



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Securities and Futures Commission

maintaining balance

2009-10 Annual Report

Annual Report 2009-10

Securities and Futures Commission

8th Floor, Chater House
8 Connaught Road Central
Hong Kong

Telephone: (852) 2840 9222
Facsimile: (852) 2521 7836
Website: www.sfc.hk
InvestEd website: www.InvestEd.hk

2009-10 Annual Report theme concept

Gymnastics is a demanding activity that requires a skilful combination of physical strength, mental discipline, agility, coordination, flexibility, poise and above all, balance. In much the same way that a gymnast trains hard to perform his or her routine flawlessly, the SFC seeks to strike a balance among its multiple roles so that market orderliness is not compromised by industry development, that the interests of investors and industry participants alike are well served.

contents

Messages

- 2 Chairman's Message
- 4 Chief Executive Officer's Statement

8 About Us

Corporate Governance

- 12 Governance Framework
- 17 Our Structure
- 18 Our Board
- 20 Our Management

Corporate Social Responsibility

- 24 Our People and the Community
- 28 The Environment

30 Event Highlights

Operational Review

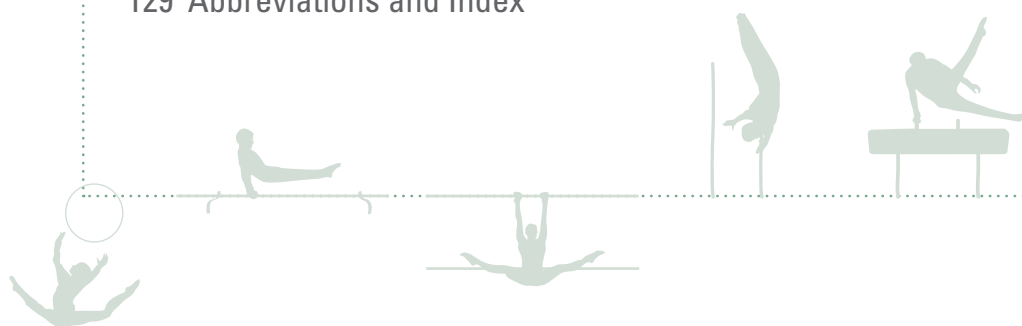
- 32 Regulation
- 42 Development
- 50 Education
- 56 Statistical Comparisons

Financial Review

- 58 Securities and Futures Commission Financial Statements
- 80 Investor Compensation Fund Financial Statements
- 96 Unified Exchange Compensation Financial Statements

Others

- 109 Activity and Market Data
- 120 Committees, Panels and Tribunal
- 129 Abbreviations and Index



chairman's message

“The approach of the SFC is to manage the tension between regulation and market development and strike a proper balance to ensure that the effectiveness of regulation is not undermined by the introduction of new financial products or markets and that they do not pose a threat to the protection of investors or market stability. Regulation and market development is important for Hong Kong to continue to thrive as an international financial centre, and market participants have an important role to play in working with the SFC to maintain a healthy balance.”



Last year, as I wrote this message, the world was adjusting to the aftershock of the 2008 financial meltdown. The world has witnessed global efforts in stabilising financial markets on an unprecedented scale and in massive public spending to contain the severity of the recession. Leaders of the Group of Twenty (G-20) also committed to undertake the most comprehensive global financial reforms since the Second World War.

Since then, many economies have started on the road to recovery, and the focus of policymakers has been to ensure appropriate exit strategies so that recovery and growth can be sustained. This was the calm before the storm. Market confidence was jolted once again by the sovereign debt crisis in Greece in April. There were fears of contagion to other countries in Europe and the impact this would have on financial institution counterparties and market stability, as well as on the ability of governments to contain budget deficits if economic recovery is interrupted. At this stage, it remains uncertain whether the sovereign debt crisis has been contained with the announced financial support for Greece, or whether sovereign debt will become the flashpoint for financial markets ahead.

Confidence is the foundation of financial markets. To restore public trust and confidence in increasingly globalised financial markets, regulatory reform has become the centrepiece of international cooperation, and implementation of reforms is closely monitored by the G-20 and the Financial Stability Board (FSB).



Hong Kong's financial system withstood the global financial crisis, its markets continued to function and overall confidence was maintained. But for the SFC, there is no room for complacency, and vigilance continues to be the watchword, particularly as many challenges lie ahead in an uncertain world.

During the year, the SFC stepped up its review of the regulatory framework to ensure the relevance and effectiveness of regulations. In the aftermath of the failure of the Lehman Brothers group, investors suffered losses from their investments in retail structured products. To restore investor confidence and enhance investor protection, we launched a consultation to strengthen rules on selling practices and requirements for authorisation of product documentation. We also consulted the public on the introduction of a scripless market infrastructure and the reporting of short-selling positions for a better understanding of market dynamics.

On the international front, as a member of the FSB, Hong Kong along with other FSB and G-20 members, has committed to lead by example in the implementation of international standards on financial regulation. We represent Hong Kong in the FSB Standing Committee on Standards Implementation, which encourages adherence to international financial standards through peer reviews and monitors progress in implementation of these standards and other G-20 initiatives through an implementation monitoring network.

We will adopt and implement international standards, as appropriate, taking into consideration Hong Kong's market structure and local circumstances. We are committed to maintaining a robust regulatory framework that allows financial markets to thrive and serve the needs of investors, while at the same time ensuring that investor protection is not compromised and the stability of the securities market would not be threatened.

The approach of the SFC is to manage the tension between regulation and market development and strike a proper balance to ensure that the effectiveness of regulation is not undermined by the introduction of new financial products or markets and that they do not pose a threat to the protection of investors or market stability. Regulation and market development is important for Hong Kong to continue to thrive as an international financial centre, and market participants have an important role to play in working with the SFC to maintain a healthy balance.

Enforcement is an important pillar of our regulatory approach and we have achieved great success during the past year with some high-profile and breakthrough cases. Investor education is another pillar, and the SFC has worked closely with the Government and other financial regulators toward establishing an Investor Education Council, which will build on the SFC's investor education in the securities and futures industry to also include the banking and insurance sectors.

Co-operation with Mainland China continues to be a top priority. We are committed to working with the Mainland as it continues to integrate with global financial markets. China's choice of Hong Kong to issue the first offshore renminbi sovereign bond marked an important milestone for the city in the internationalisation of the renminbi last year. We stand ready to work with Mainland authorities, as well as the HKSAR Government and key market players, to support and facilitate China's smooth passage towards internationalising the renminbi, particularly in the securities markets.

Meanwhile, we continued to foster closer collaboration between Hong Kong and the Mainland. Under the Closer Economic Partnership Arrangement VI or CEPA VI, eligible Hong Kong securities companies and their Mainland counterparts may set up joint ventures to conduct securities investment advisory business in Guangdong.

The past year has been more challenging than ever for the SFC. Once again, our people rose to the occasion with uncomplaining dedication, perseverance and professionalism. I would like to thank our Board and staff members for their commitment and loyalty, and look forward to their continued support in helping the SFC meet successfully the challenges ahead and in maintaining Hong Kong as a financial centre of choice.

Dr Eddy C Fong

Chairman

chief executive officer's statement

“It is my firm belief that we should not lose track of what is best and most appropriate for Hong Kong while we continue to participate in global efforts to harmonise standards and approaches to financial regulation.”

The global financial crisis has continued to present challenges both to financial markets and to regulators worldwide. Whilst concerted government action in Western economies has provided stimulus packages to cushion the economic impact, much uncertainty remains as these stimulus packages are gradually withdrawn and markets have to look again at the fundamentals of economic growth, earnings, debt, employment etc. Against this backdrop of economic uncertainty, regulators worldwide have been looking at rules and structures with the hope that such devastation to our financial infrastructure can never happen again. History, of course, tells us otherwise – time and time again, global imbalances, credit expansion and excess valuations build up in the system to the point where something bursts, potentially, as in the current crisis, with far reaching effects.





Risk despite recovery

From many perspectives, Hong Kong and indeed, much of Asia, has survived the immediate financial crisis relatively well. We have not experienced the collapse of a major bank or broker. We have not seen the massive write-down of impaired assets that other markets have. We have not been exposed to the collapse of elaborate "ponzi" schemes and the implosion of hedge funds. What we have had, is the impact of the collapse of the Lehman Brothers (LB) group, which affected every market in the world in ways not expected or predicted. In the case of Hong Kong, this exposed the fact that very complex structured products, often linked to credit and supported by complex collateral arrangements, were being sold to small and unsophisticated investors.

The resolution of this issue has occupied much of our time and focus over the past year and we are still in the process of determining how the rules and regulations regarding products and selling conduct need to change to reflect the complexity of products now available. Having been through the Asian financial crisis a little more than a decade ago, Hong Kong and the other economies in the region had put in place sturdier financial infrastructures and were in a stronger position to weather this other storm. We had few heavily leveraged instruments in the market, and our institutional investors were holding fewer complex products than their Western counterparts.

Nevertheless, we should never lose sight of risks and the fact that many of the world's major economies are still being supported by central governments' stimulus measures. There is still a clear and present danger that if the global economy slips back into recession, every economy, including Hong Kong's, will be affected.

Individuals and businesses alike should recognise that risk is ever-present in financial markets. As the saying goes, "Once burnt, twice shy." It will take some time to restore confidence in the market. It will also be a long road with many challenges to solid recovery. Hence we need to keep a close tab on the global market and to manage it to our advantage.

Progress amid difficulties

Last year was another demanding year for the SFC. I am pleased to report that we managed to maintain a strong grip on our core work, making sure that business could be conducted as usual.

Our staff carried out their duties conscientiously, despite the huge increase in work load stemming from the investigations and inquiries related to Minibonds. By looking into the policies and practices of distributors collectively, we were able to conclude by December 2009 our investigations into organisations that had distributed Minibonds. Those organisations made offers to repurchase Minibonds in settlement of issues arising out of our investigations and also agreed to rectify deficiencies in their internal controls, upgrade their selling processes and improve their complaints-handling procedures.

In addition to dealing with the fallout from the collapse of the LB group, we stepped up our work to act on market abuse, in particular insider dealing and market manipulation. Our success in prosecuting 17 cases of market manipulation and 12 charges against those suspected of insider dealing has sent very strong messages to the market that we are determined to combat market misconduct.

We remained vigilant in monitoring market activities so that when a stock listed by introduction experienced unusual price movements on debut last November, we promptly worked with Hong Kong Exchanges and Clearing Ltd to improve the process of information dissemination related to such listings.

Meanwhile, we continued to encourage depth and breadth in market activities to raise Hong Kong's standing as an international financial centre. During the year, we made further inroads to promote exchange-traded funds (ETFs) in Hong Kong by launching a series of China A-share ETFs and arranging with Taiwan to cross-list ETFs. As of 31 March, 2010, both the market capitalisation and turnover of ETFs in Hong Kong were second only to those of Japan in Asia.

At the organisational level, we continued to raise operational efficiency and streamline internal processes. As the crux to our "business process re-engineering" project, we launched an online portal to handle licensing-related matters last September and will expand its functions in the coming year to make the portal more convenient for intermediaries.

We were encouraged to learn from a recent survey that industry participants continue to rate our work positively. Our survey asked a random sample of industry participants to indicate their satisfaction level with us in various dealings over a 12-month period. Out of 586 responses, 76% rated our overall performance as "satisfied" and "very satisfied." More importantly, the survey has provided us with helpful indicators for further improvement on our operations.

Forging regulatory changes

As many would have expected, we spent considerable time and effort to address concerns over the selling practices of intermediaries and the adequacy of Hong Kong's regulatory structure. The result was a set of co-ordinated proposals that we believe will not only help shape the way retail investment business is conducted, but also give further guidance to the industry to cater for market development.

For any regulatory measure to be effective, it will have to be perceived as sensible. To help the industry understand the rationale behind the proposed changes while addressing their concerns, we engaged industry practitioners and different stakeholder groups in a three-month consultation process. The objective is to create, through regulatory changes, an environment that is safer for investors without stifling market activities.

Although it will be some time before regulatory changes can be implemented, we have already seen the effects of certain proposed enhancements. Financial institutions have been reviewing their selling practices and processes and the way they handle client complaints. Some measures are well underway. There will be some teething issues, but if they are managed properly, sensibly and transparently, we will find new business opportunities and re-build investor confidence.

Customising solutions

All in all, our approach to regulatory changes is pragmatic. Although we operate in an integrated world, we recognise that no single solution is perfect for all. Various radical proposals to tighten regulation have emerged in Europe and the United States and many of these have strong political overtones, given that so much of taxpayers' money has gone into bailing out failing financial institutions and corporations.

We are not solely a principle-based regulator; nor are we solely enforcement-led. Believing that both are important to achieve regulatory results, we prefer to remain pragmatic. An example is the way we managed short selling. We did not ban short selling as many other economies did. Knowing that our short-selling regime has worked well since the Asian financial crisis, we studied carefully the issues and conclusions made by international groups, then led the move to implement solutions in the best interests of Hong Kong.

It is my firm belief that we should not lose track of what is best and most appropriate for Hong Kong while we continue to participate in global efforts to harmonise standards and approaches to financial regulation.



Bigger role in international collaboration

Keeping pace with world standards and trends is an ongoing commitment. Last year, we participated more actively in initiatives led by the International Organization of Securities Commissions (IOSCO) through a number of task forces and committees. My chairing of the Task Force on Short Selling and the appointment of one of our senior directors to chair the Standing Committee 3 on Regulation of Market Intermediaries have allowed the SFC to further contribute to upgrading global standards.

In the past year, international regulatory agencies have had a lot of discussions on topics such as regulating credit rating agencies and hedge funds and reining in the conduct of intermediaries. But dark pools have been the subject of much debate. The SFC is part of the IOSCO team set up to examine potential regulatory issues of dark pools such as price discovery, market fragmentation and fair access. In Hong Kong, dark pools are still at a preliminary stage. Even so, we have begun studying the future development and possible impact of these activities on Hong Kong's stock market. We will continue to assess the risks and merits of these operations.

Meeting more challenges

On the front of investor education, we continued with the mass-media and interactive approaches adopted two years ago. Last year, we extended our reach to a much broader section of the community. We continue to attach great importance to cultivating a proper investing attitude, which is a continual and time-consuming process. As Hong Kong takes a step forward towards founding the Government-proposed Investor Education Council, we stand ready to further collaborate with relevant parties.

Devoting more formalised efforts to our corporate social responsibilities (CSR) initiatives will be another of our organisation's priorities next year. Our recently established CSR

Committee has started implementing programmes to expand the scope of our past endeavours and to make our efforts more quantifiable and achievable. In the coming months, we can expect to see more initiatives being launched. More than a means to communicate to the public and stakeholders our accountability for the community, CSR is also an important organisational culture and value that we are keen to further develop on our existing foundation.

