finance in Hong Kong and globally.

Communicating with market participants

In addition to our annual and quarterly reports, we also publish the Enforcement Reporter and Takeovers Bulletin, which target market practitioners. The Enforcement Reporter discusses the SFC’s enforcement work and current enforcement issues while the Takeovers Bulletin helps market players better understand takeover matters. We solicit readers’ feedback on all of our publications to help ensure that information provided is helpful. Separately, we regularly update the industry on various areas of concern in listing applications. Issues highlighted included inadequate explanation of historical financial position, future funding sources and requirements as well as insufficient due diligence by sponsors.

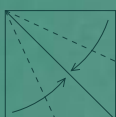
We issued the half-yearly “Review of the Hong Kong Securities Industry”, which provided an overview of the aggregate financial position of all licensed securities dealers and securities margin financiers, including those that are not participants of SEHK. We also issued a report on the local trends of short selling and developments in overseas short-selling activities

In July 2008 we published the Fund Management Activity Survey 2007 – an annual SFC survey on fund management activities of licensed corporations, registered institutions and insurance companies in Hong Kong.



Education

In the world of Nature, the young learn from their parents and their siblings. However, their parents also need to be alert to the ever-changing environment to update their own skills as well as protect their young. Education of investors supplements these natural cycles using multiple communication channels and targeting investors across all demographic groups.







In early 2008, we decided to substantially increase the resources devoted to investor education as part of a long-term plan to expand our services in this area. As a result, we increased both the depth and breadth of our investor education efforts. During the reporting period, we utilised more media channels and developed new formats, including a new TV commercial, a TV game show and a photo competition. All these were designed to broaden the reach and raise awareness of our investor education programmes and messages. We have been encouraged by the public's reception to our initiatives and we will develop these further in the coming months.

The past year has been challenging for most investors. Hong Kong has not been immune to the negative effects of the global financial tsunami and nearly all asset classes have fallen in value. While the extent of the financial downturn and its impact on investments could not be predicted, the nature of the losses incurred by investors has reinforced the need for investor education (IE) and has also highlighted areas where additional effort would be beneficial. This has given additional impetus to plans that were already in place to deliver our IE messages more effectively as described in last year's report.

Over the past year, we have raised our IE expenditure in the securities and futures sectors considerably. However, we have also been discussing with the Government the possibility of broadening our IE mandate. We are continuing these discussions and plan to bring proposals to the public for comments later this year. Our objective is to establish a body that can provide IE covering all regulated products, and not just those regulated under the Securities and Futures Ordinance, which will be much more beneficial to investors and much more aligned with their real-life needs.

As a prelude to our more ambitious plans to establish an IE body covering the entire financial sector, we have established a dedicated team focusing solely on IE activities and also substantially increased the funding available to them to develop and deliver IE programmes. As the financial turmoil intensified in the second half of the year, we were pleased that we had put these additional resources in place. Besides continuing with activities that were proven successful in the past, we were able to take a more comprehensive approach to some of our key programmes and also add some brand new initiatives. Above all, we have increased media exposure substantially to raise public awareness of investment risks, our IE role and the IE resources that are available.

In light of the challenging economic conditions, we have focused on explaining risk management skills and preparing investors for market volatility. In addition, we have reminded investors that to make appropriate investment decisions, they need to understand the nature and risks of the products they invest in. Apart from raising awareness of product features and associated risks, we have also promoted a proper (and realistic) investment attitude.



Mass-media, thematic approach

Mass media is the most effective way to deliver IE messages to the general investing public and specific investor segments that we target. It is, however, extremely expensive. The additional funding allocated to IE this year has allowed us to develop an expanded media plan to deploy television (TV), radio, newspaper, video shows on buses and outdoor TV to reach as wide an audience as possible.



Buses and trams take our IE messages all over Hong Kong.

“Know your risks” was our IE theme for calendar year 2008. As an extension of this theme, “Be Smart, Ask First” is the focus for this calendar year. For the first time, a year-long, multi-media advertising campaign has been developed and this was rolled out in mid-January 2009. Our TV and radio commercials use a catchy Canto-pop song from the 1970s to echo the importance of

a questioning attitude. At the launch, 60-second and 30-second spots were shown on prime-time TV. To sustain the impact and extend the reach of our educational messages, other media platforms, including radio, poster displays at MTR stations and bus stops, the body of a bus and a tram, outdoor TV as well as on-line media are being used.

To encourage public interaction, we have invited the public to participate in an on-line quiz to answer simple questions and to come up with slogans based on what they have learned from the campaign. The on-line programme drew 570 entries.

We have also secured media collaboration to allow the launch of these other programmes:

- From November 2008 to February 2009, we ran a series of 15 interviews entitled “Special Investor Education TV Programmes” on now Business News Channel in which representatives from the SFC, Hong Kong Exchanges and Clearing Ltd, academia and the securities industry explained to investors a broad spectrum of topical issues ranging from financial markets to risks associated with various investment products, as well as ways to select investment funds and brokerages.
- Drawing on the wide-ranging topics of our Dr Wise column, we launched an interview programme and Dr Wise Education Tips segments, on Metro Finance Radio and Metro Information Channel from November 2008.
- For the Putonghua-speaking audience, eight Putonghua radio segments were broadcast on Radio Television Hong Kong (RTHK) to discuss various investment products, including, funds, derivative warrants and structured products from February to April 2009.

Operational Review

- Since July 2008, we have been airing a series of 22 short videos that are repeated hourly on 1,600 buses, highlighting different messages.



The 'Ask First' signboard flashes out IE messages at high-traffic locations.



Interactive campaigns

Once again, January 2009 was designated the IE Month. Using a number of activities that invited investor participation, we spread the message that understanding risks is a prerequisite to making informed investment decisions. The campaign stresses that to make smart investment decisions investors must ask the right questions and do their homework before investing. Below is a summary of the activities:

- Our Investor Day on 10 January, organised jointly with the Open University of Hong Kong, attracted 785 attendees from the public. Entitled "Riding out the Financial Tsunami", the full-day IE event aimed to equip investors with more knowledge to rethink their investment strategies during a period of high market volatility. Topics for seminar sessions included an economic overview, analysis of risks for the year ahead and investment psychology. Lessons learnt from the financial tsunami and ideas on the way forward also were shared.

- The Second Investment Triathlon, a financial knowledge competition, kicked off with quizzes published in the Hong Kong Economic Times. This was followed by contests based on radio dramas in the "Investment Era" programme on RTHK Radio One and the competition concluded with a grand finale broadcast on Cable TV on 18 January. The event drew over 560 entries from the public.

"Investors have had an extraordinary year in 2008. . . I believe that some of them simply did not have a clear idea how some of the investment products worked; nor did they have a good grasp of the risks involved. While it doesn't take 10,000 hours of hard work to win the Investment Triathlon, it is virtually a must to keep learning about investing to ensure a smooth ride in the market."

Mr Mok Yu Chiu, champion of Investment Triathlon 2009

- A weekly short chat-show entitled "Understanding Financial Knowledge" started airing on RTHK Radio One from early January to discuss topical issues such as counterparty risks and boiler-room scams. An on-line game was launched at the InvestEd website to support this programme to further engage the audience.
- From late January to mid April, a TV programme offering 20 episodes of education tips and eight weekly live interview segments was aired on TVB's HD Jade Channel to explain products and market risks.



Market experts engage in a discussion on Investor Day.



- In March, we launched our first-ever TV game show, “Outsmart”, aired on the TVB Jade Channel. This 10-episode programme was developed following consistent responses to SFC surveys that showed the vast majority considered TV as their primary source of financial information. In the show, industry professionals made live appearances to share their financial knowledge with artistes, who competed for various prizes by answering questions drawn from case studies. Topics highlighted included basic investment knowledge, rights of investors as well as product features and risks. The programme was re-run on TVB.com until 15 May 2009 and an on-line quiz was held concurrently to reinforce the educational messages.

“Outsmart delivers excellent investor education content in a game-show format that has much stronger appeal to most retail investors than the traditional lecture-style programme.”

Mr Richard Mak, Director of Hong Kong Society of Financial Analysts

- The first-ever IE photo competition, “Picture your investment dream,” was launched in March to encourage the public to think about why they were investing, e.g., to fund their retirement or to support a child’s education. Using their investment objective as theme, photography fans submitted work that captured different situations in their life and explained why they had invested. We have now received over 1,000 applications.

Product risks explained

One of our priorities has always been to warn investors to focus on investment risks. The subprime crisis has highlighted, in particular, the risks associated with counterparties and issuers. We have therefore stepped up our efforts in this area.

Firstly, we have posted more material online and published new investor leaflets to explain the counterparty risks associated with index-tracking exchange-traded funds (ETFs), guaranteed funds, bonds, credit-linked notes and equity-linked instruments. Additionally, we have alerted investors that all assets underlying the investment options of investment-linked assurance schemes are owned by the issuer and not the policyholders.

We also made use of newspaper and magazine columns, on-line newsletters and frequently asked questions to highlight the major features and risks of new investment products such as gold ETFs when they were launched.



Celebrities at TV game shows help get IE messages across.

Lessons from real life

We took an interactive approach to promote a proper investment attitude among the public and to promote understanding that a “punt” is not an investment. Lessons from real life are always easier to remember. In our second essay competition entitled “My Investment Story” organised with Commercial Radio One and Sing Tao Daily as media partners, we invited retail investors to share their investing experience with others, be it a success or a failure.

Compliments from users

In December 2008, Mr Leung commended us for the articles on our InvestEd website about investment-linked assurance schemes. He said they were useful in helping him gain a better understanding of the product.

In August 2008, Mr Trevor Carolin of South Africa thanked us for the Alert List, saying it prevented him from falling prey to an unlicensed entity, Granite Consolidated, which was on our Alert List.

Operational Review

Out of over 50 entries, 10 were selected as winning entries for the various lessons that they highlighted. To help disseminate the key messages, including investing within one’s means and for the longer term, a series of publicity activities were staged, starting with an award presentation dinner for the winners. Subsequently, the winning entries were published in newspapers, aired on radio and posted on the SFC’s InvestEd website (www.InvestEd.hk).



At bus shelters, the public is reminded to ask questions before investing.

Enhanced cyber initiatives

The Internet provides an effective 24-hour platform for our IE work. The InvestEd website, our investor portal, is a repository of all our IE materials available to the public around the clock.

In 2008, the InvestEd website underwent a facelift as well as a major structural revamp. The new, improved website is easier to navigate and features more interactive content, useful links, e-learning programmes and flash animation videos. In addition, information has been categorised to target different groups of investors while hot issues of general interest are prominently displayed on the homepage. With these new features, investors will find it easier to learn and conduct their own research about

different investment products, such as stocks, funds, derivative warrants and unlisted structured products.






Separately, the InvestEd website contains an “Alert List” to warn the public against dealing with entities about which we have received information indicating that they may not be wholly legitimate, e.g. those who have been soliciting investors without having been appropriately licensed in Hong Kong.

Understanding investor needs

Over the years, investor surveys have helped us prioritise our IE efforts. In the Retail Investor Survey 2008, a comprehensive assessment of individuals’ investment knowledge and attitude, we found that many did not buy products they were familiar with. Two-thirds of the investors surveyed knew very little about at least one of the products they had invested in. Also, almost half of the investors did not have realistic expectations about returns and risks and often expected an investment yield that was disproportionate to the level of risk they were willing to accept.

The findings of our survey indicated that many investors did not have a good understanding of investment basics – they are not aware of the fundamentals of investing. Our current IE campaigns therefore shift the focus back to basics. Concurrent with the release of the survey findings, we produced a “Five Elements” calendar card reminding investors to ask some basic but critical questions before making investment decisions.

The media campaign described above was launched shortly afterwards to reinforce the message of the importance of a questioning attitude when considering investment decisions.

-  為甚麼我要投資？
Why am I investing？
-  哪些產品適合我？
What product meets my needs？
-  我理解這產品嗎？
Do I understand the product？
-  損失最高是多少？
What is my maximum loss？
-  怎樣才可取回我的資金？
How can I get my money back？



| Other investor education activities | |
|--|--|
| Mass media | |
| Apr 2008 – Mar 2009 | Educational messages were published in Headline Daily's weekly column "Learn before You Invest" with a quiz every Thursday. |
| Apr 2008 – Mar 2009 | Five articles were published in Consumer Council's Choice magazine. |
| Apr 2008 – Mar 2009 | The Dr Wise column was published in Sing Tao's Investment Weekly magazine every month. |
| 11 May – 26 May 2008 | A series of weekly column "Understanding ELI", "Risks of ELI" and "Reading Offer Documents of ELI" were published in Sing Tao's Investment Weekly magazine. |
| Aug 2008 | Excerpts of IE seminars co-organised with the Hong Kong Society of Financial Analysts were published in Ming Pao and Hong Kong Economic Journal. |
| Feb 2009 | Excerpts of the Investor Day co-organised with the Open University of Hong Kong were published in Hong Kong Economic Journal and broadcast on now Business News Channel. |
| Outreach activities | |
| Apr 2008 – Mar 2009 | Over 7,600 people attended the 60 talks, seminars and workshops held in 2008. These targeted different groups including secondary school students, university students, teachers, civil servants and community groups. |
| InvestEd site | |
| Apr 2008 – Mar 2009 | Dr Wise appeared in his column every month, offering advice on many different subjects ranging from boiler-room scams to credit risks. In addition, 48 articles were published in our e-newsletter – "Monthly Focus". |
| Souvenirs | |
| Oct 2008 | New souvenirs carrying IE messages, including magnets and banner pens, were produced for public distribution. |
| Leaflets | |
| Apr 2008 – Jan 2009 | Leaflets on guaranteed funds, index-tracking ETFs, making a complaint, and the InvestEd website – were produced for public information. |

Statistical Comparisons

The following table shows certain key market data and statistics related to the work of the SFC in the past three years. Figures in brackets are changes from the preceding year.

| | 2008-09 | 2007-08 | 2006-07 |
|--|-----------------|-----------------|----------|
| Market activities and transactions | | | |
| Number of listed companies on the Stock Exchange Main Board | 1,092 (+4%) | 1,055 (+7%) | 983 |
| Market capitalisation (\$ billion) | 10,080.8 (-40%) | 16,825.3 (+25%) | 13,442.2 |
| Average daily market turnover (\$ billion) | 58.7 (-41%) | 99.0 (+153%) | 39.2 |
| Total number of listing applications reviewed under the dual filing regime | 87 (-35%) | 134 (+41%) | 95 |
| Total number of takeovers and share repurchases transactions handled | 266 (-25%) | 357 (+26%) | 284 |
| Total NAV of all compensation funds (\$ million) | 1,873 (-2%) | 1,916 (+7%) | 1,794 |
| Licensees and investment products | | | |
| Applications for SFC licences | 7,150 (-21%) | 9,035 (+36%) | 6,628 |
| Applications to conduct new regulated activity | 20,450 (-20%) | 25,478 (+45%) | 17,553 |
| Total number of SFC licensees | 37,310 (+9%) | 34,384 (+19%) | 28,940 |
| Total number of SFC-authorized schemes | 2,833 (-2%) | 2,881 (+7%) | 2,686 |
| NAV of authorised unit trusts and mutual funds (US\$ billion) ¹ | 628 (-42%) | 1,077 (+18%) | 910 |
| Enforcement action | | | |
| Total number of cases handled | 112 (-30%) | 161 (+3%) | 156 |
| Entities successfully prosecuted | 27 (-59%) | 66 (+29%) | 51 |
| Unsuccessful prosecutions | 3 (0%) | 3 (0%) | 3 |
| Disciplinary inquiries conducted | 99 (-32%) | 145 (-31%) | 211 |
| Actions against licensees | 50 (-38%) | 81 (+1%) | 80 |



| | 2008-09 | 2007-08 | 2006-07 |
|---|----------------|----------------|---------|
| Reaching out | | | |
| Press releases issued | 192 (-15%) | 227 (-14%) | 264 |
| Total average daily hit rate of corporate and InvestEd websites | 636,668 (+3%) | 615,869 (+15%) | 537,186 |
| Public enquiries | 12,762 (+56%) | 8,179 (+2%) | 8,017 |
| Public complaints ² | 10,070 (+614%) | 1,410 (+11%) | 1,267 |
| Consultation papers issued | 3 (-50%) | 6 (N/A) | 0 |
| Consultation conclusions issued | 4 (+33%) | 3 (-50%) | 6 |
| Codes and guidelines issued | 6 (+500%) | 1 (-83%) | 6 |
| Finances and staff | | | |
| Income (\$ million) | 1,696.1 (-33%) | 2,546.3 (+95%) | 1,306.4 |
| Expenses including depreciation (\$ million) | 683.8 (+17%) | 585.0 (+8%) | 541.0 |
| Number of staff ³ | 478 (+8.1%) | 442 (-0.2%) | 443 |

¹ Net Asset Value (NAV) as at 31 December 2008, 2007 and 2006.