As financial markets evolve, we see a need to be flexible, open-minded, and self-critical to keep Hong Kong competitive as an international financial centre. Since it is our staff who will have to put our vision into action, we must foster the culture of a learning organisation. We also need to recruit, not just people, but people who are prepared to challenge the status quo, and to learn from what we do well as well as from mistakes.

It has been another hectic year for all my colleagues. I would like to extend my sincerest gratitude to them for their hard work and unquestionable devotion. There will be continual demand on us from different directions as the local and global regulatory climate changes. But I am comforted that given our staff's unwavering support, we shall be in a better position to face more challenges ahead.

Martin Wheatley
Chief Executive Officer

about us

As a financial regulator, we must strike an appropriate balance in our work. On one hand, we strive to maintain order to ensure adequate investor protection and a level playing field for industry participants. On the other, we are keenly aware of the need to allow enough impetus for market growth and industry development. To achieve this, we adopt a partnership approach, collaborating with other financial regulators and working closely with the market.

The regulation of Hong Kong's sophisticated financial services sector is shared by four regulators. As the regulator overseeing the securities, futures and non-bank retail leveraged foreign exchange markets, we seek to ensure that both order and vitality are maintained in markets where the traditional lines between different products and distribution channels are becoming increasingly blurred and the products themselves are becoming increasingly complex and sophisticated. Meanwhile, we also strive to keep Hong Kong's securities and futures markets on par with international markets to maintain the city's standing as a major international financial centre.

Our mission

Under the Securities and Futures Ordinance (SFO), we have six regulatory goals:

- To keep the securities and futures markets fair, efficient, competitive, transparent and orderly;
- To help the public understand how the securities and futures industry works;
- To protect investors' interests;
- To minimise market crime and misconduct;
- To reduce systemic risks in the industry; and
- To help maintain the financial stability of Hong Kong.

To maintain independence, we operate outside the civil service as a statutory body but we are accountable to the Government for the accomplishment of the above objectives.

Our objectives

With the powers and functions conferred by the SFO, we attain our goals by focusing on three key areas: industry regulation, market development and investor education. We are committed to providing a regulatory environment that maintains market stability, encourages product development, promotes industry viability and offers appropriate safeguards for investors. These elements are inter-dependent and, in our view, are indispensable in a healthy financial market. Our work, therefore, is all about achieving a balance.

We strive for balance in setting standards for the securities and futures markets. For a well-functioning and orderly market, we need an appropriate regulatory framework backed up by monitoring of compliance and enforcement where required. However, no regulatory regime should unduly hinder industry participants' legitimate activities or market development.

A balance should also be struck between the needs of the market and those of investors. Broad and deep markets with a wide range of investment products attract capital, offer investment opportunities and choices for investors and support the growth of the industry. However, all investment carries risks. We therefore work to encourage innovation and progress and to maintain the competitiveness of our markets without raising systemic risks or compromising appropriate levels of investor protection.



Our work

Regulation

Regulation begins with setting ground rules, then progresses to monitoring the conduct of industry and market participants and rounds off with properly dealing with any misconduct (See chart). The ground rules apply not only to industry professionals but also investors who participate in the markets.

| Regulation | Development | Education |
|--|---|---|
| Licensing To ensure that intermediaries meet criteria | To keep abreast of international standards and trends | To enhance investment knowledge |
| Intermediaries supervision To monitor compliance with rules | To collaborate with China and overseas markets on industry issues | To promote a proper investing attitude |
| Enforcement action To combat misconduct of licensees and market players | To promote depth of markets and scope of products | To remind investors of investment risks and their rights and responsibilities |
| Supervision of markets To strengthen market infrastructure and supervise activities of exchanges and clearing houses | | |
| Oversight of listing matters To maintain quality of disclosure by listing applicants and listed companies, and oversee regulations governing takeovers and mergers of listed companies | | |

Intermediaries

We administer a licensing regime under which only properly-qualified intermediaries are permitted to conduct certain regulated activities.

We set operational and financial resources requirements for licensed corporations and standards of conduct for licensed individuals. For instance, we require intermediaries to adhere to specific standards in their “know your client” processes and, unless an exemption applies, to assess whether a product is suitable for a given individual investor. We conduct ongoing supervision, including off-site and on-site inspections, to ensure strict compliance.

To combat market misconduct, we have recourse to a full spectrum of powers mainly under the SFO. Licensees in breach of codes and guidelines are penalised by disciplinary actions ranging from reprimands to suspensions or revocations of licences to monetary fines. Those in breach of the SFO are subject to civil proceedings, including proceedings before the Market Misconduct Tribunal or may face criminal sanctions. Where we believe the circumstances warrant it, offending licensed corporations are given a chance to rectify mistakes and take remedial measures. Whilst it is important to maintain a strong deterrent effect, we also make sure that our enforcement actions are transparent, consistent and appropriate.



Investment products

SFC authorisation is required to be obtained before certain investment products or documents can be distributed to the public in Hong Kong. We have issued several product-specific codes and guidelines setting out detailed requirements for authorisation of these products and documents.

Market operators

Hong Kong Exchanges and Clearing Ltd (HKEx) comes under our direct supervision. It is the holding company of market operators, namely, The Stock Exchange of Hong Kong Ltd (SEHK), Hong Kong Futures Exchange Ltd and Hong Kong Securities Clearing Company Ltd. We monitor the performance of SEHK's listing-related duties and the activities of related clearing houses. In addition, we are responsible for authorizing automated trading services providers, including overseas exchanges operating in Hong Kong.

Listed companies

Under the dual filing system, we work closely with SEHK, the frontline regulator in relation to listing matters, to maintain the quality of disclosure by listing applicants and listed companies. Those who provide false or misleading information, or omit to provide relevant information, are liable to prosecution. We also oversee the regulations governing corporate activities related to takeovers, mergers and privatisations of listed companies.

Market development

We are an integral part of the Hong Kong financial system supporting the development of local markets. In this, we strive to strike a balance between fostering expansion and growth and an appropriate level of regulatory control. To achieve this balance, we:

- maintain close dialogues and collaborative relationships with relevant authorities on the Mainland and in other jurisdictions both in considering policy matters and industry standards and in exploring areas in which regulatory co-operation might provide opportunities for our markets and market participants;
- keep abreast of developments, both in the Hong Kong market and internationally, to ensure that our standards and rules accommodate changing circumstances and are appropriate for the market;
- encourage the availability of a broad range of investment products; and
- work to identify ways to improve efficiency in the industry and enhance transparency.

We seek to keep the market and the public informed of our activities and other developments through various means, such as our regular bilingual newsletters, reports, and special surveys and research papers.



Investor education

We are the only regulator in Hong Kong with a statutory mandate to educate investors. In fact, we have been active in this area for more than 15 years. We attach great importance to investor education as we believe that having knowledge of market operations and an understanding of the risks involved in investing not only helps investors protect themselves but also enhances their confidence in the financial system and their effectiveness in dealing with financial service providers.

We reach out to the general public with our investor education messages via multiple channels, using leaflets, seminars, multi-media advertising campaigns, competitions and game shows as well as newspaper articles and radio/television programmes. Our aim is to promote a responsible investment approach and increase financial literacy among investors from all walks of life.

On our InvestEd website (www.InvestEd.hk), we regularly post up-to-date information on investment products, the roles played by various operators in the market, general investment considerations and market developments. InvestEd's "star columnist", Dr Wise (a fictitious character), "writes" about current topics relating to investing in his monthly column and "answers" investor enquiries through our External Relations Department. Our Alert List serves to tell investors about suspicious operators and scam websites that come to our attention.

Funding source

In keeping with our independent status, we have been self-funded through transaction levies and fees charged to market participants for over 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 Unified Exchange Compensation Fund but subsequently reduced it to the current level in 2006. We are contemplating a further reduction of levies that will take effect towards the end of 2010, pending legislative approval.

Investor Compensation Co, Ltd

While the SFC is not empowered to order compensation, our subsidiary, the Investor Compensation Co, Ltd (www.hkicc.org.hk), manages the Investor Compensation Fund. This fund was established pursuant to the enactment of the SFO on 1 April 2003. The fund provides 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.

corporate governance

Sound corporate governance is vital for fair, transparent and efficient operations, responsibility and accountability. It provides the foundation for effective performance and sustainable growth. We believe that our corporate governance standards set a good example for those we regulate and enhance the quality of the markets we oversee.

The cornerstones of our corporate governance standards are openness, accountability, fairness and objectivity. In this regard, we have reference to the principles and best practices recommended by the Hong Kong Institute of Certified Public Accountants.

Governance framework

Board of directors

The SFC's management structure is designed to provide us with an effective framework and appropriate checks and balances in pursuing our regulatory objectives and performing our functions. The Board comprises individuals of high professional and social standing. All Board members are appointed for a fixed term by the Chief Executive of the Hong Kong Special Administrative Region or by the Financial Secretary (FS) under delegated authority. To ensure effective oversight and accountability, a majority of Board members are independent non-executive directors (NEDs). As a further measure to strengthen structural checks and balances, the posts of chairman and chief executive officer (CEO) have been segregated since 2006, and each has a distinct, albeit complementary, role.

The Board is charged with setting the SFC's overall direction and policies, providing strategic guidance to senior management, and monitoring the Executive Committee's performance of its functions. The Board meets at least once a month. Last year, 16 Board meetings were held.

At year-end, the Board had 14 members: the chairman, seven NEDs and six executive directors (EDs). Further details are set out on pages 18-21.

During the year, Dr Eddy Fong was re-appointed for a two-year term from October 2009 and continued to lead the Board as its non-executive chairman. The Hon Chan Kam-lam was re-appointed as a NED for two years from November 2009. Mr Wong Kai-man and Mr Lawrence Lee Kam-hung were appointed as NEDs for their first two-year terms from May and November 2009 respectively. Mr Brian Ho, ED of the Corporate Finance Division and Mr Keith Lui, ED of the Supervision of Markets Division were both re-appointed

Framework of control



for further three-year terms from August 2009. Mr Mark Steward was re-appointed as ED of the Enforcement Division for three years from September 2009.

The Executive Committee (ExCo)

The ExCo is made up of six EDs, the SFC's chief counsel and two senior directors. Headed by CEO Mr Martin Wheatley, the ExCo:

- Performs administrative, financial and management duties delegated to it by the Board;
- Refers policy issues to the Board for further consideration, and makes recommendations in respect of these; and
- Supervises specific functions of the SFC, which have been delegated to individual EDs.



Checks and controls

A system of internal controls has been put in place to ensure that we conduct our operations and regulatory work fairly and properly. We are also subject to a number of external controls or review processes. The tables below provide further details of functional committees and external checks and balances, and major matters that fell within the purview of such bodies or the scope of such processes during the year.

Internal committees

| | Membership | Work done |
|------------------------|---|--|
| Audit Committee | <ul style="list-style-type: none"> • Chaired by Mrs Angelina Lee • Comprising only NEDs | <ul style="list-style-type: none"> • Reviewed the SFC's annual financial statements • Reviewed procedures for oversight of the SFC's accounting and internal control systems • Made recommendations with respect to the SFC's appointment of external auditors and determined the scope of the auditors' work • Analysed the external auditors' findings and oversaw the SFC's implementation of certain modifications and improvements agreed following such findings • Considered other matters as required, including complaints against staff |
| Remuneration Committee | <ul style="list-style-type: none"> • Chaired by Dr York Liao (until 25 May 2009) and Prof Liu Pak-wai (since 26 May 2009) • Comprising only NEDs | <ul style="list-style-type: none"> • Reviewed the SFC's staff remuneration policy • Advised on market pay trends and made recommendations with respect to periodic adjustments |
| Budget Committee | <ul style="list-style-type: none"> • Chaired by NEDs Mr Christopher Cheng (until 14 November 2009) and Mr Wong Kai-man (since 15 November 2009) respectively • Comprising both NEDs and EDs | <ul style="list-style-type: none"> • Approved the basis and proposed parameters for preparation of the SFC's annual budget • Reviewed the SFC's annual budget prepared for submission to the Board • Conducted half-yearly budget reviews |

Meeting attendance records for individual members of the various functional committees are provided on page 15.

Independent checks and balances

| | Membership | Tasks handled |
|--|---|---|
| Process Review Panel (PRP) | <ul style="list-style-type: none"> • Comprising 11 Members • Nine members from the academic, financial, legal and accounting sectors • Two ex-officio members (the SFC Chairman and a representative of the Secretary for Justice) | <ul style="list-style-type: none"> • Reviewed the SFC's internal operational procedures and determined whether such procedures had been consistently followed with respect to licensing applications, inspections, authorization of products and/or related documentation, handling of complaints, investigations and disciplinary actions and processing of listing applications under the Dual Filing regime • Published its report in September 2009 |
| Securities and Futures Appeals Tribunal (SFAT) | <ul style="list-style-type: none"> • Comprising a chairman who is a High Court judge and a panel of 22 members • Two members from the panel for hearing a case | <ul style="list-style-type: none"> • 14 appeals were lodged with the SFAT for review of SFC regulatory decisions • Five cases were brought forward from 2007/08 and 2008/09 • Of these 19 cases, eight were determined, two were withdrawn and nine remain in progress • Of the eight determined cases, the subject decision was upheld in five and the penalty was reduced in the other three cases |
| Office of The Ombudsman | N/A | <ul style="list-style-type: none"> • Conducted five preliminary inquiries after receiving public complaints • There were no cases brought forward from 2008/09 |
| Judicial review | N/A | <ul style="list-style-type: none"> • The SFC was the subject of one application for judicial review, which remained in progress as of 31 March 2010 |

Enhancing transparency

We are committed to transparency in our work and regularly communicate with various stakeholder groups.

For the public

- We issue announcements and publications to update the public on regulatory actions and the latest market developments
- We maintain a corporate website (www.sfc.hk) together with our investor education portal (www.InvestEd.hk)
- We consult the public on policy changes and proposed regulatory reforms
- We have dedicated contact points, including hotlines and email addresses, and procedures for handling enquiries and complaints

For the industry

- We launched the SFC Online Portal in September 2009 to enhance the efficiency of our communications with intermediaries
- We maintain an open dialogue with industry participants, including conducting soft consultation, where appropriate, on proposed rule changes
- We address conferences and seminars on topical issues

For the Government

In addition to matters in respect of which we are required to consult or seek the approval of the FS:

- We provide quarterly accounts of our operations to the Government
- We update the Government regularly on major market issues and on the progress of key policy initiatives

For the Legislative Council (LegCo)

- We regularly attend meetings of the LegCo Panel on Financial Affairs to discuss policy initiatives and address matters of interest to LegCo members

For other regulators

- We liaise with the Government, other regulators and HKEx to exchange information and discuss regulatory, supervisory and market issues of common interest.