² The figures reflect the number of complainants.

³ The breakdown of the figures is as follows:

| | 31 March 2009 | | 31 March 2008 | | 31 March 2007 | |
|--------------|---------------|--------|---------------|--------|---------------|--------|
| | Actual | Budget | Actual | Budget | Actual | Budget |
| Professional | 349 | 383 | 322 | 356 | 319 | 342 |
| Support | 129* | 124 | 120 | 121 | 124* | 122 |
| | 478 | 507 | 442 | 477 | 443 | 464 |

* A number of junior professional staff headcount vacancies were filled by supporting staff.

Further statistics of the SFC's activities are provided in the chapter on Activity and Market Data starting on page 114.

Two Decades of Change

Change has been a constant factor in both the global and Hong Kong securities and futures industry over the past 20 years. As Hong Kong's financial industry evolved, the SFC has been meeting market demands and charting new courses. What was founded in 1989 as a regulator to rectify structural deficiencies in the industry has evolved into a multi-tasked public body that encourages market development, prevents systemic risks, educates the investing public, and above all, helps to preserve Hong Kong's financial stability. Without the dedication of our staff, such a transformation would not have been possible.

Our 20th anniversary is an opportunity to look back and reflect. Who better to do this than those who have served with the SFC over the past two decades? In the following pages, all of our previous chairmen, several alumni and some colleagues who have been with the SFC since its formation, share their recollections and views of life at the SFC.



From our formation in 1989 until 2005, we saw four full-time Chairmen. In 2006 the role was then split, in line with emerging best practice, into a full-time Chief Executive Officer and non-executive Chairman, both of whom remain in office today.

Having served at various stages in the organisation's development, our past Chairmen contributed in different ways to meet the needs of the times. Just as they applied their expertise to the job, they also left their mark on the evolution of the SFC. Here they share some thoughts on their own tenure.

Founding chairman's reflections

Robert Owen was no stranger to starting an organisation from scratch, having helped set up Lloyds Merchant Bank in the United Kingdom in 1984. However, nothing could have completely prepared him for the challenge of implementing extensive regulatory reforms over the then rather "wild East" securities and futures markets of Hong Kong, when

he took up the task of overseeing the creation of the SFC in 1988.

"When I first arrived, a veteran Hong Kong banker I met told me that trying to regulate the Hong Kong securities market would be like trying to get a band of marauding Visigoths (a barbaric tribe that invaded the Roman Empire) to stop at the traffic lights," recalls Mr Owen, the SFC's first chairman. "And it was a bit like that at the start."

Mr Owen describes establishing the SFC as the start of a long process of changing market behaviour and attitudes. Getting the new regulatory regime accepted by the market was the greatest challenge during his time. Laissez-faire principles were deeply embedded in the city's culture. Many brokers and listed companies saw tighter regulation as a threat. Some launched media campaigns against the SFC, claiming that "over-regulation" was

Robert Owen Chairman 1989-1992

“ A regulator is a natural lightning rod for criticism and will generally be accused of either over-regulating or under-regulating. That is the fate of regulators. If people say nothing, that should be taken as a compliment. A regulator should not expect praise or thanks. ”

Mr Robert Owen relaxes with his dogs, Samba and Shadow, at home in England.



Our Previous Chairmen

killing the Hong Kong market. Several times, Mr Owen remembers, people quoted him the Chinese proverb – “Clean water breeds no fish”.

Sometimes pressure on the new SFC came from very influential sources. Mr Owen recalls one listed company’s attempts to get itself exempted from the Takeover Code. “In that case, the media were largely on our side. The SFC was seen to be doing the right thing,” he recalls. “We stood our ground.”

Looking back over the 17 years since leaving the SFC, Mr Owen is pleased to observe that despite the sweeping

changes that have taken place in the marketplace and rapid expansion of the industry, the core principles behind its foundation have remained the same. The SFC has largely fulfilled the vision set some 20 years ago. Its determination to make Hong Kong a much more international and substantial market has been fully justified. “The market has evolved in the direction we tried to make it evolve, but I never dreamed it could acquire the scale it has, in fact, done,” Mr Owen says.

Hong Kong’s efficient and stimulating business culture “also poses challenges for a regulator”. “We had to adapt and

be flexible and strike a balance between the demands of international and local audiences,” he says. As an expatriate, he felt able to be fully objective and to apply the rules without fear or favour. It was partly with that in mind that he deliberately tried to get “a broad spread of international experience” to fill the SFC’s key posts.

Even though the public has learned to welcome the role of a regulator over the years, the first Chairman takes a rather philosophical view. “If a regulator is taken for granted, then it means the system is working,” he says. “A regulator should never expect praise or thanks.”

Thoughts from other past chairmen



Robert Nottle

Chairman 1992-1994

“ I think the litmus test for a regulatory authority is whether it is able to read the ‘market tone’ of the time and within this environment achieve the appropriate balance between facilitating market development and protecting investors. I believe the SFC successfully passed this litmus test over the period 1992 to 1994 as a cohesive, tightly knit, harmonious group of professionals with clear and comprehensive plans, which set the framework for pursuing both in Hong Kong and through IOSCO the various activities necessary to strike this balance. ”

Most memorable development

Tsingtao Brewery became the first China-based enterprise to go public in Hong Kong on 19 July 1993, establishing a “solid foundation stone and growth path” for the “explosive growth” of capital raising by Mainland businesses in Hong Kong.

Mr Robert Nottle, who now spends a fair amount of time tending vines in his own Melbourne vineyard, dresses up for a social function.



Anthony Neoh

Chairman 1995-1998

“ What helped me and my colleagues weather those difficult times (of the Asian financial crisis) was our strong faith in the resilience and rationality of the Hong Kong people. The bombardment of negative media reporting and the angry demonstrators outside our doors put relentless pressure on everyone at the SFC. But we knew that the only way to bring our financial system back to health was the application of good management and regulation and that Hong Kong people would recognise the SFC’s efforts in better times. We had a motto from Lu Xun’s famous poem Self-mockery: “It will be possible to face calmly a thousand pointing fingers if one lowers one’s head to plough on like a dedicated water buffalo.” ”

Greatest achievement

By becoming the chair of the Technical Committee of IOSCO, the SFC gained international recognition for the Hong Kong securities market, while also establishing closer ties with the Mainland financial regulators following Hong Kong’s return to Mainland rule, paving the way for Hong Kong’s position as the international capital market of choice for Mainland enterprises.

Mr Anthony Neoh loves the company of his dog Pa Pa (meaning, crawl, crawl).



Andrew Sheng

Chairman 1998-2005

“ One cannot afford to stand still in this competitive age. Laws are only as effective as their enforcement, so the challenge for the SFC is always to enforce the law effectively, fairly and transparently to maintain investor confidence. ”

Most memorable developments

At an organisational level: The Securities and Futures Ordinance, which consolidated and enhanced separate ordinances covering regulation of securities and futures activities in Hong Kong, became effective on 1 April 2003, giving the SFC new regulatory powers.

At a personal level: Senior management pulled an all-nighter to decide whether and how to keep the stock exchange open the day after the “9/11” attack.

Mr Andrew Sheng takes a break from travels for his consultancy work.



Some of Our Alumni



“ I see over-leveraging and pure greed as the root causes (of the current financial tsunami). But no regulator can prevent fraud; no amount of regulations can forestall greed. Good regulators will be able to spot problems earlier, nip them in the bud and take action to prevent them from spilling over and turning into a full scale crisis. ”

Laura Cha

As a regulator, the SFC encourages the exchange of information and ideas with industry participants. Over the years, numerous professionals have made their mark at the SFC and then moved on to further their careers either in the financial industry or some other sector. At least one headed north to apply their expertise in helping formulate the financial regulatory framework for China. No matter how far they have moved up the ladder in a diverse range of successful careers, they all agree that time spent at the SFC was fulfilling and challenging.

Laura Cha: Non-Official Member – the Executive Council of Hong Kong; Deputy Chairman – the Hongkong and Shanghai Banking Corp, Ltd

Laura Cha has been forging new ground throughout most of her career, although, by her own account, she never really planned it.

When head-hunted to join the SFC back in 1991, she thought she would “give it a try” as she could always return to legal practice after the standard 30-month contract. Little did she realise that she would last a full 10 years and end up being our deputy chairman.

When she came to the SFC, she was one of just two local staff among the top 20 senior executives and the only woman. But she soon found a niche – to help develop a capital-raising framework in Hong Kong for Mainland’s state-owned enterprises (SOEs), as part of Premier Zhu Rongji’s economic reforms.

It was hard work being a pioneer. To prepare for SOE listings in Hong Kong, Laura spent more than 20 weekends in one single year in Beijing to meet with Mainland officials. Internally, it was also a challenge trying to “sell” the idea of H shares to the SFC’s board of directors. “The Mainland’s economy was just getting off the ground and I was basically the only one pushing the idea of listing Mainland companies. Thankfully I had the support of Chairman Robert Owen and CFD Executive Director Ermanno Pascutto,” she says. The Mainland had no company law until July 1994 and the Securities Law came even later. She was navigating in uncharted territories.

When approached by the Central Government to be a vice-chairman of the China Securities Regulatory Commission (CSRC) in 2001, she also had “no special mission in mind”. She just wanted to enhance some basic investor protection practices and raise the standard of



corporate governance, the same things she had been doing at the SFC. She became the first person outside the Mainland to take up a vice-ministerial position in the Central Government.

At the CSRC, it appeared to her that giving middle management some international exposure would benefit the outlook of the organisation. She used her salary, which by special permission of the State Council, was the same as what she earned at the SFC, to send a few CSRC staff overseas every year for training as well as academic studies. By the time she left the CSRC in 2004, more than 20 staff had earned master degrees from overseas universities or participated in training at overseas regulators. After she left the CSRC, she continued her educational mission by endowing two annual scholarships for Mainland students, one for a MBA degree at the Yale University School of Management and the other for a LLM degree at the London School of Economics. "I felt that educating more talent for the Mainland was in some ways more meaningful than having me spend more years at the CSRC, as both scholarships would go on indefinitely," she says.

Laura is impressed by how Mainland regulators, especially the highly dedicated upper echelon, have been catching up with more advanced markets. She explains, for instance, that consultations for new rules and policies are all done electronically and are often completed faster on the Mainland than

in Hong Kong. "It is frequently easier to implement reforms in the Mainland," she says. "A lot of Hong Kong people underestimate our Mainland counterparts' commitment and efficiency."

Barbara Shiu: Chief Risk Officer – BoC International Holdings Ltd; Chairwoman – Hong Kong Securities Institute (HKSI)

Barbara Shiu's career exemplifies what it means to know what one wants and then to go for it.

After working in the banking sector for a number of years, Barbara knew that the policy side of the industry would be her next target. "In the private sector, you choose your path according to the objectives of the company," she notes. "But when you are a policy maker, you are looking at whether there are enough paths for the market, whether they are good enough, whether they have become obsolete, or whether more paths should be

opened up. I wanted to get more exposure on the policy side."

Almost from the start, she found her job at the SFC very meaningful in terms of its impact on the market, the intermediaries and the investing public. As Senior Director of Intermediaries Supervision, she spearheaded the SFC's takeover of regulation of securities brokers from the stock exchange. The transfer needed to happen in about half a year – by March 2000 – as the securities exchange demutualised and merged with the futures exchange and clearing houses. On top of 100 plus futures brokers, the SFC now had to oversee some 800 securities brokers.

"Developing a system to handle the five-fold increase in the number of regulatees was a big challenge, but we did it on time and had the system up and running

“ Since the HKSI has been receiving considerable support from market practitioners and is close to the market, it is a good bridge between the SFC and some of the issues that practitioners are faced with especially concerning licensing and training. ”

Barbara Shiu



Some of Our Alumni

before the change (demutualisation) was implemented,” she recalls.

After the SFC, she had what she describes as the privilege of working at the CSRC. “It was an experience that no money could buy,” she says. “I wouldn’t have this level of knowledge and understanding of the Mainland market had I not worked there.”

As the new chairwoman of the HKSI, Barbara now works closely with the SFC to maintain and raise industry standards. She has a lot of urgent tasks ahead of her and hopes that, in the longer run, the efforts of the HKSI in improving the capabilities of market practitioners will also benefit investors.

Peter Au-yang: Director – AsiaSoft Co, Ltd

After 18 years with the HSBC Group

specialising in corporate finance, Peter Au-Yang made a major decision to embrace change in his career. He has not looked back and has been taking up new challenges ever since.

Peter joined the SFC as an Executive Director and its Chief Operating Officer in May 2003. With that move, not only did he cross from the private to the public sector but he also changed from a line job to a staff job. Some 18 months later, he also doubled up as the SFC’s Executive Director of Corporate Finance.

Moving from the private to the public sector required some adjustment. At the same time, Peter wanted to bring his previous experience as an investment banker to his role at the SFC. “A regulator should know what’s happening in the industry,” he says.

Going from the front line to overseeing the infrastructure of the SFC was not a major challenge, given his prior management experience. And with 18 years of experience behind him, it was not that difficult for him to take up the corporate finance post at the SFC either. “No matter which post I was in, I was able to establish a good professional relationship with my direct subordinates and earn their trust,” Peter recalls. “We worked in harmony and I saw no conflict between the two posts.”

On finishing his three-year contract in 2006, Peter invested in a group of companies which, among other things, introduce established US software into Mainland China. Once again, his corporate finance skills have proved invaluable in deal structuring and negotiations with both US and Mainland partners.



“ Working at the SFC, a public body, I was reminded always that to advocate any policy – even if it’s most justifiable – one needs to convince the stakeholders and the public. It’s best to let them come to their own conclusions rather than impose something on them. One must listen to them. The importance of consultation – that was the biggest lesson I learned. ”

Peter Au-yang



“Working for the SFC was the best career move I ever made (or anyone could make). It opened my eyes to many things, professionally and personally. It gave me an all-encompassing perspective on the capital markets and an appreciation for regulation.”

Angelina Kwan



Outside work, Peter is less conventional. Motorcycling is a hobby he has picked up since leaving the SFC and in less than three years, he has collected no fewer than six motorcycles. From time to time, however, he still prefers going down the fast lane in his Ferraris.

**Angelina Kwan:
Chief Operating Officer and
Managing Director – Asia Pacific
Region, Cantor Fitzgerald**

When a travel warning was put on Hong Kong at the peak of the Severe Acute Respiratory Syndrome (SARS) pandemic in May 2003, it was just one more crisis for Angelina Kwan to handle.

Crisis management was Angelina’s “most memorable development” during a career of nearly eight years at the SFC. Every time a crisis struck, she was right there to set the contingency plan in motion. As a director in the Supervision of Markets Division during SARS, she quickly deployed her skills in internal auditing, law and compliance to co-ordinate and implement an expanded “Business Contingency Plan” designed originally for the Millennium Bug. “To see the whole of the SFC work together as a team – that was very rewarding,” she recalls.

Angelina’s knack for networking came in handy at the SFC, where the regulator needs a bridge to the markets to

keep track of industry developments. “Communication is key to problem solving,” she explains. “I am a people person. At the SFC, I would meet new people nearly every day on various issues and then work with different divisions to resolve their issues.”

Since re-entering the private sector, Angelina has been putting her SFC experience to good use, including, a macro view of the market and contacts in both the Government and industry. She credits her SFC experience to fast-tracking her career. In three years at Cantor Fitzgerald, Angelina has moved from being Head of Legal and Compliance to Chief Operating Officer for Asia Pacific and most recently, a managing director.

Some of Our Alumni



“As a manager, I learned to trust and empower. If you don’t let your staff make mistakes, they’ll never learn. Respect for others is also important. Even someone junior can come up with workable solutions that skip the mind of more experienced people.”

Kerry Ching

Kerry Ching: Managing Director – Hong Kong, FIL Investment Management (Hong Kong) Ltd

For career development, nothing beats the timely matching of individual skills with the development of an industry and Kerry Ching can vouch for it.

Kerry returned to Hong Kong from Toronto in 1995, determined to share her knowledge acquired from Canadian mutual fund houses with the then emerging local fund industry. In 1998, as a manager in the SFC’s Investment Products Department, Kerry was involved extensively in the

preparatory work to launch the Mandatory Provident Fund (MPF), including numerous discussions with the industry, helping draft the SFC Code on MPF Products, and dividing work between the SFC and the yet-to-be-established Mandatory Provident Fund Schemes Authority.

“For the fund industry, the SFC is like the Shao Lin Temple for kung fu masters,” she says. “Many who left (the SFC) for the private sector have brought their regulatory knowledge and skills to the industry,” she says. “We have a similar mindset, so it is easier for us to get things achieved across the industry.”

But more than industry knowledge, Kerry has been able to acquire three major sets of skills to apply in her development in the private sector. Armed with what she calls “hard skills” (such as knowledge on products and regulations), “soft skills” (such as risk management, logical thinking) and networking skills, she has been moving steadily up the corporate ladder since returning to the private sector.