For the media

- We hold briefings and press conferences, and conduct interviews to inform the media about our work

Applying standards of conduct

Our employees have a vital role to play in ensuring that we adhere to our standards of corporate governance. Our employees are subject to our internal code of conduct, which sets out requirements and expected standards of behaviour and addresses matters such as confidentiality, conflicts of interest, personal investments and corrupt practices such as bribery. We also have control procedures in place covering matters such as the appointment of consultants and the selection of vendors.

We have a system of internal financial controls designed to ensure proper management of the SFC's financial resources in accordance with our established policies and procedures. In addition to the work performed by our external auditors, we appoint external accountants to conduct annual internal control reviews. The Director of Audit also has the power to examine our books, accounts, vouchers, and records.

We encourage open dialogue within the SFC and with the public. Should a person wish to report dissatisfaction with our staff, we have established procedures for handling complaints, and these are posted on our website. We have also established grievance procedures to assist persons who are engaged by or to work in/with the SFC to raise grievances or report improper practices or misconduct. We take these matters very seriously.

Pursuant to the Personal Data (Privacy) Ordinance, we provide a Personal Information Collection Statement to explain our policy in handling personal data where required, for example where we invite responses to consultation proposals. Personal data collected in the course of our work is also subject to our internal policy and confidentiality requirements. Our Data Privacy Officer, who is the Commission Secretary, handles all personal data requests from the public.

Managing risks

We have policies and procedures in place to deal with readily identifiable risks, including various emergencies and technological glitches.

Our market contingency plan comprises procedures for dealing with emergencies that may affect the operations of the local securities and futures market.



Our internal contingency plans dealing with fires, natural disasters and other emergency situations are reviewed regularly and updated when deemed necessary to include specific measures for business continuation or recovery. In 2009, for instance, we formulated an additional contingency plan, in light of the outbreak of human swine flu, for use in the event that the disease infected any of our staff.

We attach great importance to information security. Robust controls are installed to monitor our information technology systems for viral attacks and possible breakdowns. These controls cover regular data backup, data and server recovery plans, virus detection and prevention tools, as well as secure protection measures for system usage and data accessibility.

Recording attendance

Details of attendance at meetings of the Board and functional committees during the year are set out in the following table.

Meetings attended/held

| | Commission | Audit Committee | Remuneration Committee | Budget Committee | Executive Committee |
|---|------------|-----------------|------------------------|------------------|---------------------|
| Chairman | | | | | |
| Eddy C Fong | 16/16 | | 2/2 | | |
| Executive Directors | | | | | |
| Martin Wheatley | 15/16 | | | 1/1 | 21/23 |
| Alexa Lam | 13/16 | | | 1/1 | 21/23 |
| Brian Ho | 16/16 | | | | 20/23 |
| Paul Kennedy | 13/16 | | | 1/1 | 19/23 |
| Keith Lui | 16/16 | | | | 20/23 |
| Mark Steward | 15/16 | | | | 20/23 |
| Non-Executive Directors | | | | | |
| Chan Kam-lam | 13/16 | | 1/2 | | |
| Christopher W C Cheng ¹ | 6/9 | | | | |
| Kenneth H W Kwok | 13/16 | 2/2 | 2/2 | | |
| Angelina P L Lee | 15/16 | 2/2 | 2/2 | 1/1 | |
| Lawrence Lee ² | 6/7 | | 2/2 | | |
| York Liao ³ | 2/3 | | | | |
| Liu Pak Wai ⁴ | 14/16 | 1/2 | 2/2 | 0/1 | |
| Shengman Zhang | 13/16 | 1/2 | 1/2 | | |
| Wong Kai-man ⁵ | 9/13 | | 2/2 | 1/1 | |
| Chief Counsel & Senior Directors | | | | | |
| Stephen Po | | | | | 19/23 |
| Stephen Tisdall | | | | | 21/23 |
| Andrew Young | | | | | 23/23 |

¹ Appointed as NED, Chairman of Budget Committee and member of Remuneration Committee up to 14.11.2009

² Appointed as NED from 15.11.2009

³ Appointed as NED, Chairman of Remuneration Committee up to 25.5.2009

⁴ Appointed as Chairman of Remuneration Committee from 26.5.2009

⁵ Appointed as NED from 26.5.2009 and Chairman of Budget Committee from 15.11.2009

Meeting performance pledges

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

| | | % of cases meeting the pledge | | |
|---|------------------|-------------------------------|---------|---------|
| | | 2009-10 | 2008-09 | 2007-08 |
| Applications for subordinated loan or modification/ waiver of requirements under the SFO | | | | |
| Take-up of applications upon receipt | 2 business days | 96.9% ¹ | 99.3% | 100% |
| Authorisation of investment products | | | | |
| Commence review of applications upon receipt | 2 business days | 100% | 100% | 100% |
| Preliminary reply to applicants after take-up of application review for investment-linked assurance schemes, Mandatory Provident Fund pooled investment funds, mutual funds, and unit trusts. | 7 business days | 100% | 100% | 100% |
| Preliminary reply to applicants after take-up of application review for all other schemes | 14 business days | 100% | 100% | 100% |
| Enquiries | | | | |
| General enquiries: | | | | |
| Preliminary reply to public enquiries (excluding those from investors) | 4 business days | 99.8% ² | 99.6% | 99.6% |
| Investor enquiries: | | | | |
| Preliminary reply to telephone enquiries | 4 business days | 100% | 100% | 100% |
| Preliminary reply to written enquiries | 2 weeks | 99.5% ³ | 99.6% | 99.4% |
| Processing of licensing applications⁴ | | | | |
| Corporations | 15 weeks | 99% ⁵ | 99% | 99% |
| Representatives (provisional licences) | 7 business days | 88% ⁵ | 89% | 88% |
| Representatives (normal licences) | 8 weeks | 95% ⁵ | 86% | 83% |
| Representatives (responsible officers) | 10 weeks | 97% ⁵ | 95% | 94% |
| Transfer of accreditation | 7 business days | 81% ⁵ | 73% | 65% |
| Public complaints | | | | |
| Preliminary reply to verbal & written complaints | 2 weeks | 99.3% ⁶ | 99.4% | 99.8% |

¹ Four cases failed to meet the pledge by one day due to operational issues.

² Due to system glitches, five general enquiries failed to meet the pledge.

³ Three investor enquiries failed to meet the pledge due to complexity of the enquiries and/or large workload.

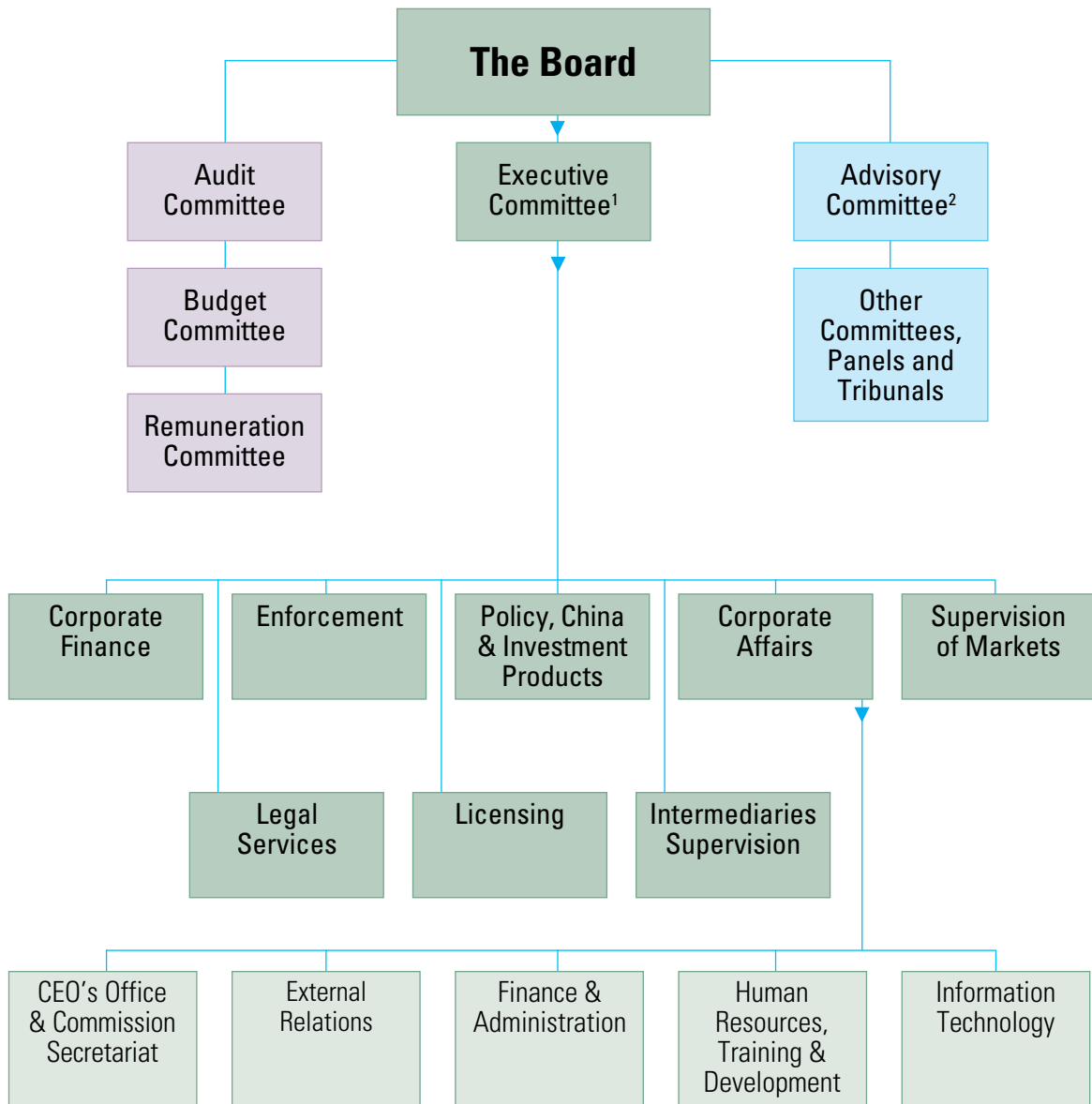
⁴ Compliance with our performance pledges is measured in relation to applications in respect of which all of the required documentation is supplied by the applicants in a comprehensive and an efficient manner and in which delays, for which we have no responsibility, do not occur.

⁵ Some cases failed to meet the pledges largely due to resource constraints and/or unexpected complications.

⁶ Due to the exceptionally heavy workload when the complaints were received, 18 cases failed to meet the pledge.



Our structure



Members of the Audit Committee and the Remuneration Committee consist of NEDs only, and members of the Budget Committee consist of both NEDs and EDs

Members of these committees consist of academics and industry experts in their respective fields

¹ The Executive Committee consists of:

- the CEO,
- the EDs, senior directors and the Chief Counsel who head the different functions.

² The Advisory Committee is set up according to the requirements stated in the Securities and Futures Ordinance.

Our board

Under the SFO, the Board must have no fewer than eight members, the majority of which must be non-executive directors.



Chairman

Dr Eddy C Fong, GBS, JP

(From 20 October 2006. Current appointment expires on 19 October 2011.)

SFC Non-Executive Director (since 1 January 2005); Certified Public Accountant; Chairman of the Council, Open University of Hong Kong; Non-Executive Director, Hong Kong Mortgage Corporation; Member, Banking Advisory Committee of the Hong Kong Monetary Authority; Member, HKEx Listing Nominating Committee.

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 2011.)

Member, Chinese People's Political Consultative Conference; Elected Member (Kowloon East), Legislative Council of the HKSAR; Chairman, LegCo Panel on Financial Affairs; Board Member, Airport Authority Member; Advisory Committee on Corruption of the ICAC; Member, Deposit-taking Companies Advisory Committee; Member, Travel Industry Compensation Fund Management Board.

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



Kenneth H. W. Kwok, BBS, SC, JP

(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); Honorary University Fellow, The University of Hong Kong; 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 the Investor Compensation Company Ltd. Deputy Chairman of Audit Committee and Remuneration Committee. Member of Nominations Committee, SFC (HKEC Listing) Appeals Committee, Securities Compensation Fund Committee, and Investor Compensation Fund Committee.



Lawrence Lee, JP

(From 15 November 2009. Current appointment expires on 14 November 2011.)

Chairman, Hong Kong, PRC and Vietnam offices, Baker & McKenzie; Member, Commercial and Securities Group, Baker & McKenzie; Chairman, Asia Pacific Regional Council, Baker & McKenzie (1999-2000); Executive Committee member, Baker & McKenzie (1997-2000); Director, Bauhinia Foundation Research Centre Limited; Member, the Hospital Authority; Chairman, the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital; Member, the Supervisory Board of the Hong Kong Housing Society (2000-2004); Fellow, Hong Kong Securities Institute

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



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, Provisional Minimum Wage Commission; Member, Sir Edward Youde Memorial Fund Council.

Chairman of Remuneration Committee. Deputy Chairman of Budget Committee. Member of SFC (HKEC Listing) Appeals Committee, Committee on Unit Trust, and Committee on Investment-Linked Assurance and Pooled Retirement Funds.



Wong Kai-man, BBS, JP

(From 26 May 2009. Current appointment expires on 25 May 2011.)

Director, Li & Fung (1906) Foundation Ltd; Director, Victor and William Fung Foundation Ltd; Independent Non-Executive Director, Shangri-la Asia Ltd; Independent Non-Executive Director, SUNeVision Holdings Ltd; Independent Non-Executive Director, SCMP Group Ltd; Independent Non-Executive Director, China Construction Bank Corporation; Member, Listing Committee, Growth Enterprise Market, The Stock Exchange of Hong Kong Ltd. (1999-2003); Member, Hospital Governing Committee, Haven of Hope Hospital; Member, Court, The University of Hong Kong; Director, the HKU School of Professional and Continuing Education; Council Member, City University of Hong Kong; Director, Lingnan Education Organisation Ltd; Director, Hong Kong Design Centre Ltd; Director, Haven of Hope Christian Service; Director, World Vision Hong Kong; Director, Breakthrough Ltd.

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



Shengman Zhang

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

Chairman, Asia Pacific (from 2009), President, Asia Pacific, Citigroup (2008-2009); Vice Chairman of Global Banking, Chief Operating Officer, Citigroup, Markets & Banking, Asia Pacific (2006-2008); Chairman, Public Sector Group, Citigroup (2006); 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.

Christopher W C Cheng, GBS, JP

(From 15 November 2003. Appointment expired 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 Limited, Temasek Foundation CLG Limited. 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.

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

Dr York Liao, SBS, JP

(From 26 May 2003. Appointment expired 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, The University of Hong Kong.

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

Our management

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); Member, FSB Standing Committee on Standards Implementation; Member, IOSCO Technical Committee; Chairman, IOSCO Technical Committee Task Force on Short Selling; Member of 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 Ltd 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 2012.)

SFC: 1992-1994 and 1995-present; Senior Director, 2000-2006. Solicitor admitted in Hong Kong in 1988. Member of HKEx Listing Nominating Committee. Member of the Advisory Committee on Bond Market Development.

Chairs Public Shareholders Group. Member of Executive Committee.

Paul Kennedy Executive Director and Chief Operating Officer

(From 16 October 2006. Appointment expired on 7 April 2010.)

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; Member, Business Support Committee, Hong Kong Securities Institute; Member, Regulatory Accountability Board, Hong Kong Institute of Certified Public Accountants.

Chairs Investor Education Advisory Committee. Member of Advisory Committee, Budget Committee, Executive Committee and SFC (HKEC Listing) Committee. Director of the Investor Compensation Company 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; Member, Finance Management Committee, The Hong Kong Management Association (since 9 September 2009).

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 2012.)

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 Budget Committee, Executive Committee and SFC (HKEC Listing) Committee. Director of the Investor Compensation Company Ltd.

Mark Steward Executive Director, Enforcement Division

(From 25 September 2006. Current appointment expires on 24 September 2012.)

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.



Front row (left to right) Martin Wheatley, Brian Ho and Alexa Lam. Back row (left to right) Mark Steward and Keith Lui.

●
caring for staff
and society

corporate social responsibility

The female gymnast throws then catches the hoops in split seconds while performing moves to the beat of music. Artistry is an important element in rhythmic gymnastics.





helping to
protect the
environment

As a public statutory body, we have always been conscious of the impact of our actions, be it on the public and the environment in general or on our stakeholders and employees in particular. We believe that the convergence of work and personal values makes work more enjoyable and meaningful. We are also keen to be a role model and to set best practices for others to follow.

To reinforce our accountability to our staff, external stakeholders and our community, we formalised our corporate social responsibility (CSR) policy more than a year ago. Substantial efforts have since been made to lay the groundwork for implementing an integrated and balanced programme through a scheme of co-ordinated activities.

The establishment of the CSR Committee gave impetus to the newly-formulated CSR Programme. The committee is chaired by the chief executive officer and made up of representatives from different divisions and departments. It reports directly to the Executive Committee and is responsible for establishing CSR strategies and targets, monitoring progress, and reviewing measures taken.

A good part of the year was spent in planning a comprehensive CSR programme. Our CSR programme focuses on caring for our staff, for the community and for the environment. We adopted a practical and multi-faceted approach, giving preference to activities that would serve more than one of our CSR goals and reach a wide range of people. For example, an event designed to reach out to a particular segment of the community could feature environmental protection as a theme, while a programme to reduce paperwork could double as a means to engage stakeholders in the marketplace.

Our people and the community

We took the view that caring for people must start from within – in the workplace – given that our employees are our greatest assets; they are, of course, also members of our wider community. We ensure that we provide competitive remuneration, comprehensive training programmes, diverse career and personal development opportunities and established channels of communication for our employees. We also organise activities to foster a congenial working environment. In turn, our employees are encouraged to contribute to society by participating in various practical outreach programmes. The approach we adopted is to reach out to the broadest possible cross-section of the community.

Promoting employee wellness

March 2010 also saw the debut of a series of “Employee Wellness Seminars” in which various professionals shared their insights on nutrition and healthy eating, “green” living and sustainable practices. A new, user-friendly “Employee Portal” complemented the wellness programme, offering updates on training and community service opportunities as well as tips on how to maintain a healthy lifestyle.

In line with our objective of helping our staff achieve work-life balance, we added paternity leave as a benefit in April 2009. Our male employees are now entitled to three days of leave upon the birth of a child.



Enhancing staff development

We help our staff develop their potential by providing structured courses and other training programmes. Last year, we made career planning and development an integral part of our performance management process to emphasise the importance of ongoing personal growth in improving job skills and market knowledge.

To groom our employees as future leaders of the organisation, we launched a number of management training courses that focused on sharpening the interviewing and coaching skills of executive staff last year. Meanwhile, we recruited 14 young university graduates in support of the Government's initiative to offer internship opportunities for the younger generation.

Much attention was paid to enhancing employees' technical knowledge as well. In view of the increasing integration of the Mainland and Hong Kong markets, we collaborated with the China National School of Administration and Tsinghua University to offer customised programmes to senior executives to add to their knowledge of Mainland-related issues. We arranged other major training programmes on investigations and advocacy.

We continued to invite local and overseas market participants and academics to share their insights with our staff. We strengthened our e-learning resources by adding more learning modules and periodic articles covering a variety of areas and topics to the e-learning portal.

During the year, each member of staff attended an average of 28.2 hours of training and we conducted a total of 1,755 training days covering over 116 work- and market-related topics.

Training conducted through lectures, seminars and workshops

| Categories of topics | Total training hours |
|---------------------------------------|----------------------|
| Technical skills and market updates | 6,823 |
| Management skills | 3,059 |
| Language, technology and other skills | 4,156 |

Employees with exceptional standards of performance are rewarded with overseas training opportunities to further develop their skills and competence.

Frequent internal communication

Open and active communication drives continuous improvement and brings staff together within an organisation. Last year, we introduced a channel called "Your Voice" to supplement the regular sharing sessions held with staff by the chief executive officer. This Intranet channel is a further means for staff to share with the chief executive officer their views and suggestions on work-related issues, and have these addressed during the well-attended sharing sessions.



CSR Home and CSR Blog were rolled out on the SFC's Intranet to provide staff with an effective online platform to learn more about accountability and sustainability issues and to encourage them to share their related views, observations and ideas.

Rewards for contributions

Individuals and teams are recognised through the annual SFC Employee Awards for the outstanding contributions they make to the organisation. Last year, five members of staff received individual awards and team awards went to five project teams (see table).

| Teams | Contributions |
|--|--|
| Joint-Consultation Paper Team | The team showed exceptional commitment and efficiency in preparing the consultation Paper on Proposals to Enhance Protection for the Investing Public. |
| Lehman Brothers Legislative Council (LegCo) Enquiry Team | In addition to the team's demanding routine work, all members showed a high level of dedication and discipline in fulfilling every demand and performing every task related to the LegCo's subcommittee's inquiry and hearings to the highest standards. |
| Licensing Business Process Re-engineering Team | The team contributed innovative ideas and hard work in the design and launch of the SFC Online Portal that has improved operational efficiency in dealing with licensing matters. The system has been well-received by intermediaries and represents a major step in moving towards a paperless operating environment. |
| Minibond Team | The team completed an unprecedented number of investigations involving 19 organisations and about 30,000 individuals, and achieved the best possible results for those affected. Staff worked together closely despite the huge demands placed upon them throughout the process. |
| PCCW Team | The SFC's intervention in the privatisation and delisting scheme of PCCW Ltd highlighted the SFC's determination to use the full range of its powers in combating misconduct. The successful intervention is a credit to the tireless work of the team members. |



Whose ecological footprint do you think is larger? China's or Hong Kong's?

To check your answer or share your stories, go to

CSR Blog

from mid-March 2010.

We also recognise employees for their commitment by presenting them with long-service awards, for periods of service of 5 years or more.

Our remuneration policy is reviewed each year to ensure that we can attract and retain the right talent to deliver our organisational priorities. Last year, we reviewed our medical benefits plan and added benefits in a number of areas.

Contributing to the community

Our philosophy towards community engagement goes beyond philanthropy. We encourage our employees to engage in community or civic services by donating either their time or their money. We also spearhead efforts to contribute to the welfare of our community.

The Commission Volunteers Group seeks to reach the largest possible audience. In planning its activities, it has also taken the opportunity to combine two or more objectives of the CSR programme in the same project where possible. In February, for instance, the group paid a visit to elderly citizens and discussed with them practical ideas for living "clean" and "green".

We introduced Employee Volunteering Leave to encourage our staff to participate in community services. Volunteers are now entitled to one day of approved absence or compensatory time off each year in return for devoting time to community activities sponsored by the

The SFC's CSR vision

"CSR is the opportunity for us to express our corporate culture and our commitment to our community in a way that we can personally identify with. We aspire to be an organisation that leads and presents an example of best practice for the market to follow."

During the "CSR Month", a teaser campaign was launched via a series of screensavers with reflective questions to raise staff awareness of environmentally-friendly practices.

SFC at weekends or on public holidays. This, we believe, is also a practical form of recognition for our staff's community-care contributions.

During the year, our staff participated in a number of charity events organised by other bodies. These included the Community Chest Dress Special Day, the charity walk for the World Wide Fund, and the donation of red-pocket money arranged by the Hong Kong Salvation Army to provide outreach counselling services to disadvantaged families. We also helped raise donations for the victims of the Haiti earthquake. Last year, 47 members of staff contributed a total of 355.5 hours of their time assisting different families and individuals from various social backgrounds through initiatives such as home visits to the elderly and outings for disadvantaged children or needy families.

We continued our "donation in lieu of corporate gift" programme, through which, instead of giving corporate gifts to our guests, we make donations to charitable causes in their names. Last year, we continued to make these donations to Operation Smile. We will conduct a review before deciding upon a beneficiary for the coming year.

We were once more presented with a Caring Organisation award by the Hong Kong Council of Social Services for our contribution to various welfare programmes and volunteer community service.

The environment

We introduced a number of initiatives focused on environmental protection. Our key objectives in this area were to give practical guidance to remind staff of the importance of their individual contributions and actions, to make the programme more visible, to measure the results of our efforts, and to make participation as convenient as possible.

Paper reduction initiatives

| Key initiatives | Objectives |
|---|---|
| <ul style="list-style-type: none"> Launched SFC Online Portal | <ul style="list-style-type: none"> To help reduce the use of paper by allowing more than 36,000 intermediaries to use the Internet to submit licensing notifications and annual returns and make online payments The ultimate aim is to enable online processing of all licensing matters |
| <ul style="list-style-type: none"> Reviewed newspaper and magazine subscription and circulation policy Encouraged staff to use online news portal Reviewed distribution policy for annual report | <ul style="list-style-type: none"> To wean readers from the habit of using hard copies of these documents |
| <ul style="list-style-type: none"> Set double-sided printing as default setting Provided reusable utensils in pantries | <ul style="list-style-type: none"> Making participation as easy as possible |
| <ul style="list-style-type: none"> Replaced hard copies of publications, circulars, and greeting cards with electronic copies | <ul style="list-style-type: none"> To reduce paper consumption and the need for printing work |
| <ul style="list-style-type: none"> Developing a document-management system | <ul style="list-style-type: none"> To significantly reduce the need for filing documents in hard copy and improve storage-and-search efficiency Ultimately, to move towards a paperless office |





Other key green initiatives

| Key initiatives | Objectives |
|--|---|
| <ul style="list-style-type: none"> • Issued our “Green Guidelines” | <ul style="list-style-type: none"> • To help staff change work and lifestyle habits to conserve energy and other resources, reduce their use of paper and decrease waste |
| <ul style="list-style-type: none"> • Launched screensavers with reflective questions about environmental protection measures • Arranged workshops on eco-housekeeping and “green” living • Displayed signs and posters with environmental protection messages | <ul style="list-style-type: none"> • To raise awareness of how our staff can make a difference, and to instill a “green” culture |
| <ul style="list-style-type: none"> • Provided separate recycle bins for cans, bottles and paper • Encouraged black-ink printing | <ul style="list-style-type: none"> • To encourage recycling • To reduce the use of colour printer cartridges and toners, which are costlier and more detrimental as environmental waste |
| <ul style="list-style-type: none"> • Separated office lighting into different zones • Arranged staff patrol after office hours to ensure that lights and other electronic equipment are switched off | <ul style="list-style-type: none"> • To reduce electricity consumption |
| <ul style="list-style-type: none"> • Kept records of consumption of measurable resources, e.g. paper and electricity | <ul style="list-style-type: none"> • To create a basis for measuring outcomes so as to motivate staff to do their share |

We also began a number of partnerships to help execute our “green” programmes. For example, we invited the Kadoorie Farm and Botanic Garden to host a workshop on eco-friendly housekeeping and choosing agricultural produce with a view to minimising harm to the environment.

We expect promising results from the programmes we launched last year aimed at paper reduction and waste management, and we have a number of additional measures in the pipeline to add to these programmes.

event highlights

2009



Apr The SFC won its first insider dealing trial, leading to the first jail sentence for such an offence in Hong Kong. A former investment banker and another individual were sentenced to imprisonment of 26 and 12 months respectively for insider dealing in shares of Egana Jewellery & Pearls Ltd before the company's privatisation in 2006.*



Apr The SFC signed a memorandum with the State Securities Commission of Vietnam to establish a framework for mutual assistance and to facilitate the exchange of information.



May Our board of directors was joined by a number of dignitaries to toast at the 20th anniversary of the SFC, at a dinner featuring Nobel laureate Professor Paul Krugman as keynote speaker. Dignitaries included: HKSAR's Chief Executive Mr Donald Tsang, Financial Secretary Mr John Tsang, Deputy Director of the Liaison Office of the Central People's Government in the HKSAR Ms Guo Li, Assistant to the Chairman of the China Securities Regulatory Commission Mr Jiang Yang.

June Deputy CEO Mrs Alexa Lam participated in the Seminar on Guangdong-Hong Kong Financial Co-operation cum Roadshow on Guangdong Hi-technology Service Zone for Financial Institutions 2009.



June The SFC's first photo competition with an investment theme attracted more than 1,000 entries. The winning photos were exhibited at the Maritime Square during the prize presentation and subsequently at Pacific Place, East Point City and the New World Centre.



Aug The Hang Seng Index ETF and Hang Seng H-Share Index ETF became the first Hong Kong exchange-traded funds (ETFs) to cross-list in Taiwan. Meanwhile, the Polaris Taiwan Top 50 Tracker Fund became the first Taiwan ETF to cross-list in Hong Kong.

Sept Former managing director of Morgan Stanley Asia Ltd Mr Du Jun was sentenced to seven years' imprisonment and fined \$23,324,117 for insider dealing following the SFC's investigation and prosecution.*



Sept Consultation on "Proposals to Enhance Protection for the Investing Public" began in September to solicit public comments over a three-month period.

Sept A series of infomercials "Know How to Invest Wisely" were broadcast on TVB, Cable TV and now TV to feature topical investment issues and to caution investors on potential market pitfalls.

Sept The SFC Online Portal was launched to enhance efficiency in our dealings with intermediaries in terms of filing processes and procedures.



Oct The SFC Guide was published to offer in layman terms an overview of how the securities and futures markets are regulated and the SFC's role in the overall regulatory structure.