Although Kerry is passionate about work, she makes it a point to “have a life”. She turns off her Blackberry while having lunch with friends, has dinner at least once a week with her mom, hits a few hard balls in a game of squash with friends, and also enjoys a little retail therapy.



For many people, 20 years with one organisation seems an extraordinarily long time. But for our 20-year veterans, their two decades at the SFC just seemed like a natural development. The years just flew by as they developed and progressed on the job, sometimes in the same discipline but at times, switching roles and areas of responsibility. Here, we ask how three of our colleagues have lasted this long, having been with the SFC from its very inception. What we hear as a resounding answer is ... job satisfaction.

A long timer recounts how change fosters growth

To hear Leo talk about his career at the SFC is to get an oral history of the organisation's development over the past two decades. As someone who has served in multiple areas while climbing the corporate ladder, he can recount the SFC's evolution matter-of-factly but authoritatively.

Leo started in the Licensing Department in 1989 as a Senior Manager and eventually became a Director of Licensing. He then moved on to take up the post of Director of Corporate Planning in 2001 and has been Director of Finance and Administration since 2004.

Over the years, Leo has witnessed a number of changes in regulatory philosophy and here is how he describes it. In



Leo Lee offers a broad perspective of the SFC's development, having served in more than one capacity.

the beginning, setting up a regulatory framework and laying down the rules and codes were the priority. The emphasis then was on educating and setting standards for the industry and markets. Once the framework was in place, ensuring compliance and enforcement became the crucial role. Later, as markets and investment products matured, the thrust was to enhance Hong Kong's status as a preferred fund-raising centre by attaining world-class regulatory standards and reaching across the border.

Since the Securities and Futures Ordinance (SFO) came into effect in April 2003, the SFC has again been leaning more towards ensuring compliance and enforcement to protect the interests of investors with its newfound investigation powers.

Over the years, the organisation's culture also changed. Leo notes that with the recent focus on promoting from within, staff are given more opportunity to move up within the organisation. In the early days,

to fill the need to build a solid foundation rapidly, the SFC was recruiting largely from the outside, he explains. Now, with increased resources being allocated to training and development, staff have the opportunity to receive more structured in-house and overseas training, job rotations and internal transfers, which better prepare them for new responsibilities.

For Leo, crossing from one discipline to another was relatively painless mainly because of his diverse background. He is a professional accountant with a law as well as an MBA degree. "My background enables me to easily fill posts in different disciplines," Leo says. "Also, I understand the importance of continuing to improve my knowledge and to update myself. Thus, I am ready to take up any new responsibilities when the opportunity presents itself."

He has no special preference over his three posts, apparently enjoying them all. "Each has provided different challenges and satisfaction to me," he says. Perhaps the

Our Valued Veterans

Licensing Department, where he stayed for 11 years, gives him “the greatest sense of achievement.” He was involved in the design of a new licensing regime including the drafting of the relevant legislations and policies. Under the new system, industry participants are licensed for the functions they performed instead of the institution they attached to. More stringent qualifications are required for licensed professionals, including examinations and continual professional training. The standards of intermediaries are thus enhanced which helped to improve investor protection and develop Hong Kong as an international financial centre.

Later, working at the Corporate Planning Department allowed him to develop a broader view on the SFC’s cross-divisional issues and to participate in different organisation-wide projects, whereas his job at the Finance and Administration Department is a continuation of his work

at the Corporate Planning Department, but from another perspective. He now is part of a team responsible for raising the SFC’s operational efficiency and effectiveness.

“My jobs at the SFC are always interesting as I am driven to keep on learning new things,” Leo says. “If you learn fast enough and can apply what you learn to improve performance, you become more marketable.”

Satisfaction from a challenging role

Since joining some 20 years ago, from the Independent Commission Against Corruption, Laurence Lee has never doubted that his career lay with the SFC’s Enforcement Division.

As he puts it, the fact that he is “not afraid of confronting others,” is an important personality trait that has allowed him to succeed in investigation.

Now an Associate Director of the Enforcement Division, Laurence has witnessed the changes in the SFC’s regulatory powers and philosophy over the years. “In the early days, people knew very little about the role of the SFC and there were many misconceptions as to what we did. While some misconceptions remain, there is a much greater understanding today,” he says. He remembers, for instance, that early on, a lot of focus was placed on combating unlicensed trading as the SFC tried to build its regulatory image and establish its regulatory authority.

The way he sees it, the most significant changes were brought about by the enactment of the SFO in 2003. “The civil remedy given under the SFO has not only allowed us to combat misconduct but also to take action from the perspective of protecting the investing public,” he says. He cites as an example the use of s213 and s214 of the SFO to restrain people from acting as listed company directors and to get the court to freeze assets that represent the profit from suspected insider dealing. Laurence believes that such enforcement actions have helped send clear messages to the market about the SFC’s determination to deter wrongdoing and reflect its ability to protect shareholder and public interest.

Laurence sets a fine example of getting job satisfaction even from a challenging role. While a cynic may think that an investigator gets his satisfaction from being able to “nail” the wrongdoers, Laurence actually gets his from appreciation by investors, complainants, and even the industry. “We received a note of thanks from a local brokerage some years ago for helping them rectify their internal

Laurence Lee shares his investigation experience with colleagues.





control deficiencies, even though it was disciplined by the SFC," he recalls.

Laurence cannot hide his strong sense of belonging from the way he describes his progress in the organisation. Some years ago, he was given the chance to represent the SFC as a training guru by delivering talks and organising sharing sessions for local and overseas regulators and government bodies. He considers this additional responsibility good training in communication and interpersonal skills and jokes that he is "not as shy as before".

At the SFC, staff are given opportunities to realise their full potential, Laurence says. Moreover, life in investigation is never mundane, partly because regulatory approaches are always developing. Laurence looks forward to new challenges ahead in the same field. "Senior management really does treasure and respect staff. This is a place worth staying to develop a career and to grow," he adds.

Loyalty – not just a matter of long service

As an executive secretary, Rosetta has been the assistant to some of the most influential decision makers in the SFC.

Rosetta started as a typist in the government and later joined the then Office of the Commissioner of Securities and Commodities Trading (OCS) as a secretary in the Corporate Finance Division. So when the OCS was replaced by the SFC in the late '80s, it was a natural choice for her to continue in the newly constituted regulatory body. She stayed on in the Corporate Finance Division until she was recommended to assist the then chairman Andrew Sheng as his executive



For Rosetta Chiu, everyday can be exciting depending on what the boss has to deal with.

secretary in 2000. Rosetta is now working for our CEO and so is at the centre of everything that is going on.

Some 20 years may have passed but Rosetta does not feel that she has been at the SFC for so long. Having changed bosses a number of times may help to explain it. But more than that, she says it is because of the "not-so-routine" nature of her work. As a secretary in the SFC, she has to be tuned in to the changes in the marketplace. Working alongside her bosses, she has been drawn into managing crises as one incident after another has hit the industry. As examples, she cites the "penny stock controversy" of 2002 and the recent Lehman Brothers incident. "Everyday is a new challenge," she says.

So what does it take to be the assistant to key decision makers? Irrespective of the boss's personality, patience, attentiveness to details and an even temper are the greatest attributes, Rosetta says. "We must stay calm at all times, particularly

when there are urgent issues," she says. Of course, one must also be fast and accurate, especially if the boss is demanding ... and they always are!

Due to the sometimes personal nature of their job, some secretaries may feel fiercely devoted only to the bosses they serve. This is not so with Rosetta. "I don't regard loyalty as a matter of just serving a boss or staying in an organisation for a long time," she says. "Having the willingness to take up responsibilities, being discreet and able to provide genuine help to your boss and to contribute to the organisation – that's what loyalty is all about."

In her typically modest manner, Rosetta says that while secretarial work may not appeal that much to the younger generation, she still takes pride in what she does and believes in the value of her role in the organisation. "I may be just a small cog in a big machine but I know that all of us are important to keep the machinery running at full speed," she says.

Securities and Futures Commission

Independent auditor's report to the Securities and Futures Commission

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

We have audited the consolidated financial statements of the Securities and Futures Commission (the "SFC") set out on pages 69 to 86 which comprise the consolidated and the SFC balance sheet as at 31 March 2009 and the consolidated income and expenditure account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group as at 31 March 2009 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

18 May 2009

Consolidated income and expenditure account

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$'000 | 2008 \$'000 |
|---|------|------------------|----------------|
| Income | | | |
| Levies | | 1,304,619 | 2,134,733 |
| Fees and charges | | 220,955 | 277,686 |
| Investment income | 5 | 164,281 | 128,212 |
| Less : custody and advisory expenses | | (1,967) | (1,399) |
| Investment income net of third party expenses | | 162,314 | 126,813 |
| Recoveries from Investor Compensation Fund | | 4,235 | 3,809 |
| Other income | 6 | 3,939 | 3,223 |
| | | 1,696,062 | 2,546,264 |
| Expenses | | | |
| Staff costs and directors' emoluments | 7 | 496,564 | 470,925 |
| Premises | | | |
| rent | | 52,257 | 23,487 |
| other | | 21,511 | 17,169 |
| Other expenses | 8 | 88,085 | 60,829 |
| Depreciation | | 25,363 | 12,607 |
| | | 683,780 | 585,017 |
| Surplus for the year | | 1,012,282 | 1,961,247 |
| Accumulated surplus brought forward | | 3,898,361 | 1,937,114 |
| Accumulated surplus carried forward | | 4,910,643 | 3,898,361 |

The notes on pages 73 to 86 form part of these financial statements.

Consolidated balance sheet

At 31 March 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$'000 | 2008 \$'000 |
|--|-------|------------------|----------------|
| Non-current assets | | | |
| Fixed assets | 10(a) | 42,015 | 15,749 |
| Held-to-maturity debt securities | 9 | 3,588,538 | 2,123,610 |
| | | 3,630,553 | 2,139,359 |
| Current assets | | | |
| Held-to-maturity debt securities | 9 | 858,870 | 1,646,043 |
| Debtors, deposits and prepayments | 14 | 181,908 | 225,211 |
| Bank deposits | 11 | 454,140 | 85,612 |
| Cash at bank and in hand | 11 | 2,264 | 2,725 |
| | | 1,497,182 | 1,959,591 |
| Current liabilities | | | |
| Fees received in advance | | 65,582 | 57,185 |
| Creditors and accrued charges | | 70,704 | 53,533 |
| | | 136,286 | 110,718 |
| Net current assets | | | |
| | | 1,360,896 | 1,848,873 |
| Total assets less current liabilities | | | |
| | | 4,991,449 | 3,988,232 |
| Non-current liabilities | | | |
| | 13 | 37,966 | 47,031 |
| Net assets | | | |
| | | 4,953,483 | 3,941,201 |
| Funding and reserves | | | |
| Initial funding by Government | | | |
| | 15 | 42,840 | 42,840 |
| Income and expenditure account | | | |
| | | 4,910,643 | 3,898,361 |
| | | 4,953,483 | 3,941,201 |

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

Approved and authorised for issue by the SFC on 18 May 2009 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

The notes on pages 73 to 86 form part of these financial statements.

Balance sheet

At 31 March 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$'000 | 2008 \$'000 |
|--|-------|------------------|----------------|
| Non-current assets | | | |
| Fixed assets | 10(b) | 41,977 | 15,737 |
| Held-to-maturity debt securities | 9 | 3,588,538 | 2,123,610 |
| | | 3,630,515 | 2,139,347 |
| Current assets | | | |
| Held-to-maturity debt securities | 9 | 858,870 | 1,646,043 |
| Debtors, deposits and prepayments | 14 | 181,734 | 225,016 |
| Bank deposits | 11 | 454,140 | 85,612 |
| Cash at bank and in hand | 11 | 1,784 | 2,334 |
| | | 1,496,528 | 1,959,005 |
| Current liabilities | | | |
| Fees received in advance | | 65,582 | 57,185 |
| Creditors and accrued charges | | 70,012 | 52,935 |
| | | 135,594 | 110,120 |
| Net current assets | | | |
| | | 1,360,934 | 1,848,885 |
| Total assets less current liabilities | | | |
| | | 4,991,449 | 3,988,232 |
| Non-current liabilities | | | |
| | 13 | 37,966 | 47,031 |
| Net assets | | | |
| | | 4,953,483 | 3,941,201 |
| Funding and reserves | | | |
| Initial funding by Government | | | |
| | 15 | 42,840 | 42,840 |
| Income and expenditure account | | | |
| | | 4,910,643 | 3,898,361 |
| | | 4,953,483 | 3,941,201 |

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

Approved and authorised for issue by the SFC on 18 May 2009 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

The notes on pages 73 to 86 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

| | 2009 | 2008 |
|---|--------------------|-------------|
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Surplus for the year | 1,012,282 | 1,961,247 |
| Adjustments for: | | |
| Depreciation | 25,363 | 12,608 |
| Investment income | (164,281) | (128,212) |
| Profit on disposal of fixed assets | (56) | (22) |
| | 873,308 | 1,845,621 |
| Decrease/(increase) in debtors, deposits and prepayments | 58,051 | (59,274) |
| Increase in fees received in advance | 8,397 | 4,960 |
| Increase in creditors and accrued charges | 17,171 | 19,229 |
| Decrease in non-current liabilities | (9,065) | (7,205) |
| Net cash generated from operating activities | 947,862 | 1,803,331 |
| Cash flows from investing activities | | |
| Interest received | 172,577 | 92,454 |
| Held-to-maturity debt securities purchased | (2,412,946) | (2,625,881) |
| Held-to-maturity debt securities redeemed at maturity | 1,616,048 | 771,541 |
| Held-to-maturity debt securities sold | 96,099 | – |
| Fixed assets bought | (51,639) | (10,281) |
| Fixed assets sold | 66 | 22 |
| Net cash used in investing activities | (579,795) | (1,772,145) |
| Net increase in cash and cash equivalents | 368,067 | 31,186 |
| Cash and cash equivalents at beginning of the year | 88,337 | 57,151 |
| Cash and cash equivalents at end of the year | 456,404 | 88,337 |

Analysis of the balance of cash and cash equivalents:

| | 2009 | 2008 |
|--------------------------|----------------|--------|
| | \$'000 | \$'000 |
| Bank deposits | 454,140 | 85,612 |
| Cash at bank and in hand | 2,264 | 2,725 |
| | 456,404 | 88,337 |

Notes to the consolidated financial statements

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

1. Status and principal activities

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

2. Income

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

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

3. Significant accounting policies

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

Basis of preparation

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

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

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

Basis of consolidation

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

3. Significant accounting policies (cont'd)

Recognition of income

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

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

Operating leases

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

Employee benefits

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

Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see the accounting policy in respect of "impairment" on page 76). We charge depreciation to the income and expenditure account to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

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

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

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

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

3. Significant accounting policies (cont'd)

Investments

We state our investments in debt securities, which we have positive intention and ability to hold to maturity, initially at fair value and subsequently at amortised cost using the effective interest method less impairment losses, if any (see the accounting policy in respect of "impairment" on page 76). We account for purchases and sales of debt securities on the settlement date.

Related parties

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

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

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

Translation of foreign currencies

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

Other receivables

We state other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of other receivables at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, we reduce the carrying amount to the estimated recoverable amount by means of a charge to the income and expenditure account (see also the accounting policy in respect of "impairment" on page 76).

Cash and cash equivalents

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

Other payables

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

Investment in subsidiaries

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

3. Significant accounting policies (cont'd)

Impairment

Recognition of impairment loss

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

Calculation of impairment loss

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

Reversals of impairment loss

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

Provisions and contingent liabilities

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

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

Changes in accounting policies

The IASB has issued a number of new interpretations and an amendment to IFRS that are first effective for the current accounting period of the SFC. However, none of these developments are relevant to the SFC's operations.

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 20).

4. Taxation

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

5. Investment income

| | 2009 | 2008 |
|--|-----------------|---------|
| | \$'000 | \$'000 |
| Interest income | 187,325 | 122,799 |
| Gain on disposal of held-to-maturity debt securities | 1,302 | – |
| Amortisation of premium on held-to-maturity debt securities | (33,300) | (5,201) |
| Amortisation of discount on held-to-maturity debt securities | 8,954 | 10,614 |
| | 164,281 | 128,212 |

Interest income is derived as follows:

| | 2009 | 2008 |
|--|----------------|---------|
| | \$'000 | \$'000 |
| Interest income from held-to-maturity debt securities | 182,816 | 117,950 |
| Other interest income | 4,509 | 4,849 |
| Total interest income on financial assets not at fair value through profit or loss | 187,325 | 122,799 |

6. Other income

| | 2009 | 2008 |
|--|--------------|--------|
| | \$'000 | \$'000 |
| Investigation costs awarded | 1,702 | 1,453 |
| FinNet managed network and support fee | 1,421 | 287 |
| Exchange gain | – | 1,064 |
| Sale of SFC publications | 425 | 324 |
| Profit on disposal of fixed assets | 57 | 22 |
| Others | 334 | 73 |
| | 3,939 | 3,223 |

7. Staff costs and directors' emoluments

| | 2009 | 2008 |
|----------------------------------|----------------|---------|
| | \$'000 | \$'000 |
| Salaries and allowances | 448,101 | 428,758 |
| Retirement benefits | 28,627 | 26,383 |
| Medical and life insurance | 14,722 | 13,295 |
| Staff functions | 944 | 524 |
| Recruitment | 1,934 | 717 |
| Registration and membership fees | 602 | 552 |
| Overtime pay | 1,634 | 696 |
| | 496,564 | 470,925 |

The total number of staff as at 31 March 2009 was 481 (478 for the SFC and 3 for the Investor Compensation Company Limited) (at 31 March 2008: the total number of staff was 445, comprising 442 for the SFC and 3 for the Investor Compensation Company Limited).