Nov SFC Chairman Dr Fong signed the Declaration on Mutual Co-operation on Development of Islamic Capital Market and Islamic Collective Investment Schemes with the Securities Commission Malaysia.

Nov The SFC's prosecution had led to a verdict in the largest market manipulation trial in Hong Kong. The four who conspired to manipulate the market were sentenced to jail for between 26 and 30 months.

Dec CEO Mr Martin Wheatley exchanged views on enhancing investor protection with delegates from the Australian Securities and Investments Commission and the Financial Services Authority of the United Kingdom.



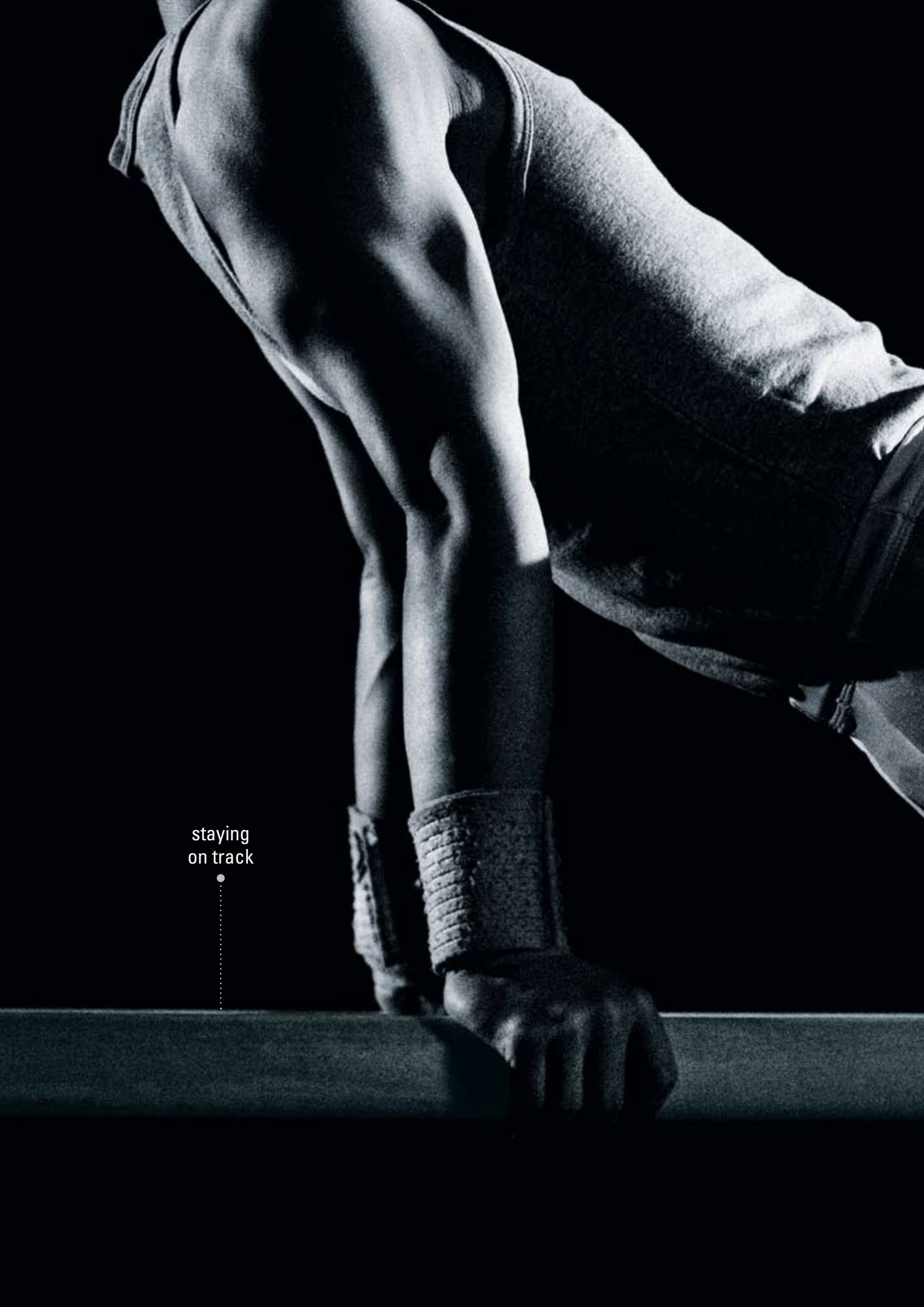
2010

Jan About \$5.5 billion was recovered for more than 29,000 bank customers and about \$110 million for 377 broker customers upon completion of investigations into all 16 banks and four brokers that had distributed Minibonds.



Feb Dr Fong and Mr Roger Lee, Senior Vice President of the Listing Division of Hong Kong Exchanges and Clearing Ltd, jointly presented the grand prize to the champion of the third Investment Triathlon at the Final Challenge.

*Photo by Ming Pao Daily Newspaper



staying
on track



regulation

Control, co-ordination and strength are required to execute the series of swings, holds, releases and turns on the parallel bars.

observing
rules



monitoring
activities



keeping high
standards



As was the case with regulators elsewhere, we devoted substantial resources to local and international issues arising from the global financial crisis. We proposed regulatory reforms that were, in part, a response to some of the matters identified as a result of the turmoil experienced in financial markets. In proposing these reforms, we have sought the right balance between an appropriate level of protection for the investing public and scope for the market to operate efficiently and develop within a practical regulatory framework.

During the year, our operational divisions worked hard to set and uphold standards, monitor market activities, investigate possible violations and take disciplinary and enforcement action.

Enforcement actions

In addition to making sure that those who violate the rules pay the price for their actions, our enforcement action also helps send clear messages to the markets that we will not tolerate activities that undermine investor interests or market integrity. Last year, we continued to achieve positive results in combating misconduct. In the following section, we provide an account of the most significant enforcement actions, some of which are still ongoing.

Concluding investigation into Lehman Brothers Minibonds

The top-down approach we adopted to investigate investor complaints in relation to Minibonds continued to prove effective. We looked into the complaints against each selling institution collectively by examining their policies and practices. In so doing, we were able to address the maximum number of Minibond-related complaints in the shortest possible period.

Building on the success of the repurchase agreements reached with Sun Hung Kai Investment Services Ltd and KGI Asia Ltd, we reached similar agreements with 16 distributing banks¹, Grand Cathay Securities (Hong Kong) Ltd, and Karl Thomson Investment

Consultants Ltd in relation to Minibonds. Separate agreements were reached with Dah Sing Bank and Mevas Bank over their sales of certain Principal Protected Notes issued by a Lehman Brothers (LB) group entity. Besides repurchasing Minibonds and notes from their eligible customers, the distributors were also required to address and rectify inadequacies in their internal systems and controls, introduce new processes concerning the sale of investment products and enhance their complaint-handling procedures.

Under the agreements, eligible customers may, depending on the buyback scheme, recover from 60% to 100% of their original investments. The repurchase offer had a high acceptance rate and, as at end-March 2010, more than \$5.6 billion had been paid to about 30,000 investors.

Breakthroughs in enforcement actions

Using the powers under the Securities and Futures Ordinance (SFO), we took a series of actions and sought a range of legal remedies to achieve our enforcement objectives. During the year, we prosecuted three individuals for 12 counts of insider dealing, seven individuals for market manipulation offences and 24 individuals and companies for various other offences under the SFO. Fines in the total sum of \$25,032,535 were imposed in various of our criminal prosecutions. We also sought orders from the court to freeze assets being proceeds of suspected securities fraud in four cases.

¹ These banks are: ABN AMRO Bank N.V., Bank of China (Hong Kong) Ltd, Bank of Communications Co Ltd, The Bank of East Asia Ltd, Chiyu Banking Corporation Ltd, Chong Hing Bank Ltd, CITIC Ka Wah Bank Ltd, Dah Sing Bank Ltd, Fubon Bank (Hong Kong) Ltd, Industrial and Commercial Bank of China (Asia) Ltd, Mevas Bank Ltd, Nanyang Commercial Bank Ltd, Public Bank (Hong Kong) Ltd, Shanghai Commercial Bank Ltd, Wing Hang Bank Ltd and Wing Lung Bank Ltd.



We obtained various court orders for the first time in a number of civil matters. We also secured convictions in serious criminal cases in which the court imposed deterrent sentences:

- **First indictable conviction under the SFO for market manipulation in the largest market capitalisation falsified:** Four persons, Chan Chin Yuen, Elaine Au Yeung Man Chun, Chan Chin Tat and Chui Siu Fung, were sentenced to 26 to 30 months' imprisonment in the District Court for conspiring to manipulate the market in trading shares of Asia Standard Hotel Group Ltd. The false trading activities had the effect of raising the company's share price by 78% and ramping up the company's market capitalisation by \$4 billion.
- **Maximum sentence for insider dealing:** A former director of Morgan Stanley Asia Ltd, Du Jun, was sentenced to seven years' imprisonment, the maximum prison term within the powers of the District Court, for insider dealing in the shares of CITIC Resources Holdings Ltd during an acquisition deal in 2007. The defendant was also fined \$23,324,117, a sum equal to the notional profit made from his insider dealing activities. The defendant has lodged an appeal against his conviction and the sentence.
- **Court confirmation of the SFC's power to freeze assets:** The Court of Appeal allowed an appeal by the SFC and re-imposed interim injunctions against three defendants to prevent the dissipation of assets that had been frozen in an insider dealing investigation. The judgment provided authoritative guidance on the nature and scope of section 213² of the SFO, and paved the way for the SFC to bring substantive civil proceedings before the court. The three defendants have lodged an appeal with the Court of Final Appeal.

- **Largest interim assets freezing order:** We obtained an order from the Court of First Instance to freeze assets of up to \$1.6 billion against the former chairman of GOME Electrical Appliances Holding Ltd, Wong Kwong Yu, his wife Du Juan and two companies for allegedly having perpetrated an unlawful scheme, which resulted in a loss of about \$1.6 billion to the company. The interim injunction serves to prevent the dissipation of assets pending the conclusion of the SFC's investigation and to ensure that sufficient assets are preserved to satisfy any restoration or compensation orders which may be made by the court.
- **First director disqualification over failure to make timely disclosure of information:** The SFC obtained orders from the Court of First Instance to disqualify two directors, Ellen Yeung Ying Fong and John Lai Wing Chuen, of Warderly International Holdings Ltd for five years for failing to ensure that the company disclosed its substantially depleted financial position to the market as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd and to give shareholders all the information they might reasonably expect.
- **First court order to direct a listed company to commence proceedings against former directors:** The SFC obtained an order from the Court of First Instance directing Rontex International Holdings Ltd to bring legal proceedings against three of its former executive directors, Cheung Keng Ching, Chou Mei and Kevin Lau Ka Man, to seek the recovery of the compensation for the loss and damage suffered by the company as a result of the directors' misconduct.

² Section 213 of the SFO allows the SFC to apply to the Court of First Instance for various orders against any person who has contravened a provision of the SFO.

Sing Pao

證監確保公平對待小股東



【財經通、記者程樂通報導】現行《公司條例》雖沒有明文禁止分拆股票，但電業（008）私有化引起期間，股市各方的供與求平衡與電業在私有化過程中，的確存在分拆股份的情況，證監會行政總裁李德濤表示，上述做法對小股東不公平，可能損害小股東的利益，惟證監會先行研究判例，才決定是否就分拆股份事宜向政府提出修例建議，假使修例立法，亦是在將來需要討論的事項。

研究判例再定是否修例

他又指，雖然關於電業私有化訴訟至今暫無結果，惟證監會仍將繼續就電業私有化進行調查，完成後將會更多公布，證監會亦會繼續採取一切措施，保障投資者利益，並確保小股東獲得公平對待。

財經事務及庫務局局長陳家強昨日於立法會會議上表示，電業私有化料表示，證監會運用法賦予的權力發揮應有角色，有效維持市場公平及有秩序運作，證監會將訂公司法例，

推高泛海股價 市值暴漲40億 最大造市案4男女判囚

【本報訊】香港證券及期貨事務監察委員會（證監會）昨日宣佈，對四名涉案人士判處監禁，以懲戒其涉嫌在泛海國際（0333）股價暴漲期間，利用虛假消息及虛假交易，推高股價，造成投資者損失。這四名人士分別是：陳國治、陳國治、陳國治、陳國治。

證監會表示，這四名人士涉嫌在泛海國際股價暴漲期間，利用虛假消息及虛假交易，推高股價，造成投資者損失。這四名人士分別是：陳國治、陳國治、陳國治、陳國治。

陳國治、陳國治、陳國治、陳國治。

Hong Kong Daily News

- **First prosecution in the District Court for failing to answer questions as required under the SFO:** Two persons, Chan Chin Tat and Chui Siu Fung, were convicted of failing to answer questions during an SFC investigation, and each was sentenced to one month's imprisonment, to be served concurrently with sentences imposed in earlier proceedings for market manipulation offences.

Firm actions taken

We prosecuted for the first time the offence of disclosure of false or misleading information inducing transactions. Vong Tat-leong David, was charged with and is being prosecuted for allegedly causing dissemination concerning a transfer of shares of Vonggroup Ltd and hence an increase of its trading volume and share price. The case was heard in the District Court.

| Enforcement activities | |
|---|-----------|
| Number of trading inquiries directed to brokers | 4,141 |
| Number of investigations started | 275 |
| Number of investigations completed | 220 |
| Number of investigations completed within seven months (%) | 168 (76%) |
| Number of persons charged in criminal proceedings | 33* |
| Number of criminal charges laid | 181* |
| Number of Notices of Proposed Disciplinary Actions | 59 |
| Number of Notices of Final Decision | 78 |
| Number of persons against whom civil proceedings were commenced | 34 |
| Compliance advice letters issued | 230 |

* We laid a total of 181 criminal charges against 33 persons, with 49 charges laid against 10 persons for market manipulation or insider dealing.

We obtained orders from the Court of First Instance to appoint interim administrators and provisional liquidators and freeze assets of up to US\$90.6 million in relation to a private hedge fund, Descartes Athena Fund SPC, related entities and individuals. The applications were made as part of an ongoing investigation into the operations of the fund in Hong Kong, which raised over US\$90.6 million from overseas investors, and a number of related entities.

Proceedings were commenced in the Court of First Instance for an injunction to freeze assets of Tiger Asia Management LLC, a New York-based management company, and three of its senior officers, Bill Sung Kook Hwang, Raymond Park and William Tomita, up to \$29.9 million, a sum equivalent to the notional profit gained in suspected insider dealing and manipulation in the shares of China Construction Bank Corporation. (In April 2010, we amended the proceedings to seek orders to freeze an additional \$8.6 million of Tiger Asia's assets and to prohibit it from dealing in all listed securities in Hong Kong in the light of further insider dealing allegations in respect of the shares of the Bank of China Ltd.) We are also seeking orders to unwind the relevant transactions to



South China Morning Post



The Standard

Sing Tao Daily



restore the affected parties to their pre-transaction positions and to prevent Tiger Asia and the three officers from trading in listed securities and derivatives in Hong Kong when in possession of relevant information.