Directors' emoluments included in the above comprised:

| | Directors' fee | Salaries, allowances & benefits in kind | Discretionary pay | Retirement scheme contribution | 2009 Total | 2008 Total |
|--|----------------|---|-------------------|--------------------------------|------------|------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | | | | (Note 1) | | |
| Chief Executive Officer | | | | | | |
| Martin Wheatley, JP | – | 6,775 | 970 | 479 | 8,224 | 8,181 |
| Executive Directors | | | | | | |
| Alexa Lam | – | 5,000 | 1,219 | 500 | 6,719 | 5,491 |
| Brian Ho | – | 3,960 | 772 | 396 | 5,128 | 4,900 |
| Keith Lui | – | 3,960 | 772 | 396 | 5,128 | 4,900 |
| Mark Steward | – | 4,000 | 1,140 | 400 | 5,540 | 5,399 |
| Paul Kennedy | – | 4,500 | 1,080 | 450 | 6,030 | 6,409 |
| | – | 28,195 | 5,953 | 2,621 | 36,769 | 35,280 |
| Non-executive Chairman | | | | | | |
| Eddy Fong, GBS, JP | 702 | – | – | – | 702 | 702 |
| Non-executive Directors | | | | | | |
| The Hon Chan Kam-lam, SBS, JP (appointed 15 Nov 2007) | 234 | – | – | – | 234 | 88 |
| Angelina Lee, JP | 234 | – | – | – | 234 | 234 |
| Christopher Cheng, GBS, JP | 234 | – | – | – | 234 | 234 |
| Kenneth Kwok, BBS, SC | 234 | – | – | – | 234 | 234 |
| Professor Liu Pak-wai, SBS, JP | 234 | – | – | – | 234 | 234 |
| Shengman Zhang | 234 | – | – | – | 234 | 234 |
| The Hon Tsang Yok Sing, GBS, JP (retired 14 Nov 2007 ^(Note 2)) | – | – | – | – | – | 146 |
| Dr. York Liao, SBS, JP | 234 | – | – | – | 234 | 234 |
| | 2,340 | – | – | – | 2,340 | 2,340 |
| Total directors' emoluments | 2,340 | 28,195 | 5,953 | 2,621 | 39,109 | 37,620 |

Note 1 This represents net contribution expenses accrued during the year ended 31 March 2009 in accordance with the accounting policy set out in note 3. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested at 31 March 2009 was \$1,436,000.

Note 2 Retired having completed appointment period.

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

Aggregate of the emoluments of the five highest paid individuals

The aggregate of the emoluments of the five highest paid individuals in 2008/2009, representing the emoluments of five executive directors, was \$31,641,000 (2007/2008: \$30,380,000 for five executive directors) with the breakdown as follows:

| | 2009 \$'000 | 2008 \$'000 |
|---|----------------|----------------|
| Salaries, allowances & benefits in kind | 24,235 | 22,534 |
| Discretionary pay | 5,181 | 6,335 |
| Retirement scheme contribution | 2,225 | 1,511 |
| | 31,641 | 30,380 |

Their emoluments are within the following bands:

| | 2009 No. of individuals | 2008 No. of individuals |
|----------------------------|-------------------------------|-------------------------------|
| \$4,500,001 to \$5,000,000 | 0 | 1 |
| \$5,000,001 to \$5,500,000 | 1 | 2 |
| \$5,500,001 to \$6,000,000 | 1 | 0 |
| \$6,000,001 to \$6,500,000 | 1 | 1 |
| \$6,500,001 to \$7,000,000 | 1 | 0 |
| \$7,000,001 to \$7,500,000 | 0 | 0 |
| \$7,500,001 to \$8,000,000 | 0 | 0 |
| \$8,000,001 to \$8,500,000 | 1 | 1 |

Employee benefits

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

(a) ORSO Scheme

General grade staff For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the SFC prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was \$20,000(2008: \$44,000).

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

We use forfeited contributions in respect of professional staff who leave the SFC prior to qualifying for 100% disbursement of the contributions to offset the SFC's future contributions. The amount so forfeited during the year was \$2,052,000 (2008: \$1,933,000) and the amount so forfeited available at the balance sheet date was \$282,000 (2008: \$414,000).

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

(b) MPF Scheme

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

8. Other expenses

| | 2009 | 2008 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Training and development | 4,537 | 3,649 |
| Legal and professional services | 34,143 | 23,000 |
| Information and systems services | 21,985 | 18,371 |
| Auditor's remuneration | 404 | 374 |
| Funding for the Financial Reporting Council | 2,500 | 2,500 |
| Funding for the International Accounting Standards Committee Foundation | 390 | – |
| General office and insurance | 6,834 | 5,352 |
| External relations | 15,862 | 7,583 |
| Exchange loss | 1,430 | – |
| | 88,085 | 60,829 |

9. Held-to-maturity debt securities

The Group and the SFC

| | | 2009 | 2008 |
|------------------------------|----------------------------|------------------|------------------|
| | | \$'000 | \$'000 |
| Maturing after one year | | | |
| In the second to sixth years | – unlisted | 402,207 | 470,182 |
| | – listed in Hong Kong | 98,565 | – |
| | – listed outside Hong Kong | 3,087,766 | 1,653,428 |
| | | 3,588,538 | 2,123,610 |
| Maturing within one year | – unlisted | 251,469 | 650,557 |
| | – listed outside Hong Kong | 607,401 | 995,486 |
| | | 858,870 | 1,646,043 |
| | | 4,447,408 | 3,769,653 |
| Amortised cost at 31 March | – unlisted | 653,676 | 1,120,739 |
| | – listed in Hong Kong | 98,565 | – |
| | – listed outside Hong Kong | 3,695,167 | 2,648,914 |
| | | 4,447,408 | 3,769,653 |
| Market value at 31 March | – unlisted | 663,342 | 1,144,453 |
| | – listed in Hong Kong | 102,530 | – |
| | – listed outside Hong Kong | 3,742,527 | 2,709,693 |
| | | 4,508,399 | 3,854,146 |

The average yield to maturity of the debt securities was 2.53% at 31 March 2009 (2008: 2.78%).

10. Fixed assets

(a) The Group

| | Furniture, fixtures and leasehold improvements | Office equipment | Computer application systems | Personal computers and software | Motor vehicles | Total |
|---------------------------------|---|-----------------------------|---|--|---------------------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost | | | | | | |
| At 1 April 2008 | 35,572 | 9,505 | 127,529 | 24,695 | 1,967 | 199,268 |
| Additions | 26,642 | 2,126 | 14,479 | 8,392 | – | 51,639 |
| Disposals | (951) | (484) | (3,170) | (996) | – | (5,601) |
| At 31 March 2009 | 61,263 | 11,147 | 138,838 | 32,091 | 1,967 | 245,306 |
| Accumulated depreciation | | | | | | |
| At 1 April 2008 | 35,362 | 8,813 | 116,152 | 21,719 | 1,473 | 183,519 |
| Charge for the year | 8,624 | 773 | 10,647 | 5,072 | 247 | 25,363 |
| Written back on disposals | (941) | (484) | (3,170) | (996) | – | (5,591) |
| At 31 March 2009 | 43,045 | 9,102 | 123,629 | 25,795 | 1,720 | 203,291 |
| Net book value | | | | | | |
| At 31 March 2009 | 18,218 | 2,045 | 15,209 | 6,296 | 247 | 42,015 |
| Cost | | | | | | |
| At 1 April 2007 | 35,520 | 9,261 | 119,650 | 26,030 | 1,967 | 192,428 |
| Additions | 52 | 244 | 7,879 | 2,106 | – | 10,281 |
| Disposals | – | – | – | (3,339) | – | (3,339) |
| Written off | – | – | – | (102) | – | (102) |
| At 31 March 2008 | 35,572 | 9,505 | 127,529 | 24,695 | 1,967 | 199,268 |
| Accumulated depreciation | | | | | | |
| At 1 April 2007 | 35,184 | 8,053 | 108,731 | 21,158 | 1,226 | 174,352 |
| Charge for the year | 178 | 760 | 7,421 | 4,002 | 247 | 12,608 |
| Written back on disposals | – | – | – | (3,339) | – | (3,339) |
| Written off | – | – | – | (102) | – | (102) |
| At 31 March 2008 | 35,362 | 8,813 | 116,152 | 21,719 | 1,473 | 183,519 |
| Net book value | | | | | | |
| At 31 March 2008 | 210 | 692 | 11,377 | 2,976 | 494 | 15,749 |

10. Fixed assets (cont'd)
(b) The SFC

| | Furniture, fixtures and leasehold improvements | Office equipment | Computer application systems | Personal computers and software | Motor vehicles | Total |
|---------------------------------|---|-----------------------------|---|--|---------------------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost | | | | | | |
| At 1 April 2008 | 35,228 | 9,473 | 127,529 | 24,442 | 1,967 | 198,639 |
| Additions | 26,642 | 2,096 | 14,479 | 8,371 | – | 51,588 |
| Disposals | (622) | (478) | (3,170) | (963) | – | (5,233) |
| At 31 March 2009 | 61,248 | 11,091 | 138,838 | 31,850 | 1,967 | 244,994 |
| Accumulated depreciation | | | | | | |
| At 1 April 2008 | 35,029 | 8,782 | 116,152 | 21,466 | 1,473 | 182,902 |
| Charge for the year | 8,622 | 767 | 10,647 | 5,065 | 247 | 25,348 |
| Written back on disposals | (622) | (478) | (3,170) | (963) | – | (5,233) |
| At 31 March 2009 | 43,029 | 9,071 | 123,629 | 25,568 | 1,720 | 203,017 |
| Net book value | | | | | | |
| At 31 March 2009 | 18,219 | 2,020 | 15,209 | 6,282 | 247 | 41,977 |
| Cost | | | | | | |
| At 1 April 2007 | 35,176 | 9,230 | 119,650 | 25,675 | 1,967 | 191,698 |
| Additions | 52 | 243 | 7,879 | 2,106 | – | 10,280 |
| Disposals | – | – | – | (3,339) | – | (3,339) |
| At 31 March 2008 | 35,228 | 9,473 | 127,529 | 24,442 | 1,967 | 198,639 |
| Accumulated depreciation | | | | | | |
| At 1 April 2007 | 34,862 | 8,029 | 108,731 | 20,825 | 1,226 | 173,673 |
| Charge for the year | 167 | 753 | 7,421 | 3,980 | 247 | 12,568 |
| Written back on disposals | – | – | – | (3,339) | – | (3,339) |
| At 31 March 2008 | 35,029 | 8,782 | 116,152 | 21,466 | 1,473 | 182,902 |
| Net book value | | | | | | |
| At 31 March 2008 | 199 | 691 | 11,377 | 2,976 | 494 | 15,737 |

11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2009 ranged from 0.05% to 0.85% (2008: 1% to 1.6%). These balances mature within one year at both 31 March 2009 and 31 March 2008.

12. Investments in subsidiaries

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

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2009, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the balance sheet which is expressed in thousands of dollars.

The balance sheet of FinNet as at 31 March 2009 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

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

13. Non-current liabilities

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

14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$173,478,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2008: \$216,602,000). Receivables are usually due within 30 days.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2008 and 2009.

15. Initial funding by Government

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

16. Capital commitments

Capital commitments outstanding at 31 March 2009 not provided for in the financial statements were as follows:

| | 2009 | 2008 |
|-----------------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Authorised and contracted for | 32,761 | 16,324 |
| Authorised but not contracted for | 8,056 | 22,937 |

17. Commitment to pay rents for offices

At 31 March 2009, the minimum amount we are committed to pay in rent for our office up to the expiry dates of the leases are as follows:

| | The Group | | The SFC | |
|---------------------------------|------------------|---------|----------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Payable next year | 68,343 | 62,578 | 68,343 | 62,578 |
| Payable in one to five years | 202,631 | 257,326 | 202,631 | 257,326 |
| Payable in more than five years | – | 13,647 | – | 13,647 |
| | 270,974 | 333,551 | 270,974 | 333,551 |

During the year ended 31 March 2009, \$52,257,000, net of lease incentives, was recognised as an expense in the income and expenditure account in respect of operating leases (2008: \$23,487,000).

18. Related party transactions

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

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

During the year, \$4,235,000 was recovered from ICF for ICC's expenses (2008 : \$3,809,000). As at 31 March 2009, the amount due to ICF from ICC was \$477,000 (at 31 March 2008: \$536,000).

(b) Remuneration of key management personnel

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

(c) Operating expenses of FinNet

During the year, all operating expenses incurred by FinNet were absorbed by the SFC. The amount being absorbed for the year was \$19,000 (2008: \$23,000) including the provision for audit fee of \$10,000 (2008: \$10,000).

19. Financial instruments

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

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

(a) Credit risk

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

(b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rates bearing debt securities and bank balances. The SFC is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The SFC manages re-pricing risk of its fixed rate dated securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the SFC's interest bearing assets are disclosed in the respective notes to the financial statements. At 31 March 2009, it is estimated that a general increase/decrease of 100 basis points assuming a parallel shift of the yield curve, with all other variables held constant, would increase/decrease the SFC's surplus and accumulated surplus by approximately \$8.5 million (2008: \$7.4 million). As at 31 March 2009 the average duration of the SFC's investment portfolio was 1.88 years (31 March 2008: 1.65 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the balance sheet date. The analysis is performed on the same basis for 2008.

19. Financial instruments (cont'd)

(c) Exchange rate risk

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

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008 except for held-to-maturity debt securities as disclosed in note 9. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed held-to-maturity debt securities is based on quoted market prices at the balance sheet date using current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.

20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2009

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2009 and which have not been adopted in these financial statements.

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

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

Effective for accounting periods beginning on or after

IAS 1 (revised 2007), Presentation of financial statements

1 January 2009

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their annual report and the audited financial statements for the year ended 31 March 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 89 to 100.

3. Members of the Committee

The members of the Committee during the year ended 31 March 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 balance sheet date or at any time during the year.

5. Auditor

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

On behalf of the Committee

Keith Lui

Chairman

18 May 2009

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

We have audited the financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 89 to 100 which comprise the balance sheet as at 31 March 2009 and the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The SFC's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2009 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

18 May 2009

Income and expenditure account

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$'000 | 2008 \$'000 |
|--|------|-----------------|----------------|
| Income | | | |
| Net investment (loss)/income | 3&5 | (32,716) | 126,894 |
| Exchange difference | | (2,596) | (3,720) |
| | | (35,312) | 123,174 |
| Expenses | | | |
| Investor Compensation Company expenses | 7 | 4,235 | 3,809 |
| Compensation expense/(write backs) | 8 | 994 | (10,873) |
| Auditor's remuneration | | 84 | 77 |
| Bank charges | | 768 | 770 |
| Professional fees | | 2,827 | 2,965 |
| Sundry expenses | | 1 | 1 |
| | | 8,909 | (3,251) |
| (Deficit)/Surplus | | (44,221) | 126,425 |
| Accumulated surplus brought forward | | 756,185 | 629,760 |
| Accumulated surplus carried forward | | 711,964 | 756,185 |

The notes on pages 92 to 100 form part of these financial statements.