During the year, we obtained orders from the Court of First Instance to disqualify Shum Ka Sang and Shen Yi, former directors of Wah Sang Gas Holdings Ltd, and Fung Chiu and Lian En Sheng, former directors of GP Nano Technology Group Ltd from acting as directors of any company for periods ranging from six to seven years. Separately, we issued proceedings in the Court of First Instance to seek orders to disqualify Hung Kwok Wa Godfrey (a current executive director), Yeung Kui Wong, Yu Hung Wong, John Lai Wing Chuen and Ellen Yeung Ying Fong (all former executive directors) and Hermann Leung Ping Chung (a former non-executive director) of Warderly International Holdings Ltd for suspected misconduct involving persistent failure to comply with disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. Orders were made to disqualify John Lai Wing Chuen and Ellen Yeung Ying Fong each for a period of five years and the proceedings are continuing against the other four.

To encourage compliance, we reached agreements with four licensed corporations, requiring them to rectify deficiencies we had identified, and cautioned them that more severe disciplinary action would be taken if the deficiencies were not rectified satisfactorily.

These entities were fined a total of \$7.7 million and their implicated responsible officers disciplined and/or fined. Separately, we reprimanded eight licensed corporations for various breaches and fined them a total of \$13.74 million. Five licensed persons from these brokerages, which included responsible officers, had their licences revoked or suspended.

Enforcement powers under the SFO affirmed

During the year, several provisions under the SFO have been successfully invoked in our enforcement actions taken to tackle regulatory breaches.

- In a civil action, the Court of First Instance granted a declaration order that effectively affirmed the powers of the SFC to take action against unlicensed persons who had engaged in "grey market" trading of securities.
- We obtained an order from the Court of First Instance to require Lehman Brothers Asia Ltd, which was in liquidation, to disclose to us, pursuant to section 185³ of the SFO, all records and documents, not covered by legal professional privilege connected to our investigation of the offer and marketing of Minibonds.

Last year, the Securities and Futures Appeal Tribunal upheld five disciplinary appeal decisions in which disciplinary sanctions were imposed, including a lengthy prohibition order, a licence suspension and a heavy fine.

³ Under section 185 of the SFO, the SFC has the power to apply to the Court of First Instance in respect of any failure by a person to produce any records or documents upon being required to do so by the SFC under provisions of the SFO, for an order that the person comply with the requirement within a specified period.

Regulatory enhancements

In the past year, we reviewed various aspects of our regulatory regime to identify areas in which we believed investor protection measures should be enhanced, or in which changes should be made to accommodate market developments, or in which we could increase efficiencies. To this end, we conducted public consultations on various proposals on different subjects.

Investor protection measures proposed

In our report to the Financial Secretary in December 2008 (the FS Report), in light of the global financial crisis and its impact in particular on unlisted structured products offered to the public, we recommended a number of measures to restore investor confidence in the financial markets and to address issues relating to selling practices and complex investment products. After its review of the FS Report and a report prepared by the Hong Kong Monetary Authority, the Financial Services and the Treasury Bureau formulated an action plan⁴ to take forward various recommendations.

In furtherance of measures recommended in the FS Report and identified in the action plan, we began a three-month consultation in September 2009 to solicit public comment on proposals to enhance the current regulatory regime governing the sale of investment products in Hong Kong. Covering each stage of the investment life cycle, the key proposals addressed pre-sale documentation, disclosure at and after the point of sale, selling practices, and certain post-sale requirements, including consideration of the feasibility of a “cooling-off” or “unwind” period for certain investment products.

One of the key proposals is the use of a single SFC products handbook containing a revised Code on Unit Trusts and Mutual Funds, a revised Code on Investment-Linked Assurance Schemes and a brand new Code on Unlisted Structured Investment Products together with guiding principles to be applied on a cross-product basis.

Public views were also sought on proposals relating to intermediary selling practices, including whether intermediaries should, as part of their “know your client” procedures, assess a client’s knowledge

of derivatives and characterise the client based on this knowledge to help the intermediaries provide appropriate services. The public was also consulted on the definition of “professional investor,” not just in terms of revisiting the applicable asset test, but also as to the requirement for knowledge of and expertise in relevant products. To address potential conflict of interests issues, it was also proposed that intermediaries be required to disclose, pre-sale, the benefits they receive from product issuers.

In formulating the proposals, we closely examined the regulatory regimes in other major jurisdictions and consulted the market widely. Following the release of the consultation paper, we conducted over 50 briefings with various stakeholders, including Legislative Council members, market participants, industry bodies, media representatives, consumer representatives and academics, to explain issues and respond to any related enquiries. To help the industry better understand the implications of certain proposals, such as the proposed disclosure of monetary and non-monetary benefits and the imposition of a “cooling-off” or unwind right, we hosted a forum for some 240 industry representatives at which experts from the United Kingdom’s Financial Services Authority and the Australian Securities and Investments Commission shared their experiences in their respective markets.

To encourage the general public to submit comments on the consultation paper, we launched a public awareness campaign immediately after the paper was released. This included a TV commercial to publicise the consultation, print advertisements in major newspapers and other promotional items placed in public transport vehicles and on the Internet. We also explained the objectives underpinning the proposals in our consultation in various articles and segments in the print and radio media. To facilitate submission of feedback on the consultation, we posted for the first time an interactive questionnaire on the SFC website.

At the close of the three-month consultation period, we had received over 100⁵ submissions representing comments from a diverse group of stakeholders such as banks, brokers, financial advisors, fund managers, insurance companies, professional firms, representative bodies and the general public. We carefully analysed the comments received. We also held a number of follow-up

⁴ Action Plan on Recommendations in the Reports Prepared by the HKMA and the SFC on the Lehman Brothers Minibonds Incident prepared by the Financial Services Branch of the FSTB was submitted to the LegCo in February 2009.

⁵ The responses received included a considerable number of suggestions concerning banks’ selling practices on structured products, which were not direct responses to the proposals. These suggestions were carefully reviewed and taken into consideration if they were deemed to be relevant.



meetings with market practitioners to discuss feedback and suggestions we had received and to explore practicable alternatives that would further our objectives in balancing an appropriate level of protection for investors with scope for the market to operate efficiently and develop within a practical framework of regulation. We released our consultation conclusions in respect of these proposals in the second quarter of 2010, retaining the majority of the proposals.

During the same period, we consulted the public on statutory reform proposals to enhance the regulatory regime governing public offers of unlisted structured products in Hong Kong. The reforms proposed would operate to transfer the regulation of public offers of structured products that currently fall within the scope of the Companies Ordinance prospectus regime to the offers of investments regime under the SFO. If implemented, the proposals would require unlisted structured products proposed to be offered to the public in Hong Kong, together with the related offering documents and marketing materials, to be authorized under the SFO, unless an exemption applies. The consultation conclusions in respect of these proposals were published in April 2010.

Other regulatory changes tabled

In view of the robust regulatory regime in place, Hong Kong did not impose any additional restrictions on short-selling activities as a result of the financial crisis. We did, however, take the opportunity to review the regime last year to identify possible areas for improvement. After taking into account the domestic market situation and industry feedback collected from a two-month public consultation, we announced a new short-position reporting regime to enhance transparency of short-selling activities. We believe that the new reporting regime will not only complement Hong Kong's existing requirements with respect to short sales but will also enable us to monitor systemic risks more effectively. The new reporting requirements will need to be implemented in subsidiary legislation, and we intend to consult the public on this in due course.

Separately, proposals were made to extend the Codes on Takeovers and Mergers and Share Repurchases to cover real estate investment trusts (REITs) and strengthen regulation of market

conduct regarding dealings in listed collective investment schemes. Given the development of the REIT industry in Hong Kong and other parts of Asia and rising interest in merger and acquisition activity among REITs, we considered it an appropriate time to augment the regulatory infrastructure in this area to better protect the interests of minority unitholders and to aid the further development of the REIT market.

In line with the Government's proposals to give statutory backing to the obligation of listed corporations to make timely disclosure of price-sensitive information, we began a public consultation on a draft set of guidelines explaining the type of information and uses covered and how applicable exemptions and safe harbours would be applied. We believe that this proposal would further enhance transparency and the quality of Hong Kong's securities markets.

Market supervision and standards

Monitoring market activities and maintaining industry standards are important aspects of our work. We set standards for both industry practitioners and the securities and futures markets through licensing requirements, codes of conduct, rules and regulations. We monitor industry participants, market operators and market activities to detect possible deviations from such standards. We review the standards we set from time to time, working closely with fellow regulatory bodies where appropriate, to ensure that they accommodate changing circumstances and developments.

Monitoring market and industry activities

We monitor industry practitioners and other market participants in various ways. We require intermediaries to file certain information with us regularly, and conduct on-site inspections or off-site monitoring of their operations. We communicate frequently with industry participants to raise awareness of compliance matters and to gauge their resilience in adverse market conditions.

We extend our supervisory work to monitoring the market for incidents such as unusual movements in prices, volumes or other markers and take action against those found breaching applicable rules. In addition, we plan for contingencies or emergencies that may disrupt trading activities.

Stressing compliance

- At two seminars organised jointly with the Government, we updated 600 management and compliance officers from intermediaries on the latest international and local developments in anti-money laundering regulation. We also met with over 20 representatives from six brokerages to exchange views on regulatory developments and other compliance matters.
- We reminded brokerages to be vigilant in managing their securities margin financing risks and to conduct regular stress tests to ascertain the adequacy of their financial resources. We issued a new set of Frequently Asked Questions to provide further guidance on requirements for margin lending policies and controls. This was prepared based on the findings of an independent review, conducted by an accounting firm in 2009, of the securities margin financing businesses of a sample of brokerages, offered.
- We issued a circular to remind brokerages of their compliance obligations in light of the conditions imposed on the listing of United Company RUSAL Ltd and the need for prudent risk management when providing margin financing to clients to take up shares of the company.
- For the fourth consecutive year, we conducted a joint seminar with the Hong Kong Institute of Certified Public Accountants to share with their members our experience in reviewing certain internal control systems employed by stockbrokers and sponsors of initial public offerings.
- During the year we held 279 meetings with representatives of licensed corporations and industry bodies to discuss their business operations and market developments. We also conducted 200 risk-based, on-site inspections of licensed corporations to assess their level of compliance. From these inspections and from our ongoing supervisory work, we identified 441 control deficiencies, rule infractions and/or violations. Among these, 35 cases involving serious breaches by licensed corporations and/or individuals warranted further investigation.

Maintaining high standards in matters related to listed companies

- In reviewing the listing application made by United Company RUSAL Ltd under the dual filing regime, we took the view that the applicant's complex debt restructuring arrangement and other areas of uncertainty were unlikely to be readily comprehensible to retail investors. In the interest of the investing public, we exercised our power under the Securities and Futures (Stock Market Listing) Rules to impose certain conditions in respect of the listing.
- We monitored complaints, press reports and announcements in respect of listed companies, and identified and handled instances of potential false or misleading disclosures.
- We continued to supervise the performance of The Stock Exchange of Hong Kong in its regulation of listing matters.
- The Executive⁶ issued a "cold shoulder order" and a public reprimand in respect of Koo Ming Kown, the only non-executive director of Nam Tai Electronic & Electrical Products Ltd (NTEEP) and the only executive director of Nam Tai Electronics, Inc (NTEI), for announcing NTEEP's proposed voluntary winding-up in full knowledge of the fact that that such proposal constituted a serious breach of the Takeovers Code. The cold shoulder order had the effect of denying Koo direct or indirect access to the Hong Kong securities markets for two years.
- During the year, our Takeovers team handled 96 transactions, including general offers, privatisations, whitewashes and share repurchases, and 267 applications under the Codes on Takeovers and Mergers and Share Repurchases. The Takeovers Panel met four times to rule on issues relating to live transactions and/or policy issues.

Maintaining orderly markets

- Following sharp movements in the stock price of Asian Citrus Holdings Ltd upon its trading debut, we worked with Hong Kong Exchanges and Clearing Ltd (HKEx) to identify measures to enhance dissemination of information and orderliness of trading in cases of listing by introduction.

⁶ The Executive refers to the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director.



- In January, a technical glitch rendered Hang Seng Indexes Company Ltd's (HSIL) system incapable of updating and disseminating indices for about 30 minutes, and HSIL activated its contingency arrangements for distribution of indices. We worked closely with HSIL and HKEx to review the effectiveness of the contingency measures.

International co-operation

To keep Hong Kong abreast of developments in international financial markets and regulatory standards and initiatives in other markets, we participate regularly in international discussions and reviews of various regulatory issues, mainly through forums such as the International Organization of Securities Commissions (IOSCO).

In October 2009, the head of our Intermediaries Supervision Department was appointed to chair the IOSCO's Standing Committee 3 on the Regulation of Market Intermediaries. This appointment allows the SFC to further contribute to initiatives on improving global market standards; for example, we hosted a meeting in Hong Kong to discuss key regulatory issues such as direct electronic access to securities markets, insolvency and liquidity management, and requirements for intermediaries to assess suitability when selling investment products.

Led by the SFC's Chief Executive Officer, the IOSCO's Task Force on Short Selling published recommended principles for the effective regulation of short selling and subsequently provided a progress report to the IOSCO with respect to implementation of the recommendations in major markets.

The SFC also represents Hong Kong in the Standing Committee on Standards Implementation (SCSI), established by the Financial Stability Board (FSB). In this role, the SFC co-ordinates Hong Kong's participation in the SCSI initiatives to promote implementation of international standards and improve information sharing and regulatory co-operation. The SFC also participates in two sub-working groups of the SCSI: the Expert Group, which promotes adherence to international co-operation and information exchange

standards, and the Implementation Monitoring Network, which provides the Group of Twenty (G-20) with periodic updates on implementing the recommendations of the G-20 and the FSB in their respective member countries.

Public concerns

During the year, we received 2,742 public complaints, of which 672 were related to the collapse of the LB group. We referred 627 complaints about alleged mis-selling by banks to the Hong Kong Monetary Authority for preliminary review.

Our various operational divisions reviewed 731 non-LB related complaints and investigated 143 cases. A further 164 matters were referred to HKEx or other financial regulators where the subject matter fell within their purview.