Investor Compensation Fund

Balance sheet

At 31 March 2009

(Expressed in Hong Kong dollars)

| | Note | 2009 \$'000 | 2008 \$'000 |
|--|------|------------------|----------------|
| Current assets | | | |
| Financial assets designated at fair value through profit or loss | | | |
| – Debt securities | 9 | 1,554,614 | 1,502,130 |
| – Pooled Fund | 9 | 113,112 | 202,926 |
| Interest receivable | | 20,253 | 21,411 |
| Unsettled regular purchases of financial assets | | – | 46,987 |
| Due from Investor Compensation Company | | 477 | 536 |
| Fixed and call deposits with banks | 10 | 116,037 | 104,916 |
| Cash at Bank | 10 | 20,074 | 4,784 |
| | | 1,824,567 | 1,883,690 |
| Current liabilities | | | |
| Provision for compensation | 8 | 8,032 | 22,978 |
| Accounts payable and accrued charges | | 801 | 886 |
| Fair value adjustment on unsettled trades | | 129 | – |
| | | 8,962 | 23,864 |
| Net current assets | | 1,815,605 | 1,859,826 |
| Net assets | | 1,815,605 | 1,859,826 |
| Representing: | | | |
| <u>Compensation fund</u> | | | |
| Contributions from Unified Exchange Compensation Fund | 11 | 994,718 | 994,718 |
| Contributions from Commodity Exchange Compensation Fund | 11 | 108,923 | 108,923 |
| Accumulated surplus | | 711,964 | 756,185 |
| | | 1,815,605 | 1,859,826 |

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

Approved and authorised for issue by the Securities and Futures Commission (the SFC) on 18 May 2009 and signed on its behalf by

Eddy C Fong

Chairman of the SFC

Martin Wheatley

Chief Executive Officer of the SFC

The notes on pages 92 to 100 form part of these financial statements.

Cash flow statement

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

| | 2009 | 2008 |
|--|--------------------|-------------|
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| (Deficit)/surplus for the year | (44,221) | 126,425 |
| Net investment loss/(income) | 32,716 | (126,894) |
| Exchange difference | 2,596 | 3,720 |
| Decrease in amount due from Investor Compensation Company | 59 | 327 |
| Decrease/(Increase) in unsettled regular purchases of financial assets | 46,987 | (46,987) |
| Decrease in provision for compensation | (14,946) | (22,236) |
| (Decrease)/Increase in accounts payable and accrued charges | (85) | 64 |
| Net cash from/(used in) operating activities | 23,106 | (65,581) |
| Cash flows from investing activities | | |
| Purchase of debt securities | (1,346,351) | (1,305,142) |
| Sale or maturity of debt securities | 1,279,250 | 1,375,047 |
| Sale of equity securities | 861 | 970 |
| Interest received | 69,545 | 76,343 |
| Net cash from investing activities | 3,305 | 147,218 |
| Net increase in cash and cash equivalents | 26,411 | 81,637 |
| Cash and cash equivalents at beginning of the year | 109,700 | 28,063 |
| Cash and cash equivalents at end of the year | 136,111 | 109,700 |

Analysis of the balance of cash and cash equivalents:

| | 2009 | 2008 |
|------------------------------------|----------------|---------|
| | \$'000 | \$'000 |
| Fixed and call deposits with banks | 116,037 | 104,916 |
| Cash at bank | 20,074 | 4,784 |
| | 136,111 | 109,700 |

Notes to the financial statements

For the year ended 31 March 2009

(Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

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

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

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

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

2. Money constituting the Fund

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

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

3. Significant accounting policies

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

Basis of preparation

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

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

3. Significant accounting policies (cont'd)

Basis of preparation (cont'd)

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

Recognition of income

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

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

Translation of foreign currencies

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

Financial instruments

(i) Initial recognition

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

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

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

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

(ii) Fair value measurement principles

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

3. Significant accounting policies (cont'd)

Financial instruments (cont'd)

(iii) Derecognition

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

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

(iv) Offsetting

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

Impairment

(i) Recognition of impairment loss

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

(ii) Calculation of impairment loss

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

(iii) Reversals of impairment loss

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

Cash and cash equivalents

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

Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses, unless the effect of discounting would be immaterial in which case we state them at cost. These are classified as loans and receivables in accordance with the determination in International Accounting Standard ("IAS") 39, are due within one year and are unsecured.

3. Significant accounting policies (cont'd)

Provision for compensation

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

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

As the Fund is continually updating information in respect of claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at balance sheet date. Any increase or decrease in the provision would affect profit and loss in future years.

Other payables

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

Contingent liability

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

Related parties

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

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

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

Changes in accounting policies

The IASB has issued a number of new interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Fund. However, none of these developments are relevant to the Fund's operations.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

4. Taxation

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

5. Net investment (loss)/income

| | 2009 | 2008 |
|---|-----------------|---------|
| | \$'000 | \$'000 |
| Interest income from bank deposits | 1,497 | 3,887 |
| Interest income on financial assets designated at fair value through profit or loss | 64,446 | 68,268 |
| Realised loss on disposal of equity securities | (34) | (34) |
| Realised (loss)/gain on redemption/disposal of debt securities | (14,285) | 5,544 |
| (Loss)/gain on revaluation of equity securities | (88,496) | 26,835 |
| Gain on revaluation of debt securities | 4,156 | 22,394 |
| Net investment (loss)/income | (32,716) | 126,894 |

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

| | 2009 | 2008 |
|---|---------------|--------|
| | \$'000 | \$'000 |
| Total interest income on financial assets not at fair value through profit or loss | 1,497 | 3,887 |
| Interest income on financial assets designated at fair value through profit or loss | 64,446 | 68,268 |
| | 65,943 | 72,155 |

6. Levy from the SEHK/HKFE

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

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

7. ICC expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of ICC. For the year ended 31 March 2009, ICC incurred costs of \$4,235,000 for its operations (2008: \$3,809,000).

8. Provision for compensation

| | \$'000 |
|--|----------|
| Balance as at 31 March 2007 | 45,214 |
| Add: provision made during the year ended 31 March 2008 | 6,450 |
| Less: provision reversed during the year ended 31 March 2008 | (17,323) |
| Less: compensation paid during the year ended 31 March 2008 | (11,363) |
| Balance as at 31 March 2008 | 22,978 |
| Add: provision made during the 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 |

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 \$150,000 per claimant. As at 31 March 2009 all provisions were expected to be paid within one year.

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

| | 2009 | 2008 |
|--|------------------|-----------|
| | \$'000 | \$'000 |
| (a) Debt securities | | |
| (i) Listing status | | |
| Listed – outside Hong Kong at quoted market prices | 282,991 | 317,043 |
| Listed – outside Hong Kong based on valuation techniques | 35,630 | – |
| Listed – in Hong Kong | 110,578 | 126,294 |
| Unlisted | 1,125,415 | 1,058,793 |
| | 1,554,614 | 1,502,130 |
| (ii) Maturity profile | | |
| Within one year | 526,000 | 621,703 |
| After one year but within two years | 237,674 | 546,878 |
| After two years but within five years | 607,542 | 276,348 |
| After five years | 183,398 | 57,201 |
| | 1,554,614 | 1,502,130 |
| (iii) The weighted average effective interest rate of debt securities on 31 March 2009 was 2.7% (2008: 2.54%). | | |
| (b) Pooled fund | | |
| Unlisted | 113,112 | 202,926 |
| The pooled fund comprises mainly listed equity securities. | | |

10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2009 ranged from 0.4% to 0.72% (2008 : 1.33% to 2.85%). The balances mature within one year at both 31 March 2009 and 31 March 2008.

11. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2009, the SFC had paid \$994,718,000 (2008: \$994,718,000) and \$108,923,000 (2008: \$108,923,000) into the Fund from the UECF and the CECF respectively.

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

12. Related party transactions

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

13. Financial instruments

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

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

(i) Credit risk

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

(ii) Liquidity risk

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

(iii) Interest rate risk

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

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than 2.5 years within its debt securities portfolio. As at 31 March 2009 the duration was 2.13 years (31 March 2008: 1.42 years).

13. Financial instruments (cont'd)

(iii) Interest rate risk (cont'd)

At 31 March 2009, it is estimated that a general increase/decrease of 100 basis points in 3-month interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$35.4 million (2008: \$23.5 million). Further, at 31 March 2009, it is estimated that a general increase/decrease of 100 basis points in 3 month interest rates, with all other variables held constant, would increase/decrease the Fund's interest income and the accumulated surplus by approximately \$4.6 million (2008: \$3.8 million). Other components of accumulated surplus would not be affected (2008: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the balance sheet date. The analysis is performed on the same basis for 2008.

(iv) Exchange rate risk

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

(v) Market risk

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

The Fund invests in units of a pooled fund, which mainly comprises listed equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase/decrease of 27.5% in the benchmark index would increase/decrease the Fund's accumulated surplus and decrease/increase the Fund's loss by approximately \$23.2 million (2008: a general increase/decrease of 20% in the benchmark index would increase/decrease the Fund's profit and accumulated surplus by approximately \$30.6 million).

The sensitivity analysis indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the changes in the benchmark index had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the balance sheet date. It is also assumed that the fair values of the Fund's investment in pooled fund would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant. The analysis is performed on the same basis for 2008.

(vi) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008.

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

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

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

14. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 8, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$450,000 (31 March 2008: \$2,403,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

In September 2008, following the Lehman 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 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.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2009

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2009 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the Fund's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

Effective for accounting periods beginning on or after

IAS 1 (revised 2007), Presentation of financial statements

1 January 2009

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their annual report and the audited financial statements for the year ended 31 March 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 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 settlement of all claims against the Fund 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 103 to 113.

3. Members of the Committee

The members of the Committee during the year ended 31 March 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 balance sheet date or at any time during the year.

5. Auditor

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

On behalf of the Committee

Keith Lui

Chairman

11 May 2009

Unified Exchange Compensation Fund

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

We have audited the financial statements of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 103 to 113 which comprise the balance sheet as at 31 March 2009 and the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The SFC's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2009 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

11 May 2009

Income and expenditure account

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 \$'000 | 2008 \$'000 |
|--|------|----------------|----------------|
| Income | | | |
| Interest income | 3 | 1,146 | 3,148 |
| Recoveries | 3&5 | 99 | 26,804 |
| | | 1,245 | 29,952 |
| Expenses | | | |
| Compensation expenses made | | – | 1,643 |
| Recoveries re-distributed | | – | 33,210 |
| Auditor's remuneration | | 38 | 35 |
| Professional fees | | 13 | 360 |
| Sundry expenses | | 1 | 4 |
| | | 52 | 35,252 |
| Surplus/(Deficit) for the year | | 1,193 | (5,300) |
| Accumulated surplus brought forward | | 13,910 | 19,210 |
| Accumulated surplus carried forward | | 15,103 | 13,910 |

The notes on pages 107 to 113 form part of these financial statements.

Unified Exchange Compensation Fund

Balance sheet

At 31 March 2009

(Expressed in Hong Kong dollars)

| | Note | 2009 \$'000 | 2008 \$'000 |
|--|------|------------------|----------------|
| Current assets | | | |
| Equity securities received under subrogation | | 307 | 670 |
| Interest receivable | | 44 | 100 |
| Fixed and call deposits with banks | | 67,270 | 59,223 |
| Cash at Bank | | 334 | 373 |
| | | 67,955 | 60,366 |
| Current liabilities | | | |
| Accounts payable and accrued charges | 6 | 10,281 | 4,308 |
| Provision for compensation | 3&8 | – | 27 |
| | | 10,281 | 4,335 |
| Net current assets | | | |
| | | 57,674 | 56,031 |
| Net assets | | | |
| | | 57,674 | 56,031 |
| Representing: | | | |
| <u>Compensation fund</u> | | | |
| Contributions from the SEHK | 7 | 47,000 | 46,550 |
| Excess transaction levy from the SEHK | 10 | 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 | 11 | 3,002 | 3,002 |
| Accumulated surplus | | 15,103 | 13,910 |
| | | 1,052,392 | 1,050,749 |
| Contributions to Investor Compensation Fund | 12 | (994,718) | (994,718) |
| | | 57,674 | 56,031 |

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 11 May 2009 and signed on its behalf by

Keith Lui
Chairman

Gerald Greiner
Committee Member

The notes on pages 107 to 113 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2009

(Expressed in Hong Kong dollars)

| | 2009 | 2008 |
|--|---------------|---------|
| | \$'000 | \$'000 |
| Compensation Fund balance as at 1 April | 56,031 | 60,881 |
| Net contribution from the SEHK | 450 | 450 |
| Surplus/(Deficit) for the year | 1,193 | (5,300) |
| Compensation Fund balance as at 31 March | 57,674 | 56,031 |

The notes on pages 107 to 113 form part of these financial statements.

Unified Exchange Compensation Fund

Cash flow statement

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

| | 2009 | 2008 |
|---|---------------|----------|
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Surplus/(deficit) for the year | 1,193 | (5,300) |
| Interest income | (1,146) | (3,148) |
| Decrease/(increase) in equity securities received under subrogation | 363 | (110) |
| Decrease in provision for compensation | (27) | (1,796) |
| Increase in accounts payable and accrued charges | 5,973 | 2 |
| Provision for recoveries to be re-distributed | – | 33,210 |
| Payments for recoveries re-distributed | – | (33,210) |
| Net cash from/(used in) operating activities | 6,356 | (10,352) |
| Cash flows from investing activities | | |
| Interest received | 1,202 | 3,161 |
| Net cash from investing activities | 1,202 | 3,161 |
| Cash flows from financing activities | | |
| Contributions from the SEHK | 450 | 450 |
| Net cash from financing activities | 450 | 450 |
| Net increase/(decrease) in cash and cash equivalents | 8,008 | (6,741) |
| Cash and cash equivalents at beginning of the year | 59,596 | 66,337 |
| Cash and cash equivalents at end of the year | 67,604 | 59,596 |

Analysis of the balance of cash and cash equivalents:

| | 2009 | 2008 |
|------------------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Fixed and call deposits with banks | 67,270 | 59,223 |
| Cash at bank | 334 | 373 |
| | 67,604 | 59,596 |

Notes to the financial statements

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

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

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

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

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

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single investor compensation fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

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

2. Money constituting the Fund

Before 1 April 2003, the SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, the SFC may require the SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to the SEHK the investment return earned on any remaining deposits net of Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from the SEHK (2008: nil).

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

Other sources of money for the Fund include: recoveries; SEHK replenishments detailed in note 15; special levy surplus detailed in note 11; and transaction levy received before the SFO became effective from 1 April 2003.

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

Unified Exchange Compensation Fund

3. Significant accounting policies

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

Basis of preparation

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

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

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

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008.

Recognition of income

| | |
|-----------------------------------|--|
| Interest income | We record interest income from bank deposits on an accruals basis. |
| Recoveries | We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid. |
| Replenishments by the SEHK | We record replenishments from the SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by the SEHK, we deem compensation payments up to the amount of \$8,000,000 for each default to be charged to the contribution from the SEHK. |

Impairment

(i) Recognition of impairment loss

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

(ii) Calculation of impairment loss

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

3. Significant accounting policies (cont'd)

Impairment (cont'd)

(iii) Reversals of impairment loss

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

Cash and cash equivalents

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

Provision for compensation

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

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

Accounts payable and accrued charges

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

Contingent liabilities

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

Related parties

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

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

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

3. Significant accounting policies (cont'd)

Changes in accounting policies

The IASB has issued a number of new interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Fund. However, none of these developments are relevant to the Fund's operations.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

4. Taxation

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

5. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund arranged to liquidate the shares as far as possible. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 March 2009 after deducting relevant processing fees and charges for collecting and selling the securities received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in IAS 39. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

6. Accounts payable and accrued charges

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

These liabilities classified as financial liabilities measured at amortised costs in accordance with the determination in IAS 39 unless the effect of discounting would be immaterial, in which case they are stated at cost, are due on demand or within one year and are unsecured.

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

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

The SEHK advised the SFC of five trading rights having been transferred during the six months to 31 March 2009 (2008: 7 trading rights had been transferred during the six months to 31 March 2008).

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

The SEHK also advised the SFC of 21 trading rights in total having been relinquished since October 2007. Unless the money is required to satisfy any claims or liabilities arising before such relinquishment, the SFC will refund to the SEHK the deposit of \$50,000 in respect of each trading right at or about the end of a six-month period after the relinquishment took effect. During the year, the SFC refunded deposits of total \$500,000 to the SEHK in respect of ten of these relinquished trading rights.

7. Set-off of SEHK deposits and refunds/contributions from the SEHK (cont'd)

The movement of contributions from the SEHK during the year was as follows :

| | 2009 | 2008 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Balance brought forward | 46,550 | 46,100 |
| Add: 19 new trading rights issued (2008: 19) | 950 | 950 |
| Less: 10 relinquished trading rights refunded (2008: 10) | (500) | (500) |
| Balance carried forward | <u>47,000</u> | <u>46,550</u> |

8. Provision for compensation

| | 2009 | 2008 |
|-----------------------------------|----------|-----------|
| | \$'000 | \$'000 |
| Balance brought forward | 27 | 1,823 |
| Less: Amount paid during the year | (27) | (3,439) |
| Add: Net provision made | – | 1,643 |
| Balance carried forward | <u>–</u> | <u>27</u> |

9. Contingent liabilities

As at the date of this report, there is 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 5). As at 31 March 2009, shares with a market value \$307,000, 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.

10. Excess transaction levy from the SEHK

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

11. Special levy surplus

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

Unified Exchange Compensation Fund

12. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single investor compensation fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF upto 31 March 2009 amounted to \$994,718,000.