Public complaints overview

| Nature of complaints | 2009-10 | 2008-09 | % change |
|--|--------------|---------|----------|
| Conduct of licensed intermediaries and registered institutions | 616 | 513 | +20% |
| Listing-related matters and disclosure of interests | 716 | 505 | +42% |
| Market misconduct | 321 | 422 | -24% |
| Products | 19 | 37 | -49% |
| Other financial activities | 386 | 294 | +31% |
| Miscellaneous | 12 | 47 | -74% |
| Subtotal | 2,070 | 1,818 | +14% |
| Complaints related to Lehman Brothers | 672 | 8,252 | -92% |
| Total | 2,742 | 10,070 | -73% |

Under our supervision, the Investor Compensation Co, Ltd (ICC) continued to process claims from clients of three brokerages that had gone into default in previous years. It also processed claims against five brokerages relating to individual disputes. In the past year, the ICC completed the processing of 73 claims and paid out \$2.74 million in compensation to 31 clients.



development

A female gymnast will have to be helped onto the asymmetrical bars either by someone or by stepping onto a springboard to begin her routine.

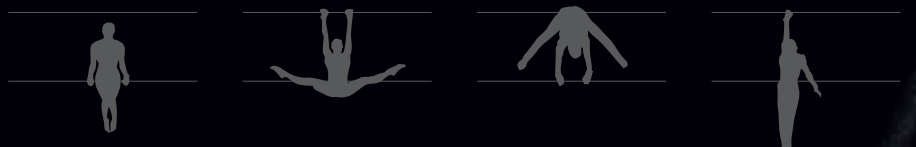


• providing the right support

• understanding market dynamics

• enhancing viability

• preparing for growth



In addition to maintaining market order, we are aware of the importance of helping the securities and futures markets develop. We believe that to maintain and enhance Hong Kong's position as an international financial centre, we need to provide an effective regulatory framework with appropriate rules and guidelines that accommodate changing conditions and that help keep the city competitive internationally.

Last year, we continued to work with our Mainland counterparts and other regulatory and government bodies to strengthen the framework for complementary expansion of the securities and futures markets in Hong Kong and on the Mainland, took steps to streamline regulatory requirements and reduce certain compliance costs, sought opportunities to broaden and deepen our markets and continued our work in the international arena to contribute to policy initiatives and stay abreast of developments in other markets.

Strengthening ties with the Mainland

During the year, we maintained our close dialogue with Mainland authorities and financial institutions.

In May 2009, we provided support to the Government in concluding Supplementary Agreement VI to the Closer Economic Partnership Agreement (CEPA VI) and worked jointly with Mainland authorities to facilitate the implementation of the CEPA VI measures. CEPA VI focused on liberalisation of economic ties between Hong Kong and the Mainland. Both parties agreed to explore introducing to Mainland markets exchange-traded funds (ETFs) linked to Hong Kong-listed stocks. The terms of the supplementary agreement also laid the groundwork for eligible securities companies from Hong Kong and the Mainland to set up joint venture securities investment advisory companies in Guangdong. Subsequently, in January 2010, the China Securities Regulatory Commission (CSRC) released a set of guidelines for parties seeking to enter into these types of joint ventures under CEPA VI.

In early 2010, under the auspices of the Government, a new round of discussions commenced with Mainland authorities on Supplementary Agreement VII to CEPA.

We attended the 40th meeting of the Memorandum of Regulatory Co-operation (MORC meeting), hosted by the Shanghai Stock Exchange in Xinjiang in June 2009 and then hosted the 41st MORC meeting ourselves in Hong Kong in March 2010. At these meetings, we exchanged views with representatives from the CSRC and the stock exchanges of Shanghai, Shenzhen and Hong Kong on the latest initiatives in Mainland and Hong Kong financial markets, and discussed cross-border regulatory co-operation.

We attended regular meetings with senior representatives of Mainland government agencies and regulatory authorities, including the Ministry of Commerce, the People's Bank of China, the Hong Kong and Macao Affairs Office of the State Council, the CSRC, the China Banking Regulatory Commission, the China Insurance Regulatory Commission and the State Administration of Foreign Exchange. Our staff attended training sessions provided by the China National School of Administration in July 2009 and by Tsinghua University in October 2009 to enhance our understanding of Mainland political and economic issues.

We paid visits to Mainland authorities to share our experience in various areas, such as overseeing listings, regulation of retail funds and supervision of securities intermediaries.

We also provided support to the Government in expanding cross-border financial co-operation with Mainland cities through agreements, forums and other measures including:

- the Co-operation Agreement of the Expert Group on Hong Kong/Guangdong Financial Co-operation signed in August 2009;
- the Letter of Intent in Taking Forward Co-operation on Modern Service Industries, concluded between Hong Kong and Shenzhen in August 2009;



- the Memorandum of Understanding Concerning Advancing Hong Kong-Shanghai Financial Co-operation, concluded in January 2010;
- attending the first Hong Kong/Guangdong Financial Expert Group meeting in November 2009 after the group was formed in August 2009, during which we provided our input to the Government with respect to the Framework Agreement on Hong Kong-Guangdong Cooperation and financial policies in Qianhai; and
- joining a financial services delegation led by the Government in August 2009 to meet the Shanghai Municipal Government and regulatory authorities to explore co-operation opportunities. In this regard, we also met with the vice mayor of Shanghai and with Shanghai regulatory authorities in March 2010 to exchange market updates and discuss avenues for collaboration and mutual assistance in the development of the securities and futures markets.

Enhancing process efficiency

We continued to devote considerable efforts to streamlining regulatory requirements and removing dispensable constraints or obligations.

To make our licensing procedures more user-friendly and to enhance our communication with intermediaries, we are going on line. We successfully launched the first phase of the SFC Online Portal in September 2009 to enable intermediaries to submit their annual returns and notifications electronically. Using the portal, intermediaries may also view their profile information and receive messages from the SFC on line.

To encourage licensees and registrants to use the system, we conducted introduction and demonstration sessions for potential users and will do so on an ongoing basis to promote portal usage.

The system has been well-received by intermediaries. As at 31 March 2010, over 90% of licensed corporations and registered institutions, and over 70% of licensed individuals, have activated their portal accounts. In addition, around 10,000 annual returns and 6,000 licensing-related notifications previously filed in paper form were received online in the first six months after the portal's launch. The launch of the second phase in April 2010 enabled licensees to generate invoices electronically and make annual fee payments online in addition to the conventional means.

We approved amendments to the Listing Rules proposed by The Stock Exchange of Hong Kong Ltd (SEHK) to improve efficiency. The measures aimed to:

- Shorten the minimum notice period and the minimum subscription period for book closure for a rights issue to give listed companies quicker access to the funds raised and to lower market risks;
- Streamline the listing process by simplifying the filing procedures and checklist requirements for the listing of equity securities and waiving the requirement for listing applicants to file certain documents, such as, an expert's certification to issue a prospectus; and
- Amend the notifiable transaction rules to remove the requirement for listed companies to obtain prior shareholder approval in order to build fixed assets, such as plant or machinery, in the usual course of business.

In May 2009, we also approved rule amendments proposed by Hong Kong Exchanges and Clearing Ltd (HKEx) that streamlined the process for Exchange Participants to notify the exchanges of changes to company names, changes in directors and/or responsible officers and changes of principal and branch addresses, etc.



41st Memorandum of Regulatory Co-operation meeting



China Financial Markets Conference



FIX Conference

Promoting development of markets and products

We continued to pursue opportunities for our markets and wider choices for investors.

Exchange-traded funds

We authorised 37 ETFs during the year, raising the total number of SFC-authorised ETFs to 61 as at 31 March 2010. The market capitalisation of these ETFs (excluding the gold ETF) totalled US\$23.5 billion as at 31 March 2010, up 69% from the year-ago level of US\$13.9 billion. The average daily turnover for Hong Kong-listed ETFs in the year ended 31 March 2010 amounted to US\$264 million, reaffirming Hong Kong's position as the second largest ETF market in Asia in terms of both market capitalisation and turnover.

We authorised the first series of China A-share sector ETFs, the first ETF managed by a Hong Kong subsidiary of a Mainland financial institution and the first Hong Kong equity value-based ETF managed by a Hong Kong-based fund manager. China A-shares remained the most popular investments among Hong Kong ETF investors. As at 31 March 2010, 20 ETFs in Hong Kong tracked the performance of A-share indices and their average daily turnover amounted to about 70% of the local ETF turnover.

During the year, we worked towards developing Hong Kong's ETF market on several fronts:

- In May 2009, we signed a side letter to our bilateral memorandum of understanding (MOU) with the Taiwan Financial Supervisory Commission (FSC) to facilitate the cross-listing of ETFs in the two markets. Thereafter, three Hong Kong ETFs were listed on the Taiwan Stock Exchange and one Taiwan ETF was listed on SEHK in August 2009. One of the Hong Kong ETFs listed on the Taiwan Stock Exchange raised more than \$1.64 billion in its public offering. It was ranked the third largest ETF in Taiwan by market capitalisation and had the second highest turnover as of the end of March 2010.
- We reviewed and approved trading arrangements for 37 new ETFs and provided comments to the Stamp Office for stamp duty relief applications made by several ETFs.
- To reduce trading costs for regional ETFs, we worked closely with the Government and HKEx on extending a stamp duty concession to ETFs that track indices in which Hong Kong stocks comprise 40% or less of the constituent securities. This new stamp duty concession, effective since February 2010, may help attract the listing of regional ETFs in Hong Kong.



China Financial Markets Conference



Signing ceremony of MOU between the SFC and State Securities Commission of Vietnam

Other retail investment products

Our efforts on other fronts to expand the range of investment products and increase competitiveness included the following:

- We authorised 244 collective investment schemes during the year, bringing the total number of authorised collective investment schemes to 2,596 as at 31 March 2010.
- We signed a Declaration of Mutual Cooperation on Development of Islamic Capital Market and Islamic Collective Investment Schemes with the Securities Commission Malaysia (MSC) in November 2009. The declaration provides the framework for the SFC's and the MSC's mutual recognition of Islamic collective investment schemes offered to the public.
- We authorised the issue of 24 offering documents and advertisements for unlisted structured products offered to the public during the year. Issuers have generally been co-operative in providing documents with enhanced upfront disclosure of risks in relation to structured products in light of recent market events and the proposals in our public consultation in this area.
- We authorised the first real estate investment trust (REIT) with units listed on the Singapore Exchange Securities Trading Ltd to seek a dual primary listing by way of introduction on SEHK. The market capitalisation of all SFC-authorized REITs stood at US\$9.9 billion at 31 March 2010, representing a year-on-year increase of 52%.
- We approved HKEx's proposal to introduce flexible options contracts on the Hang Seng Index and Hang Seng China Enterprises Index. Launched in February 2010, flexible options contracts allow investors to choose strike levels and expiry months that are different from the standard contracts. This

facilitates market participants moving some of their over-the-counter (OTC) trades to the exchange trading platform and thereby enhances the trading transparency.

During the year we authorised three providers of automated trading services, including some internal crossing platforms operated by brokerages, which are a type of dark pool. We studied the development of dark pools in Hong Kong and communicated with providers about operational and structural considerations for these types of services under the existing regulatory framework. In addition, we visited a number of dark pool service providers in Hong Kong to review their current operations, discuss their plans for future development and assess the potential impact on traditional forms of trading. We continue to monitor global developments in this area and will review our regulations as appropriate.

To improve market efficiency, a working group, chaired by the SFC and including representatives from HKEx and the Federation of Share Registrars Ltd, was set up to develop an operational model for implementing a scripless securities market. A three-month joint public consultation was launched last December to invite views on a proposed scripless model. The proposed model would enable investors to hold and transfer securities electronically in their own names.

We also worked with the Government on an initial set of related legislative amendments to remove existing obstacles to implementing the scripless initiative, such as the current provisions compelling the use of paper documents of title and paper instruments of transfer. The amendments were incorporated into the Companies (Amendment) Bill 2010 tabled before the Executive Council and Legislative Council in the first quarter of 2010.

Licensing of intermediaries

To promote a healthy market, we encourage and facilitate the licensing of intermediaries from Hong Kong and overseas. For the full year, we processed 6,403 licence applications, down 17% from the previous financial year due to the decreased number of individual applications. The total number of SFC licensees decreased by 2% to 36,581.

We continued to see growth in the hedge fund industry this year. The number of licensed hedge fund managers/advisers increased by about 20% from the year before and the growth rate of licensed individuals accredited to these firms was close to 25%. We leveraged the streamlined initiatives introduced in June 2007, and the average processing time over the year was approximately eight weeks, with well-prepared applications able to be approved in principle within six to eight weeks, similar to the situation in the preceding two years.

The one-off annual licence fee waiver for some 37,000 intermediaries came into effect on 1 April 2009. This initiative helped reduce their regulatory cost burden.

Working with overseas counterparts

We actively participated in a number of task forces and international forums of the International Organization of Securities Commissions (IOSCO), each focusing on specific topics with a particular set of objectives. These task forces included:

- the Task Force on Unregulated Financial Markets and Products, which published its recommendations directed at improving confidence and transparency in the OTC markets, with a particular focus on securitised products and credit default swaps;
- the Task Force on Commodity Futures Markets, which reconvened to address the Group of Twenty's directives on enhancing the transparency and regulation of the energy and energy derivatives markets; and

- the OTC Derivatives Regulators' Forum that provides regulators, central banks and authorities with a means to co-operate, exchange views and share information relating to OTC derivatives, central counterparties for OTC derivatives and other regulatory issues.

In February 2010, delegates from 16 jurisdictions attended a meeting of the IOSCO Standing Committee on Regulation of Secondary Markets, which we hosted in Hong Kong to exchange ideas on various regulatory issues and the development of secondary markets.

We also worked with securities regulators and central banks in major markets to strengthen standards for financial market infrastructures, such as payment systems, securities settlement systems and central counterparties, which are critical to financial stability. During the year, we participated in several discussions organised by the working group jointly established by the Committee on Payment and Settlement Systems (CPSS) and the IOSCO. The working group will continue to set the standards this year. Separately, in light of the additional risks associated with the increasing use of central clearing for OTC derivatives, we also took part in another working group jointly established by CPSS-IOSCO to review recommendations for central counterparties.

We concluded certain agreements with regulators overseas to foster co-operation. In April 2009, we signed an MOU with the State Securities Commission of Vietnam to facilitate mutual assistance and the exchange of information between us.

After signing the May 2009 side letter to our bilateral MOU with the Taiwan FSC, we held our first meeting with the FSC in November 2009 to conduct an in-depth exchange on a wide range of securities regulatory issues. This was followed, in December, by a two-week programme during which FSC representatives were seconded to the SFC to learn about Hong Kong's securities regulatory framework.



Communicating with market participants

We maintain a constructive and effective dialogue with industry participants to understand their needs and considerations and to clearly articulate regulatory requirements.