13. Related party transactions

We have related party relationships with the ICF, the SFC and the SEHK. During the year, there were no significant related party transactions other than those disclosed in the financial statements (refer to notes 7, 10, 12 and 15).

14. Financial risk management

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

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

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

15. Replenishments from the SEHK

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

Up to 31 March 2009, the SEHK has replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require the SEHK to further replenish \$70,816,000 to the Fund as follows:

| | 2009 | 2008 |
|---|----------|----------|
| | \$'000 | \$'000 |
| Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance | 100,738 | 100,738 |
| Less: Recoveries received for compensation paid up to \$8 million | (29,946) | (29,507) |
| Add: Recoveries re-distributed to claimants | 16,385 | 16,385 |
| Less: Replenishments from the SEHK | (16,361) | (16,361) |
| Net amount the SFC may request the SEHK for replenishment | 70,816 | 71,255 |

15. Replenishments from the SEHK (cont'd)

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

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

16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2009

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2009 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the Fund's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

Effective for accounting periods beginning on or after

IAS 1 (revised 2007), Presentation of financial statements

1 January 2009

Activity and Market data

Activity data

Table 1 Number of authorised investment products

| | As at 31.03.2009 | As at 31.03.2008 | As at 31.03.2007 |
|--|------------------|------------------|------------------|
| Unit trusts and mutual funds | 2,093 | 2,123 | 1,980 |
| Investment-linked assurance schemes | 235 | 229 | 201 |
| Pooled retirement funds | 35 | 36 | 37 |
| MPF master trust schemes | 36 | 38 | 38 |
| MPF pooled investment funds ¹ | 305 | 298 | 287 |
| Others ² | 129 | 157 | 143 |
| Total | 2,833 | 2,881 | 2,686 |

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

² Other schemes comprised 108 investment-linked deposits, 14 paper gold schemes and seven REITs.

Table 2 Authorised unit trusts and mutual funds as at 31 March 2009 – breakdown by type

| | Number | % | Total NAV ¹ (US\$ million) | % |
|--------------------------------|--------------|--------|--|--------|
| Bond | 348 | 18.02 | 175,584 | 27.95 |
| Equity | 1,114 | 57.69 | 291,700 | 46.43 |
| Diversified | 113 | 5.85 | 32,695 | 5.20 |
| Money market | 44 | 2.28 | 71,103 | 11.32 |
| Fund of funds | 105 | 5.44 | 5,387 | 0.86 |
| Index | 59 | 3.06 | 42,969 | 6.84 |
| Guaranteed | 123 | 6.37 | 3,309 | 0.53 |
| Hedge | 14 | 0.73 | 770 | 0.12 |
| Other specialised ² | 11 | 0.56 | 4,785 | 0.75 |
| | 1,931 | 100.00 | 628,302 | 100.00 |
| Umbrella structures | 162 | | | |
| No. of authorised funds | 2,093 | | | |

¹ Net Asset Value as at 31 December 2008.

² Includes Futures and Options Funds and Leveraged Funds.

Table 3 Authorised unit trusts and mutual funds as at 31 March 2009 – breakdown by origin

| | Umbrella funds | Sub-funds | Single funds | Total | % | Total NAV' (US\$ million) | % |
|--------------------------------|-----------------------|------------------|---------------------|--------------|------------|--------------------------------------|------------|
| Hong Kong | 20 | 62 | 33 | 115 | 5.49 | 16,309 | 2.60 |
| Luxembourg | 55 | 1,145 | 4 | 1,204 | 57.53 | 361,900 | 57.60 |
| Ireland | 39 | 309 | 3 | 351 | 16.77 | 177,038 | 28.18 |
| Guernsey | 2 | 2 | 0 | 4 | 0.19 | 85 | 0.01 |
| United Kingdom | 3 | 41 | 5 | 49 | 2.34 | 30,574 | 4.87 |
| Other Europe | 0 | 0 | 15 | 15 | 0.72 | 443 | 0.07 |
| Bermuda | 2 | 23 | 5 | 30 | 1.43 | 4,340 | 0.69 |
| British Virgin Islands | 4 | 7 | 9 | 20 | 0.96 | 2,043 | 0.33 |
| Cayman Islands | 37 | 207 | 55 | 299 | 14.29 | 10,854 | 1.73 |
| Others | 0 | 0 | 6 | 6 | 0.28 | 24,716 | 3.92 |
| No. of authorised funds | 162 | 1,796 | 135 | 2,093 | 100 | 628,302 | 100 |

¹ Net Asset Value as at 31 December 2008 (excluding "umbrella funds").

Table 4 Number of licensees as at 31 March 2009 (31 March 2008 in brackets)

| | Corporations | | Representatives | | Responsible Officers | | Total | % Change | |
|--|---------------------|----------------|------------------------|-----------------|-----------------------------|----------------|---------------|---------------------|----------|
| Stock Exchange participants | 421 | (423) | 10,175 | (9,739) | 1,371 | (1,352) | 11,967 | (11,514) | 4 |
| Futures Exchange participants | 113 | (110) | 816 | (377) | 104 | (73) | 1,033 | (560) | 84 |
| Stock Exchange and Futures Exchange participants | 44 | (32) | 2,393 | (1,830) | 226 | (160) | 2,663 | (2,022) | 32 |
| Non-participants | 987 | (882) | 18,154 | (17,072) | 2,506 | (2,334) | 21,647 | (20,288) | 7 |
| Grand total | 1,565 | (1,447) | 31,538 | (29,018) | 4,207 | (3,919) | 37,310 | (34,384) | 9 |

Table 5 Takeovers activities

| | 2008-09 | 2007-08 | 2006-07 |
|--|------------|----------------|------------|
| Codes on Takeovers and Mergers and Share Repurchases | | | |
| General and partial offers under Takeovers Code | 27 | 52 | 36 |
| Privatisations | 6 | 5 | 8 |
| Whitewash waiver applications | 34 | 39 | 23 |
| Other applications under Takeovers Code | 190 | 254 | 211 |
| Off-market and general offer repurchases | 7 | 3 | 2 |
| Other applications under Share Repurchases Code | 2 | 4 | 4 |
| Total | 266 | 357 | 284 |
| Takeovers Bulletins | 4 | 4 | 0 |
| Executive Statements | | | |
| Sanctions imposed with parties' agreement ¹ | 0 | 2 | 0 |
| Takeovers and Mergers Panel | | | |
| Meetings for review of the Takeovers and Share Repurchases Codes | 5 | 3 | 0 |
| Hearings before the Panel (disciplinary and non-disciplinary) | 3 | 8 | 4 |
| Statements issued by the Panel ² | 3 | 3 ³ | 0 |

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

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

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

Table 6 Authorisations of offer and marketing documents for unlisted retail structured products and RMB bonds

| | 2008-09 | 2007-08 | 2006-07 |
|---|-----------------|------------------|------------------|
| Authorisations granted under section 105 of the SFO | 65 ¹ | 148 ² | 177 ³ |
| Authorisations granted to register prospectuses under the Companies Ordinance | 34 ⁴ | 77 ⁵ | 106 ⁶ |

¹ Includes retail ELIs with an aggregate issue size of \$100,510 million and one RMB bond offering with an aggregate retail issue size of RMB1,500 million.

² Includes retail ELIs with an aggregate issue size of \$222,660 million and two RMB bond offerings with an aggregate retail issue size of RMB3,500 million.

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

⁴ Retail structured notes with an aggregate issue size of \$2,309 million and three RMB bond offerings with a retail issue size of RMB4,500 million.

⁵ Retail structured notes with an aggregate issue size of \$10,772 million and one RMB bond offering with a retail issue size of RMB1,500 million.

⁶ Retail structured notes with an aggregate issue size of \$10,691 million.

Table 7 Breaches by licensed corporations noted during inspections

| Nature of breaches | Number of breaches 2008-09 | Number of breaches 2007-08 | Number of breaches 2006-07 |
|--|----------------------------|----------------------------|----------------------------|
| Failure to comply with Financial Resources Rules | 25 | 30 | 13 |
| Failure to safekeep client securities | 16 | 34 | 15 |
| Failure to maintain proper books and records | 13 | 14 | 21 |
| Failure to safekeep client money | 19 | 28 | 23 |
| Unlicensed dealing and other registration issues | 0 | 5 | 9 |
| Breach of licensing condition | 2 | 2 | 4 |
| Breach of requirements of contract notes /statements of account / receipts | 30 | 32 | 26 |
| Failure to make filing / notification | 3 | 3 | 3 |
| Breach of margin requirements | 2 | 3 | 2 |
| Marketing malpractices | 0 | 0 | 5 |
| Illegal short selling of securities | 1 | 0 | 1 |
| Dealing malpractices | 0 | 1 | 2 |
| Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission | 154 | 105 | 126 |
| – Investment advisory related issues | 12 | 3 | 15 |
| – Others | 142 | 102 | 111 |
| Breach of Code on Unit Trusts and Mutual Funds | 0 | 0 | 1 |
| Breach of Corporate Finance Adviser Code of Conduct | 1 | 0 | 0 |
| Breach of Fund Manager Code of Conduct | 12 | 6 | 14 |
| Non-compliance with anti-money laundering guidelines | 23 | 23 | 5 |
| Breach of other rules and regulations of the Exchanges | 2 | 4 | 1 |
| Internal control weaknesses | 188 | 129 | 100 |
| Others | 56 | 41 | 20 |
| Total | 547 | 460 | 391 |

Table 8 Successful prosecutions – market manipulation *

| Case | Defendants | Date of conviction | Fine (\$) / Penalty | Investigation costs awarded(\$) |
|--------------------------|------------------------|--------------------|--|---------------------------------|
| 1 | LEUNG Kam Lai, William | 12.6.2008 | 4 months' imprisonment suspended for 2 years | 32,609 |
| 2 | CHAN Wing Fai | 22.10.2008 | 12 months' probation order on the condition that he receives psychiatric and/or psychological treatment as directed by his probation officer | 13,500 |
| Total: 2 entities | | | 0 | 46,109 |

* Cases where fines are below \$10,000 are not shown in the table.

Table 9 Successful prosecutions – unlicensed/unauthorised activities*

| Activities/Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|---|--------------------|---|----------------------------------|
| Unlicensed investment adviser | | | |
| CHENG Chun Lung, Mondy | 24.4.2008 | 10,000 and four months' imprisonment, suspended for two years | 7,192 ¹ |
| Issuing unauthorised advertisements, invitations or documents | | | |
| CHENG Chun Lung, Mondy | 24.4.2008 | 36,000 | |
| Unlicensed foreign exchange trading | | | |
| YU Ka Tak | 6.6.2008 | 18,000 | 41,116 |
| Engaged in fraudulent or deceptive act in leveraged foreign exchange | | | |
| LIU On Lei | 16.10.2008 | 60,000 | 26,652 |
| Total: 4 entities | | 124,000 | 74,960 |

¹ Investigation costs also related to another summons.

* Cases where fines are below \$10,000 are not shown in the table.

Table 10 Successful prosecutions – disclosure of interests*

| Case | Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|--------------------------|-----------------------------------|--------------------|---------------|----------------------------------|
| 1 | LAU Pak Shing | 24.4.2008 | 20,000 | 4,608 |
| 2 | KWOK Yuk Chiu, Clement | 26.6.2008 | 18,000 | 6,065 |
| 3 | CHIU WINERTHAN | 3.7.2008 | 12,000 | 11,400 |
| 4 | Galaxy Asset Management (BVI) Ltd | 28.8.2008 | 10,000 | 3,292 |
| 5 | Galaxy China Opportunities Fund | 28.8.2008 | 10,000 | 3,292 |
| 6 | Gandhara Advisors Asia Ltd | 23.10.2008 | 10,000 | 21,262 |
| 7 | LUU Hung Viet Derrick | 22.1.2009 | 10,000 | 4,802 |
| Total: 7 entities | | | 90,000 | 54,721 |

* Cases where fines are below \$10,000 are not shown in the table.

Table 11 Most significant disciplinary actions in 2008-09

| Item | Parties involved | Date of action | Misconduct | Action / SFAT decision |
|------|---|----------------|---|--|
| 1 | Hong Kong Forex Investment Ltd Tse Shiu Hoi Eddie Ng Chit Chung | 24.3.2009 | Complete failure of compliance systems and controls, especially with regard to unlicensed activities and cold calling | SFAT confirmed the SFC's decision to revoke Hong Kong Forex Investment Ltd, ban Tse from re-entering the industry for life and prohibit Ng from becoming licensed or registered for 3 years |
| 2 | Macquarie Equities (Asia) Ltd | 19.3.2009 | Failure to ensure their commission rebate scheme for trading of certain warrants issued by Macquarie Bank Ltd did not facilitate trading of these warrants that was not for any genuine economic or commercial purpose | Reprimanded and fined \$4 million |
| 3 | Win Wong Securities Ltd Chan Sin Keung Kwan Tart Yung | 3.3.2009 | Serious internal control deficiencies including failure to provide contract notes and monthly statements to clients within the prescribed time, failure to maintain a correct client stock record and failure to adequately supervise staff | Reprimanded and fined \$500,000 Reprimanded and fined \$300,000 Reprimanded and fined \$100,000 |
| 4 | BOCI Securities Ltd | 18.2.2009 | Unauthorised transfer of clients' assets to settle transactions for clients who were late in delivering scrip for settlement. | Reprimanded and fined \$3 million |
| 5 | Sun Hung Kai Investment Services Ltd | 22.1.2009 | Insufficient internal controls on sales of Lehman Brothers Minibonds | Sun Hung Kai Investment Services Ltd agreed to make a voluntary offer to purchase all outstanding Lehman Brothers Minibonds at original value estimated at \$85 million |
| 6 | Standard Chartered Bank (HK) Ltd | 6.1.2009 | Failure to ensure clients were treated fairly when investing in the mutual funds from two fund houses | Reprimanded. Standard Chartered Bank (HK) Ltd agreed to make payments to the eligible clients who were treated unfairly when investing in funds. The compensation involved 1,260 clients with a total sum of US\$320,000 |
| 7 | Deutsche Securities Asia Ltd | 16.12.2008 | Failure to identify and resolve conflicts of interest when executing proprietary and client trades through facilitation trading desk | Reprimanded and fined \$6 million |
| 8 | Chan Shun Kuen Eric Robin Jonathan Gibbs Fox | 3.12.2008 | Failure to act properly as sponsor when handling a listing application | SFAT confirmed the SFC's decision to fine Chan \$200,000 but reduced the fine imposed on Fox to \$40,000 from \$70,000 |

Table 11 Most significant disciplinary actions in 2008-09 (cont'd)

| Item | Parties involved | Date of action | Misconduct | Action / SFAT decision |
|------|--|----------------|---|--|
| 9 | Law Chun Pon | 26.11.2008 | Cold calling, breach of employer's policies for providing discretionary account services and churning | Banned for 32 months and fined \$260,000 |
| 10 | Chung Nam Securities Ltd Chung Yueheng, Henry | 12.11.2008 | Failing to safeguard client's assets | SFAT confirmed SFC's decision to reprimand Chung Nam and Chung but reduced the amount of the penalty imposed on Chung Nam from \$1 million to \$750,000 and on Chung from \$500,000 to \$350,000 with no order as to costs |
| 11 | Li Kwok Wah | 12.9.2008 | Front running | SFAT upheld SFC's decision to revoke Li's licence and to fine him \$21,400 |
| 12 | Leung Chiu Ling, Lance | 1.9.2008 | Unauthorized trades | Revocation and banned for life |
| 13 | Chan Pak Kong, Chris | 4.8.2008 | Operating secret accounts and breach of employer's staff dealing policy | Reprimanded and fined \$25,000 |
| 14 | Sze Chong Hoi | 31.7.2008 | Failure to ensure that margin policies complied with the SFC Code of Conduct | Reprimanded and fined \$50,000 |
| 15 | Lee Kin Hang | 21.7.2008 | Misappropriation of clients' assets | Revocation and banned for life |
| 16 | Ng Shiu Wah, Daniel | 21.7.2008 | Short selling of derivative warrants | Suspended for six weeks and fined \$383,300 |
| 17 | Radland International Ltd | 11.7.2008 | Insufficient internal control to prevent misappropriation of clients' assets | SFAT upheld SFC's decision to reprimand Radland International Limited and fine it \$1.5 million |
| 18 | Choy Kwong Wa, Christopher | 16.6.2008 | Failure to provide accurate or updated information to clients, failure to disclose commission received when advising clients thus creating a potential conflict of interest | Reprimanded and fined \$570,000 |
| 19 | ICEA Capital Ltd ICEA Securities Ltd | 6.6.2008 | Conduct of senior staff members creating an impression that the two ICEA entities were providing improper support to a certain stock, failure to maintain a sufficiently robust Chinese Wall between proprietary trading activities and corporate finance activities, unregistered dealing activities, unauthorised trading activities and unauthorised transfers of client's money | Fined \$38 million and licence will be revoked if material breaches or failures are found within three years |

Table 11 Most significant disciplinary actions in 2008-09 (cont'd)

| Item | Parties involved | Date of action | Misconduct | Action / SFAT decision |
|------|---|----------------|--|--|
| 20 | Tang Ping Kong | 21.5.2008 | Failure to implement adequate procedures to detect and prevent scaffolding and short selling activities by staff | Reprimanded and fined \$300,000 |
| 21 | Wong Ting Choi, Joe | 8.5.2008 | Facilitating unlicensed activities and failing to safeguard client's assets | SFAT upheld SFC's decision to suspend Wong for two years |
| 22 | Chung Yuet Sheung, Lorrain Mo Kwong Wai, Jimmy | 6.5.2008 | Misappropriation of clients' assets | Banned for life |
| | | 6.5.2008 | Failure to report misappropriation of clients' assets to the SFC | Banned for life |
| 23 | Tsui Hung Yuen | 30.4.2008 | Insufficient internal control to prevent misappropriation of clients' assets | Revocation and banned for life |
| | Tsui Wai Man | 30.4.2008 | Insufficient internal control to prevent misappropriation of clients' assets | Revocation and banned for 5 years |
| | Chan Ha Ping | 30.4.2008 | Insufficient internal control to prevent misappropriation of clients' assets | Banned for 18 months |
| 24 | Liu Ka Hin | 23.4.2008 | Misappropriation of clients' assets, operating secret accounts and breach of employer's staff dealing policy | Revocation and banned for life |
| 25 | Core Pacific-Yamaichi Capital Ltd | 17.4.2008 | Failure to conduct adequate due diligence as sponsor | Fined \$2.8 million |
| | Core Pacific-Yamaichi International (HK) Ltd | 17.4.2008 | Acting improperly as an underwriter | Reprimanded and fined \$3.3 million |
| | Core Pacific-Yamaichi Securities (HK) Ltd | 17.4.2008 | Insufficient internal control to detect and remedy misconduct by staff and to ensure the accuracy of FRR returns | Reprimanded and fined \$350,000 |

Table 12 Requests for regulatory co-operation

| | 2008-09 | | 2007-08 | | 2006-07 | |
|---|---------|-----|---------|-------|---------|-----|
| | In | Out | In | Out | In | Out |
| Enforcement-related requests for assistance | 55 | 66 | 65 | 55 | 68 | 23 |
| Licensing-related requests for assistance | 263 | 926 | 254 | 1,004 | 233 | 853 |

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

Activity and Market data

Market data

Table 13 Statistical information and financial position of the Hong Kong securities industry¹

| | As at 31.12.2008 | As at 31.12.2007 | As at 31.12.2006 |
|--|--------------------------------|--------------------------------|--------------------------------|
| Total number of securities dealers and securities margin financiers | 741 | 691 | 641 |
| Total number of active cash clients ² | 918,750 | 924,131 | 730,356 |
| Total number of active margin clients ² | 113,823 | 110,043 | 80,348 |
| Total number of active clients (-0.15%) | 1,032,573 | 1,034,174 | 810,704 |
| Balance Sheet | (\$ million) | (\$ million) | (\$ million) |
| Cash in hand and at bank ³ | 251,982 | 257,372 | 150,573 |
| Amounts receivable from margin clients ⁴ | 17,217 | 41,765 | 20,591 |
| Amounts receivable from clients and other dealers arising from dealing in securities | 86,369 | 204,336 | 160,604 |
| Proprietary positions | 94,003 | 139,394 | 114,788 |
| Other assets | 141,203 | 205,965 | 171,520 |
| Total assets (-30%) | 590,774 | 848,832 | 618,076 |
| Amounts payable to clients and other dealers arising from dealing in securities | 211,565 | 333,904 | 244,766 |
| Total borrowings from financial institutions | 37,015 | 114,754 | 118,484 |
| Short positions held for own account | 11,186 | 50,909 | 62,714 |
| Other liabilities | 156,661 | 173,885 | 85,196 |
| Total shareholders' funds ⁵ | 174,347 | 175,380 | 106,916 |
| Total liabilities and shareholders' funds (-30%) | 590,774 | 848,832 | 618,076 |
| | 12 months to 31.12.2008 | 12 months to 31.12.2007 | 12 months to 31.12.2006 |
| Profit and loss | (\$ million) | (\$ million) | (\$ million) |
| Total value of transactions ⁶ | 53,923,632 | 64,704,725 | 30,754,491 |
| Net securities commission income | 40,120 | 55,560 | 29,456 |
| Gross interest income | 9,586 | 16,781 | 10,903 |
| Other income ⁷ | 59,188 | 84,610 | 53,784 |
| Total operating income (-31%) | 108,894 | 156,951 | 94,143 |
| Total overheads and interest expense | 87,707 | 102,647 | 71,855 |
| Total operating profit (-61%) | 21,187 | 54,304 | 22,288 |
| Net profit on proprietary trading | 5,860 | 10,523 | 2,733 |
| Net profit for the period (-58%) | 27,047 | 64,827 | 25,021 |

¹ 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 carrying out its principal business activities outside Hong Kong and operating in Hong Kong as a branch office were excluded from these computation.

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

³ Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$89,932 million (31.12.2007: \$104,051 million).

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

| As at 31.12.2008 | As at 31.12.2007 |
|------------------|------------------|
| 4.4 | 5.3 |

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

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

⁷ Other income mainly comprises inter-company management fee income, fund management income, corporate finance income and others.

Table 14 Comparison with overseas regulatory agencies

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

All foreign currency amounts have been translated into Hong Kong dollars with the exchange rate on 31 March of each of the three years.

| | 2008-09 | 2007-08 | 2006-07 |
|---|--------------------|---------|---------|
| SFC (year ended on 31 March)¹ | | | |
| Number of staff | 478 | 442 | 443 |
| Total expenditure (\$ million) | 684 | 585 | 541 |
| US Securities and Exchange Commission (SEC) (year ended on 30 September)² | | | |
| Number of staff | 3,652 ⁵ | 3,511 | 3,465 |
| Total expenditure (\$ million) | 7,440 ⁵ | 7,046 | 6,841 |
| UK Financial Services Authority (FSA) (year ended on 31 March)³ | | | |
| Number of staff (at year-end date) | 2,740 ⁶ | 2,535 | 2,606 |
| Total expenditure (\$ million) | 3,828 ⁶ | 5,026 | 4,581 |
| Australian Securities & Investment Commission (ASIC) (year ended on 30 June)⁴ | | | |
| Number of staff (at year-end date) | DNA ⁷ | 1,669 | 1,610 |
| Total expenditure (\$ million) | DNA ⁷ | 1,950 | 1,616 |

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

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

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

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

⁵ Budget figures extracted from FY2010 Congressional Justification.

⁶ Budget figures extracted from FSA Business Plan 2008/2009.

⁷ Data not available.

Committees, Panels and Tribunal

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

Committees of the SFC

Advisory Committee

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

Chairman

FONG Ching, Eddy, GBS, JP

Members

CHAN Henry

CHEW Fook-aun

EU Andrew Douglas

Dr HU Zulu, Fred

KENNEDY Paul Michael

LAM Cheung, Alexa

LEE Kin Ping, Christophe

MAISANO Jack

PICKERELL Blair Chilton

TSE Koon Hang, Ada

WHEATLEY Martin, JP

WONG Kwai-lam

WONG Shou Yeh, David

WU Thomas Jefferson

YIP Lai Shing

No. of meetings: 4

Average attendance rate: 82.8%

Academic and Accreditation Advisory Committee

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

During the year, the Committee met once to review certain approved licensing examinations and consider applications as recognised institutions for providing continuous professional training.

Chairman

LAM Cheung, Alexa

Members

Prof CHAN Ka Lok

Prof CHAN Man Man, Johannes, SC

Prof CHENG Yu Shek, Joseph, JP

DA ROSA Albert Thomas, Junior

ESPINA Anthony

MONDOVITS Andreas Georg

SHEK Chi Fai

Prof SO Wai Man, Raymond

VAS Judy

No. of meetings: 1

Average attendance rate: 90%

Committee on Unit Trusts

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

During the year, the Committee met three times to consider a new waiver request, approve new fund management groups, conclude the consultation on streamlining of the pre-vetting of notices and advertisement of relevant authorised collective investment schemes, and discuss market trends and regulatory policy and other issues regarding complex, structured funds.

| | | |
|--------------------------------------|---|---|
| Chairman LAM Cheung, Alexa | Full Members Dr AU King Lun Prof CHAN Ka Lok CHOI Fung Yee, Christina HEUNG Shu Fai HSU Li Ching LEE Kevin | Dr LIAO York, SBS, JP McSHANE Darren Mark MONDOVITS Andreas Georg NG Joo Yeow, Gerry NG To Han, Simon PICKERELL Blair Chilton (from 1.4.2008) ¹ |
| | Alternate Members KWAN Sau Ha | MAK Tat Cheung |
| No. of meetings: 3 | Average attendance rate: 64% | |

¹ Full member from 1 April 2008.

Committee on Investment-Linked Assurance and Pooled Retirement Funds

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

During the year, the Committee met once to conclude the consultation on streamlining of the pre-vetting of notices and advertisement of relevant authorised collective investment schemes, and discuss market trends and regulatory policy issues.

| | | |
|--------------------------------------|---|---|
| Chairman LAM Cheung, Alexa | Members Prof CHAN Ka Lok CHOI Fung Yee, Christina HON Wai Ming, Angel LAU Ka Shi (from 1.4.2008) Dr LIAO York, SBS, JP LUK Kin Yu, Peter (from 1.4.2008) | MAK Tat Cheung McSHANE Darren Mark TO Kok Ying (from 1.5.2008) WONG Chien Kuo, James (to 30.4.2008) YIP Chi Leung (from 1.4.2008) |
| No. of meetings: 1 | Average attendance rate: 91% | |

Committees, Panels and Tribunal

Committee on Real Estate Investment Trusts

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

During the year, the Committee met once to discuss policy issues in relation to REITs.

| Chairman | Members | |
|---------------------------|-------------------------------------|-----------------------------|
| LAM Cheung, Alexa | AU Fun Kuen | MOORE Vernon Francis |
| | CHOI Fung Yee, Christina | MURRAY Alastair Elliot |
| | CHOW Susan Mo Fong | PO Wai Kwong |
| | FOK Glenn | RICHARDSON David Alexander |
| | HEUNG Shu Fai | STEVENSON Thomas Brian, SBS |
| | HUI Chiu Chung, JP | WESTLEY Kevin Anthony |
| | LAW Shing Mui, Alice | WONG Kwai Lam |
| | LEUNG Chun Ying, JP | |
| No. of meetings: 1 | Average attendance rate: 88% | |

Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Repurchases (the Codes) or of the Takeovers Appeal Committee on a case-by-case basis.

During the year, there were no disciplinary proceedings under the Codes nor meetings of the Takeovers Appeal Committee involving members of this Committee.

| Members | |
|-----------------------------|-------------------------------------|
| CHAN Kin Keung, Anthony, SC | LI Gladys Veronica, SC |
| CHAN King Sang, Edward, SC | NG Kar Fai, Peter, SC |
| CHOW Ka Ming, Anderson, SC | WONG Yuk Lun, Horace, SC |
| HO Ambrose, SC | |
| No of meetings: 0 | Average attendance rate: N/A |

Investor Compensation Fund Committee

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

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

| Chairman | Members | |
|---------------------------|--------------------------------------|-------------------|
| LUI Kei Kwong, Keith | GREINER Gerald Dale | LAM Cheung, Alexa |
| | KWOK Hing Wai, Kenneth, BBS, SC | |
| No. of meetings: 1 | Average attendance rate: 100% | |

Investor Education Advisory Committee

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

In the past year, the Committee held three meetings at which members discussed investor education on complex products, insights from the findings of the SFC's Retail Investor Survey 2008 and channels of delivery of the SFC's investor education materials and messages.

Chairman

KENNEDY Paul Michael

Full Members

CHIU Ying Chun, Ronald

Professor HO Shun Man

LAI Ho Wan Ying, Ivy

Lam Po Yee (from 27.10.2008)

LEE Yiu Sun (from 1.4.2008)

LEUNG Wing Cheung, William, JP
(from 1.4.2008)

LIU Tat Yin, Kennedy

SIN Tak Wah

SHIU, Barbara (from 1.4.2008)

SO Wai Sang, Kenneth

TAI Chi Kin

WAN Yuen Yung (to 26.10.2008)

Alternate Members

CHEUNG Marn-kay (from 19.2.2009)

TAM Sau Ngor, Vera

TSE Pui Lan, Bonnie (to 16.6.2008)

WAN Yuen Yung (to 18.2.2009)

WONG Chi Ming, Sally (to 21.12.2008)

YIP Chee Hang, Eric

No. of meetings: 3

Average attendance rate: 91.66%

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met twice to nominate members of the Takeovers and Mergers Panel and the Disciplinary Chair Committee.

Ex-officio Members

WHEATLEY Martin, JP (Chairman)

FAN Hung Ling, Henry, SBS, JP
(to 31.3.2009)

(leave of absence from 22.10.2008)

CLARK Stephen Edward (from 22.10.2008)

HO Yin Tung, Brian

Members

FONG Ching, Eddy, GBS, JP

KWOK Hing Wai, Kenneth, BBS, SC

Alternate members to

CLARK Stephen Edward (from 22.10.2008)

GRAHAM David

KO, Teresa Yuk Yin, JP

LIU Chee Ming

MAGUIRE John Martin

No. of meetings: 2

Average attendance rate: 70%

Committees, Panels and Tribunal

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met four times and discussed a number of issues, including International Board, electronic voting, extended black-out period and record date concerns in privatisation.

| Chairman | Members |
|--------------------|--|
| HO Yin Tung, Brian | CHAN Chun Hung, Vincent CHEUNG Ching Leung, David Prof CHEUNG Yan Leung, Stephen KERR William Walter Raleigh LECKIE Stuart Hamilton, OBE, JP LUNG Hak Kau |
| | BROWN Melissa GOYAL Ashish Chandrakumar KWOK Lam Kwong, Larry, BBS, JP MUH Anthony Yi Tong NGAN Wai Wah |

No. of meetings: 4

Average attendance rate: 50%

Securities Compensation Fund Committee

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

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

| Chairman | Members |
|----------------------|--|
| LUI Kei Kwong, Keith | GREINER Gerald Dale KWOK Hing Wai, Kenneth, BBS, SC |
| | LAM Cheung, Alexa YIP Chee Hang, Eric |

No. of meetings: 1

Average attendance rate: 100%

SFC Dual Filing Advisory Group

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

According to the Terms of Reference of the Dual Filing Advisory Group, the Executive Director of the Corporate Finance Division acts as the convenor (whose role is similar to that of a chairman) of meetings of the Advisory Group.

During the year, the Group met once to advise on one listing application where the company and the sponsor had failed to address certain issues.

| Members | |
|---|---|
| ALDER Ashley Ian CHEUNG Ching Leung, David CHOW Siu Lui (from 1.4.2008) CLARK Stephen John (from 1.4.2008) FONG Chi Wai, Alex HOWE Christopher John IP Koon Wing, Ernest (from 1.4.2008) LEE Raymond | NESBITT Gavin Paul NG Sze Yuen, Terry SIU Kai Lau, James SLEVIN Francis Joseph (to 31.3.2008) TONG Carlson, JP (to 31.3.2008) YEH V-Nee (to 31.3.2008) YEUNG Eirene |

No. of meetings: 1

Average attendance rate: 67%

SFC (HKEC Listing) Committee

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

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

| Chairman | Members | |
|---|-------------------------------------|----------------------|
| Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting | CLARK Stephen John | LUI Kei Kwong, Keith |
| | KENNEDY Paul Michael | STEWART Mark Robert |
| | KO Teresa Yuk Yin, JP | TONG Carlson, JP |
| | LAM Cheung, Alexa | TSOI Tong Hoo, Tony |
| | LEE Tze Hau, Michael | WHEATLEY Martin, JP |
| No. of meetings: 0 | Average attendance rate: N/A | |

SFC (HKEC Listing) Appeals Committee

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

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

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

Share Registrars' Disciplinary Committee

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

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

| Chairman | Members | |
|--|-------------------------------------|----------------------------|
| LIU Swee Long, Michael | CHIONG Chung Seng, Desmond | NORRIS Nicholas Andrew |
| | FONG Loong Choon, Julian | RICHARDSON David Alexander |
| Deputy Chairman CHARLTON Julia Frances | NESBITT Gavin Paul | SHAFTESLEY Colin |
| | NG Chi Keung, Victor | SHIH Patricia Joy |
| | NG Wai Sum, Sam | WONG Shiu Hoi, Peter |
| No. of meetings: 0 | Average attendance rate: N/A | |

Committees, Panels and Tribunal

Share Registrars' Disciplinary Appeals Committee

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

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

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Executive (Executive Director of Corporate Finance Division or his delegate) at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Repurchases and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules to the SFC.

During the year, the Panel met five times to consider various policy issues under the Takeovers Code and three times to rule on matters relating to the application of the Takeovers Code.

| Chairman | Members | |
|--|--|---|
| FAN Hung Ling, Henry, SBS, JP (to 31.3.2009) (leave of absence from 22.10.2008) | BROWN Malcolm Edward Osborne (to 30.7.2008) | SLEVIN Francis Joseph TAN Siew Boi, May TONG Carlson, JP (to 31.3.2009) WEBB David Michael WILLMAN Kenneth Wayne (to 31.7.2008) WINTER Richard David WONG Oi Ming, Christine YEH V-Nee YU Ka Po, Benita |
| Acting Chairman | DESAI Kalpana | |
| CLARK Stephen Edward (from 22.10.2008) | Dr KWOK Chi Piu, Bill KWOK Tun Ho, Chester LEE Pui Ling, Angelina, JP LIU Che Ning LIU Swee Long, Michael LUNG Hak Kau (from 1.4.2008) NESBITT Gavin Paul NORRIS Nicholas Andrew SABINE Martin Neville | |
| Deputy Chairmen | | |
| GRAHAM David KO, Teresa Yuk Yin, JP LIU Chee Ming (from 1.4.2008 – from member to Deputy Chairman) MAGUIRE John Martin (from 1.4.2008 – from member to Deputy Chairman) | | |
| No. of policy meetings: 5 | Average attendance rate: 68.8% | |
| No. of transaction-related meetings: 3 | Average attendance rate: N/A | |

Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive. The Chairman of the Takeovers Appeal Committee is selected from the Disciplinary Chair Committee on a case-by-case basis.

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

Members

| | |
|---|---|
| BROWN Malcolm Edward Osborne (to 30.7.2008) | LIU Swee Long, Michael LUNG Hak Kau (from 1.4.2008) |
| CHAN Yuk Sing, Freeman | MAGUIRE John Martin |
| CHARLTON Julia Frances | NESBITT Gavin Paul |
| CLARK Stephen Edward | NORRIS Nicholas Andrew |
| DESAI Kalpana | SABINE Martin Neville |
| FAN Hung Ling, Henry, SBS, JP (to 31.3.2009) (leave of absence from 22.10.2008) | SLEVIN Francis Joseph TAN Siew Boi, May TONG Carlson, JP (to 31.3.2009) |
| GRAHAM David | WEBB David Michael |
| KO, Teresa Yuk Yin, JP | WILLMAN Kenneth Wayne (to 31.7.2008) |
| Dr KWOK Chi Piu, Bill | WINTER Richard David |
| KWOK Tun Ho, Chester | WONG Oi Ming, Christine |
| LEE Pui Ling, Angelina, JP | YEH V-Nee |
| LIU Che Ning | YU Ka Po, Benita |
| LIU Chee Ming | |

No. of meetings: 0

Average attendance rate: N/A

Committees, Panels and Tribunal

Independent panels and tribunal

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

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

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

Chairman

CHAN Siu-chung, Justin (from 17.7.2008)¹

Deputy Chairman

TAN Cheng Soo, Eddie

Members

FUNG Hau Chung, Andrew

LAM Yuk Kun, Lawrence

LAU Cheuk Hang, Philip

¹ Full member from 6 May 2005.

Process Review Panel for the Securities and Futures Commission

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

Chairman

CHOW Wing Kin, Anthony, SBS, JP

Members

Prof CHAN Yuk Shee, BBS, JP

CHIU Chi Cheong, Clifton

FONG Ching, Eddy, GBS, JP

FUNG Hau Chung, Andrew

KAM Pok Man

LAI Ying Sie, Benedict, JP

LEE Jor Hung, Dannis, BBS

Dr Hon LEUNG Mei-fun, Priscilla
(from 1.2.2009)

LIU Che Ning

SUN Tak Kei, David, BBS, JP

Securities and Futures Appeals Tribunal

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

Chairman

The Honourable Mr Justice Stone, Judge of the Court of First Instance of the High Court (to 31.3.2009)

The Honourable Mr Justice Saunders, Judge of the Court of First Instance of the High Court (from 1.1.2009)

Members

Dr AU King Lun

BAIRD Jim Wilson

BEST Roger Thomas, JP

GRAHAM David

Prof HO Shun Man, Simon

Prof HO Yan Ki, Richard

HUI Chiu Chung, Stephen, JP

KO Yuk Yin, Teresa, JP

Dr KWOK Chi Piu, Bill

KWOK King Man, Clement

KWOK Lam Kwong, Larry, BBS, JP

KUNG Yiu Fai, Ronald

LEE Kwan Ho, Vincent Marshall

MOORE Vernon Francis, BBS

PANG Yuk Wing, Joseph, JP

SUN Tak Kei, David, BBS, JP

TANG Kwai Nang, BBS, JP

THORNHILL Richard John

TSAI Wing Chung, Philip

TSE Kam-Keung

Dr TSUI Fuk Sun, Michael

WONG Wai Sum, Wilfred

WONG Yuen Fai, Stanley

WU King Cheong, Henry, BBS, JP

Abbreviations and Index

Abbreviations

| | | | |
|--|-------|--|--------|
| Australian Securities and Investments Commission | ASIC | Hong Kong Futures Exchange Ltd | HKFE |
| Automated Trading Services | ATS | Hong Kong Institute of Chartered Public Accountants | HKICPA |
| China Insurance Regulatory Commission | CIRC | Hong Kong Monetary Authority | HKMA |
| China Securities Regulatory Commission | CSRC | Hong Kong Special Administrative Region | HKSAR |
| Collective investment schemes | CIS | International Organization of Securities Commissions | IOSCO |
| Court of Final Appeal | CFA | Legislative Council | LegCo |
| Dubai Financial Services Authority | DFSA | Lehman Brothers | LB |
| Executive Directors, SFC | EDs | Mandatory Provident Fund Schemes Authority | MPFA |
| Exchange Participants | EPs | Memorandum of Understanding | MOU |
| Exchange-traded funds | ETFs | Non-Executive Directors, SFC | NEDs |
| Financial Industry Regulatory Authority, US | FINRA | Process Review Panel | PRP |
| Financial Services and Treasury Bureau | FSTB | Qualified Domestic Institutional Investor Scheme | QDII |
| Financial Services Authority, UK | FSA | Real Estate Investment Trust | REIT |
| Financial Stability Board | FSB | Securities and Exchange Commission, US | SEC |
| Group of Twenty | G-20 | Securities and Futures Appeals Tribunal | SFAT |
| Growth Enterprise Market | GEM | Securities and Futures Commission | SFC |
| Hong Kong Exchanges and Clearing Ltd | HKEx | Securities and Futures Ordinance | SFO |
| | | The Stock Exchange of Hong Kong Ltd | SEHK |

Index

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

| | | | |
|--|--|--|---|
| A | | B | |
| "Accumulator" products | p. 4 | Black-out period | A period during which a director is prohibited from dealing in securities of the listed company from the end of each of the listed company's financial periods to the date that the listed company publishes the relevant financial results. pp. 5, 37 |
| Advisory Committee, SFC | pp. 11, 12, 13, 15 | Boiler room | Fraud in which unscrupulous but plausible salespeople cold call potential investors and use high pressure sales tactics to persuade them to buy real or bogus investments. pp. 50, 53 |
| Alert List, SFC | A list of entities which have come to the attention of the SFC because they are unlicensed in Hong Kong and are believed to be, or have been, targeting Hong Kong investors or claim to have an association with Hong Kong. pp. 51, 52 | C | |
| Asian financial crisis | pp. 8, 59 | Chief Executive, HKSAR | p. 12 |
| Audit Committee, SFC | pp. 11, 13, 16, 17, 18, 19 | China Insurance Regulatory Commission (CIRC) | The authorised department under the State Council that governs the insurance sector of China. p. 43 |
| Australian Securities and Investments Commission (ASIC) | An independent government body that enforces company and financial services laws to protect consumers, investors and creditors in Australia. pp. 15, 44, 45 | China Securities and Regulatory Commission (CSRC) | The authorised department under the State Council that governs the securities and futures markets of China. pp. 43, 60, 61, 62 |
| Automated trading services (ATS) | Services provided by means of electronic facilities (except those provided by a recognised exchange company or clearing house) whereby offers to sell or purchase securities or futures contracts are regularly made or accepted in a way that results in a binding transaction in accordance with established methods. p. 41 | | |

Abbreviations and Index

Closing auction session

A trading session from 4:00pm to 4:10pm during which at-auction orders (without specified prices) and at-auction limit orders (with specified prices) are accepted from 4:00pm to 4:08pm, and from 4:08pm to 4:10pm, only at-auction orders are accepted. Order matching commences at 4:10pm. The closing price will be set based on the price at which the aggregate size of buy and sell orders matched is the largest.

p. 37

Code of Conduct, SFC

p. 19

Codes on Takeovers and Mergers and Share Repurchases

pp. 36, 42

Collective investment schemes (CIS)

pp. 35, 36, 44

Community Chest

p. 22

Corporate governance

pp. 16, 44, 61

Corporate social responsibility (CSR)

p. 16

Court of Appeal

pp. 18, 33, 35

D

Director of Audit, HKSAR

p. 19

Disclosure of interests

Anyone who has an interest of 5% or more of the voting shares of a listed company is required to disclose that interest within three business days of acquiring or disposing of the interest. Directors and chief executives of listed companies are required to disclose any acquisition or disposal of their company's shares, irrespective of the percentage they hold.

pp. 37, 41

Dr Wise

pp. 10, 49, 53

Dual filing

The arrangement that came into effect with the SFO, under which all corporate disclosure and listing application materials are filed with both SEHK and the SFC. The SFC can exercise its enforcement powers against persons issuing false or misleading corporate information.

pp. 35, 54

Dubai Financial Services Authority

p. 44

E

Exchange Participants (EPs)

Companies that have obtained trading rights in either SEHK or HKFE to trade on or through the respective exchange.

p. 43

Exchange-traded funds (ETFs)

Basically index funds that are listed and traded on exchanges just like stocks.

pp. 40, 41, 51, 53

Executive Director, SFC

pp. 11, 12, 15, 17, 21, 60, 62

F

Financial Industry Regulatory Authority, US (FINRA)

FINRA is the largest independent regulator for all securities firms doing business in the United States. Its chief role is to protect investors by maintaining the fairness of the US capital markets.

p. 26

Financial Resources Rules

The rules that set out the capital requirements that intermediaries have to meet in order to become and remain licensed by the SFC.

p. 35

Financial Secretary, HKSAR

pp. 12, 17, 19, 33

Financial Services and the Treasury Bureau (FSTB)

p. 19

Financial Services Authority, UK (FSA)

An independent organisation responsible for regulating financial services in the UK. It is the single statutory regulator responsible for the authorisation and supervision of deposit taking, insurance and investment businesses.

p. 15

Financial Stability Board (FSB)

A new regulator created by the G-20 as an enlarged version of the Financial Stability Forum, which is an advisory group established in 1999 to promote international financial stability through better information exchange and international cooperation. The FSB will include all G20 countries, Spain and the European Commission. It will collaborate with the International Monetary Fund to identify problems in the financial system, provide early warning of macroeconomic and financial risks and oversee action to address them.

p. 6

Forest Stewardship Council

A non-profit organisation based in Germany with a mission to promote environmentally appropriate, socially beneficial and economically viable management of the world's forests.

p. 23

| | |
|--|--|
| G | |
| Group of Twenty (G-20) | pp. 6, 7, 44 |
| Growth Enterprises Market (GEM) | p. 41 |
| H | |
| Hong Kong Council of Social Service | p. 22 |
| Hong Kong Deposit Protection Board An independent statutory body. It is charged with the responsibility for maintaining a deposit protection scheme (DPS) in Hong Kong. The DPS is a key building block of the financial safety net in Hong Kong. Through the provision of a measure of protection to depositors, the DPS contributes to the stability of the banking system in Hong Kong. | p. 35 |
| Hong Kong Exchanges and Clearing Ltd (HKEx) HKEx owns and operates the only stock exchange and futures exchange in Hong Kong. It is the holding company of SEHK, HKFE and their related clearing houses. | pp. 9, 12, 15, 35, 37, 40, 42, 43, 49 |
| Hong Kong Futures Exchange Ltd (HKFE) A wholly-owned subsidiary of HKEx. It operates and maintains a futures market in Hong Kong and is the primary regulator of Futures Exchange Participants with respect to trading matters. | pp. 9, 10, 41, 43 |
| Hong Kong Institute of Chartered Public Accountants (HKICPA) | p. 16 |
| Hong Kong Monetary Authority (HKMA) The government authority in Hong Kong responsible for maintaining monetary and banking stability. | pp. 6, 13, 32, 37 |
| Hong Kong Securities Clearing Co, Ltd | p. 9 |
| H-share Index futures contracts | p. 41 |
| I | |
| Independent Commission Against Corruption (ICAC) | pp. 12, 16, 66 |
| Insider dealing | pp. 33, 34, 66 |
| International Organization of Securities Commissions (IOSCO) An international co-operative body recognised as the international standard setter for securities markets. | |
| | pp. 6, 10, 15, 44, 58, 59 |
| InvestEd An SFC operated portal to provide investors with educational information on investments and regulations. | |
| | pp. 5, 10, 50, 51, 52, 53, 55 |
| Investor Compensation Co, Ltd | |
| | pp. 9, 15, 35 |
| Investor Compensation Fund A fund that covers defaults of EPs and non-EPs including licensed intermediaries and authorised financial institutions. | |
| | pp. 9, 13, 15, 69, 83, 85, 88, 92, 101, 104, 107, 112, 126 |
| Investor Education Council | |
| | p. 6 |
| Islamic finance | |
| | pp. 26, 44, 45 |
| J | |
| Judicial review | |
| | p. 18 |
| L | |
| Lehman Brothers (LB) | |
| | pp. 4, 5, 6, 7, 29, 35, 37, 42, 67 |
| Legislative Council (LegCo) | |
| | pp. 12, 19 |
| Listing Rules | |
| | pp. 37, 41 |
| M | |
| Mandatory Provident Fund | |
| | pp. 20, 35, 64 |
| Mandatory Provident Fund Schemes Authority (MPFA) Established under the Mandatory Provident Fund Schemes Ordinance to regulate and supervise the operations of provident fund schemes. | |
| | pp. 12, 13, 64 |
| Market manipulation | |
| | pp. 33, 34 |

Abbreviations and Index

Market Misconduct Tribunal

An independent full-time body established under the SFO, which conducts civil proceedings in public and, where appropriate, imposes civil sanctions against those it determines to be guilty of market misconduct.

p. 9

Memorandum of Understanding (MOU)

Co-operative arrangements or agreements signed to promote collaboration between organisations.

pp. 35, 44

Minibond

pp. 6, 27, 32

Mini H-share Index futures contracts

p. 41

N

Non-Executive Directors, SFC

pp. 12, 17, 18

O

Office of The Ombudsman

p. 16

Organisation for Economic Co-operation and Development

The organisation provides a setting where governments compare policies, experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies.

p. 44

P

Performance pledges, SFC

p. 20

Police, HKSAR

p. 9

Process Review Panel (PRP)

An appointed group that reviews and advises on the adequacy of the SFC's internal procedures governing operational decisions and actions.

pp. 12, 16, 18

Q

Qualified Domestic Institutional Investor Scheme

A scheme that allows Mainland investors to invest in foreign securities markets via certain approved financial institutions, such as fund management companies, insurance companies and securities companies.

pp. 10, 43

R

Restriction notices

pp. 5, 35

S

Securities and Exchange Commission, US (SEC)

p. 26

Securities and Futures (Stock Market Listing) Rules

p. 41

Securities and Futures Appeals Tribunal (SFAT)

pp. 13, 16, 18, 35

Securities and Futures Ordinance (SFO)

pp. 8, 9, 12, 16, 17, 20, 32, 33, 41, 48, 59, 65, 66

Short selling

pp. 4, 15, 37, 44, 45

T

Takeovers and Mergers Panel, SFC

An appointed group that hears disciplinary matters in the first instance and reviews rulings by the Executive (Executive Director of Corporate Finance Division or his delegate) at the request of any party dissatisfied with such a ruling. It also considers novel, important or difficult cases referred to it by the Executive, reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Repurchases and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules to the SFC.

pp. 13, 36

Technical Committee of the International Organization of Securities Commission

pp. 15, 59

The Stock Exchange of Hong Kong Ltd (SEHK)

A wholly-owned subsidiary of HKEx. It operates and maintains a stock market in Hong Kong. It is also the primary regulator of Stock Exchange Participants in relation to trading matters and listing activities on SEHK's Main Board and GEM.

pp. 9, 10, 13, 35, 40, 41, 43, 45

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