Besides our annual and quarterly reports, we compile and issue periodical publications. The Enforcement Reporter discusses the SFC's enforcement work and highlights current enforcement issues. With articles and Practice Notes, the Takeovers Bulletin provides intermediaries with informal guidance as to how the Executive normally interprets and applies certain provisions of the Codes on Takeovers and Mergers and Share Repurchases. The Dual Filing Update regularly updates market participants on areas of concern in listing applications, including insufficient due diligence by sponsors and non-disclosure of instances of regulatory breach. We also provide weekly reports on short selling. We welcome reader feedback on all of our publications to ensure that they provide useful information.

In July 2009, we released the Fund Management Activities Survey for 2008. This annual survey covers fund management activities of licensed corporations, registered institutions and insurance companies in Hong Kong. Faced with the sharp decline in global financial markets in 2008, the asset management industry experienced one of the most difficult years in decades. The combined fund management business in Hong Kong (aggregate assets under management, excluding real estate investment trusts) dropped 39.3% year on year to \$5,850 billion at the end of 2008. However, the integrity and reliability of Hong Kong's financial system have remained intact. Hong Kong has maintained its international status as 64.2% of such combined fund management business were sourced from non-Hong Kong investors.

In September 2009, our Report on the Survey of Hedge Fund Activities of SFC-licensed Managers/Advisors gave an updated account of hedge fund activities conducted by SFC-licensed hedge fund managers. According to the survey, as of 31 March 2009, Hong Kong had 209 SFC-licensed hedge fund managers managing or advising 542 hedge funds with aggregate assets of US\$55 billion, six times the amount in 2004.

In our latest "Review of the Hong Kong Securities Industry", published in March 2010, we gave an overview of the aggregate financial position of all licensed securities dealers and securities margin financiers, including those that are not SEHK participants. We also analysed the financial performance of securities dealers in 2009 by the jurisdictions in which their controlling shareholders were based.

To better articulate our views on issues relating to licensing obligations, we clarified, by way of circulars and frequently-asked-questions, that the promotion, offering and sale of investment-linked assurance schemes and the performing of back-office functions do not give rise to a requirement to be licensed under the Securities and Futures Ordinance. We also urged inter-dealer brokers to review their business models to ensure that they comply with our licensing requirements where appropriate.

We met with senior compliance executives of various financial service groups to exchange views on a number of regulatory issues, including cross-border licensing, inter-dealer brokers or go-betweens in respect of financial products, suitability obligations and the licensing-related functions of the newly-launched SFC Online Portal. The views obtained were constructive in enhancing co-operation on regulatory matters within the financial industry.

In response to increasing interest on the part of Mainland intermediaries in setting up operations in Hong Kong, we organised a seminar for Mainland-related futures companies to help them better understand our regulatory regime and the applicable compliance obligations.

To better understand the needs of our key stakeholders and their expectations of the SFC, we commissioned a leading market research consultancy to conduct a survey during the year. A random sample of personnel in licensed corporations, industry-related professional firms and listed companies were invited to rate their satisfaction with the SFC's efficiency, staff quality and clarity of communication based on their main working relationships. We are encouraged to note that 76% of the 586 respondents expressed overall satisfaction. The valuable feedback received will enable us to review our policies and procedures and prioritise allocation of resources to fine-tune our work.

education

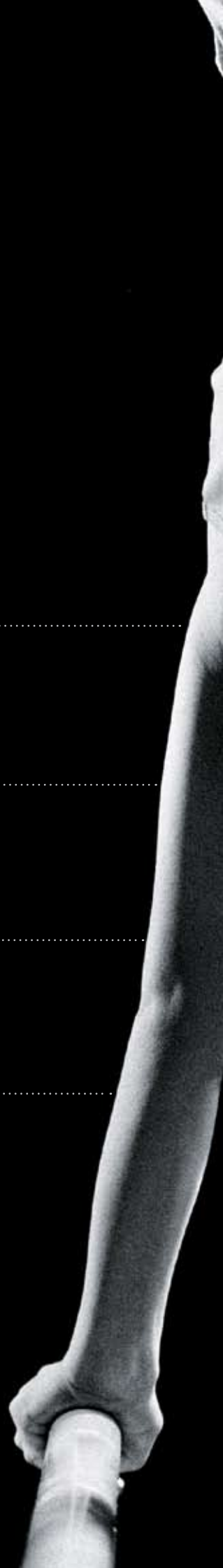
Young gymnasts undergo rigorous training through constant coaching, daily practice and boundless support.

raising
awareness
of risks

providing
guidance

cultivating proper
investment
attitude

improving
investment
knowledge





The SFC is the only financial regulator in Hong Kong with an investor education mandate. We believe that investor education goes hand in hand with regulation to equip investors with the tools they need to make informed investment decisions and to assess and manage investment risk.

In 2008, we sought and obtained a larger budget to increase our investor education (IE) work. That was a timely move in hindsight. Equipped with additional resources, we were able to step up our efforts during the height of the global financial turmoil to address an expanded range of topics, with a view to raising awareness of investors in various areas and thereby helping to protect their interests.

We communicate our messages through multiple means and channels. In addition to providing investors with product knowledge, we seek to point out the need to understand risks, to adopt a proper attitude towards investing and to be responsible for one's own decisions. Our near-term priorities are to sustain the momentum and scope of our IE programmes and to help the Government set up an all-encompassing IE body – the Investor Education Council (IEC).

With capital inflow fuelling the markets during most of last year, we frequently cautioned investors against the dangers of asset bubbles. We collaborated closely with the industry in organising IE programmes covering the most pressing issues investors faced throughout a period of fast-changing market conditions, including investing in initial public offerings (IPOs), risks associated with leverage, and features and associated risks of various products and instruments such as equity-linked investments (ELIs), exchange-traded funds, bonds, bond funds and warrants.

Last year, we structured our IE programmes around the theme: "Be Smart, Ask First." Going forward, we will continue to focus on the importance of investors asking the right questions in the prevailing investment environment. We will develop our IE theme in line with our new approach, expanding the scope of our education programmes and campaigns from a focus on product features and risks to explaining investors' roles and responsibilities and promoting a responsible approach to investment decisions. We will continue to explore new media and communications channels to reach a broader spectrum of investors.

Inviting industry participation

Involving the industry contributes to the success of our IE activities. By tapping into intermediaries' first-hand experience with investors, we have been able to gain valuable real-life insight to tailor our IE

programmes more effectively. Informed by their dealings with their clients, intermediaries have helped us address topical issues and rectify common misconceptions on the part of investors. This feedback is especially critical in an ever-changing marketplace. Described below are four of the IE initiatives to which industry practitioners and academic experts made substantial contributions:

- **Invest Wisely**, a radio talk show that began airing on Commercial Radio Hong Kong in January 2010, was conducted in partnership with the industry. In a series of 15 episodes, seasoned market professionals joined an SFC host to discuss common investor misconceptions and make practical recommendations on how investors can fulfil their own responsibilities and act in their best interests, be it in retirement planning, investing in funds, leveraged investing, evaluating investment products, securities trading and responding to corporate actions of listed companies, etc.
- **The Investment Triathlon**, in its third year in 2010, attracted over 600 entries. Contestants were challenged to three rounds of financial knowledge quizzes held in partnership with the Hong Kong Economic Times, Radio 1 of Radio Television Hong Kong (RTHK) and Cable TV. Through this programme, we aim to help investors better understand their rights and responsibilities and the risks of investing. The supporting industry associations and university contributed valuable ideas and insightful questions to the final round. Their input enabled us to make the most out of this annual multimedia IE event and to focus on current issues in the market.
- **Wealth Management: Be Smart, Ask First** was a TV programme series we launched on now TV Business Channel in August 2009 with a view to equipping investors with financial and investment product knowledge. The 13-week series featured interviews with academic and industry experts to address various current issues, including investing in IPOs, investing in bonds, the risks of investing in a volatile market, features and risks of structured products, shareholders' rights in takeovers and important considerations in fund investments. In addition, the programme also ran short messages to help the public better understand the regulatory work of the SFC.



- **The Investor Education Seminar on the Economic Outlook for Hong Kong and the Mainland**, jointly organised by the SFC and the Hong Kong Society of Financial Analysts Ltd (HKSFA) last June, was well-attended by around 600 members of the public. During the full-day event, members of the HKSFA shared their views with the audience on a number of topical issues ranging from the general economic outlook for Hong Kong and the Mainland to prospects for different industry sectors. To benefit a broader audience, we also arranged for the broadcast of the seminar on Cable TV Finance Channel and published a summary of the seminar in the Hong Kong Economic Journal (HKEJ) and the Ming Pao Daily News.

Engaging with investors

Further to the Retail Investor Survey conducted in 2008, we sought to engage with a broader spectrum of investors through creative initiatives.

- **The Investment Story Competition** was held for the third time to encourage investors to recount and share their experiences in investing. Leading industry associations and financial media outlets were invited to be our guest adjudicators. To encourage broader participation, we added a category for student participation to the existing category open to the general public. For the first time, we invited video entries in addition to written submissions, and a video that captured lessons that a young investor had learned won the top prize in the Public Category.

This competition aimed to convey a specific message to investors: sound investment decisions hinge on good investment and product knowledge, a responsible investing approach and an honest assessment of one's own risk tolerance levels. To disseminate this important message more widely, we subsequently published the winning stories in the HKEJ and broadcast them in drama format on Commercial Radio 1.

- **Why am I investing** was the theme of the first photo competition the SFC organised. It was launched in the middle of the year. We received positive responses from the public, and many of the entries showed considerable creativity. As part of the IE campaign "Be Smart, Ask First", this competition helped investors think through and identify their objectives in investing. We presented awards to the winners at a major shopping mall and further publicised the event by arranging for the winning entries to be displayed in three other commercial arcades in various districts.

Capturing investor interest

As the Chinese proverb goes, "there is no limit to learning." We encourage investors to find out more about investing on a continual basis by using two main resources:

- An array of mass-media programmes and face-to-face seminars or workshops; and
- Our InvestEd website with its numerous eLearning tools, up-to-date articles on investing and an archive of past TV and radio programmes.

Major activities included the following:

- "Know How to Invest Wisely" was a campaign of five educational videos and 10 infomercials. Topics covered current issues such as the risks associated with leverage and the difference between a fund savings plan and an investment-linked assurance scheme. The campaign was aired on TVB, Cable TV and now TV as well as on large outdoor television screens and commuter trains and buses.
- From April 2009, a series of 16 short interview segments with an SFC director were broadcast on Metro Radio. These interviews discussed investment risks and features of various investment products. We also aired a 22-week programme, "Understanding financial knowledge", on RTHK Radio 1.
- Dr Wise columns continued to appear each month in the Sing Tao Daily's supplement, Investment Weekly magazine. One article on investing in IPOs received wide coverage in the print media as it provided timely advice to investors, cautioning against the misconception that IPO subscriptions are a "sure win." We also produced "Education Tips by Dr Wise" with Metro Radio, in which investors were reminded of Dr Wise's key messages in short radio segments.
- We continued to work closely with the Consumer Council by contributing to their Choice Magazine on a bi-monthly basis. The "Investment Intelligence" column is aimed at a broad base of investors, particularly, inexperienced investors seeking to learn about the "do"s and "don't"s of investing. Our IE messages continued to appear in Headline Daily under the title "First Learn, then Invest."
- In March 2010, in view of resurgence of investor interest in ELLs, we published a special series of articles on ELLs in the HKEJ to help investors understand their key features and associated risks, including special features such as "airbags," "daily accrual" and "early call."

Investor Day



Investment Story Competition

- In September 2009, we started elementary courses on investing and financial planning for undergraduates of the University of Hong Kong. These courses were an extension of our on-going creditable programmes for undergraduates at The Chinese University of Hong Kong and Lingnan University. We held over 30 such creditable courses for over 2,500 students.

Besides conducting courses for university students, we hosted seminars for organisations such as the Hong Kong Police and the Education Bureau. We also reached out to civic organisations. We gave talks on financial planning and investment risks for community organisations, focusing on seniors and lower income groups. At these events, we distributed IE packets, the contents of which were regularly updated. During the year, we held over 41 seminars and workshops for close to 5,500 participants.

- In November 2009, we conducted the first IE seminar for residents in North Point, an event jointly held with several Eastern district councillors. We are also exploring opportunities to deliver workplace seminars as part of our plan to expand the reach of our IE efforts. We held pre-retirement seminars for civil servants, focusing on basic personal financial planning and risk management concepts, and these attracted large turnouts.
- As part of our January IE Month and in conjunction with the Open University of Hong Kong, we held our annual Investor Day, "Market Outlook and Investment Attitude for 2010." The full-day event attracted a good turnout of over 800 participants who listened to speakers from different professional backgrounds discussing the global economic outlook for 2010, inflation-beating investment strategies and how to better understand financial reports of listed companies.

This Investor Day was the sixth in six years. Summaries of the seminars were published in the HKEJ and video clips of the talks were shown on television and uploaded onto the SFC's InvestEd website.

Encouraging online learning www.InvestEd.hk

To encourage investors to learn more and to gain deeper understanding of the topics covered by our IE activities, we keep our bilingual InvestEd website up-to-date.

- Television and radio programmes can be retrieved with the click of a button. More than 60 articles and over 30 video and audio clips have been added in the past year.
- The first online game was launched on InvestEd website in late July 2009, running for two weeks, and the second online game was made available in early October 2009. The games attracted over 1,000 participants and boosted traffic for other sections of the website as contestants surfed the site for information to increase their investment knowledge and make progress in the competition.
- In June 2009, we launched a searchable list of listed and non-listed SFC-authorized investment products on InvestEd. This List of Investment Products is a useful resource for investors conducting pre-investment research and seeking to review the detailed information in product offering documents.
- We maintained and continued to update the Alert List, adding 123 entries during the year. The Alert List currently includes over 630 entries warning against unlicensed entities, scam websites and impostors, including persons who falsely portray themselves



Singing contest



Photo exhibition



Investment Triathlon

as regulators. By listing these entities and sites and reminding the public that they can make use of online resources to check a person's licensing or operational status, we help investors, both in Hong Kong and abroad, avoid scams and fraudulent practices. In one Dr Wise article, investors were warned that some unlicensed entities were falsely holding themselves out as licensed by fictitious regulators to help make their business appear legitimate. In this regard, we added the category of "fake regulators and/or market operators" to the Alert List. We also direct investors to the International Organization of Securities Commissions and World Federation of Exchanges for lists of legitimate regulatory bodies and market operators worldwide.

Staying close to investors

We strive to stay close to investors by communicating in clear and plain language and by keeping our channels of communication open.

- Clarifying the SFC's role: To help members of the public better understand what the SFC is and what it does, in October 2009 we published an 18-page "SFC Guide" to explain our roles and responsibilities in plain language. The booklet describes the SFC's objectives and functions in a colourful layout with easy-to-understand diagrams. This booklet was distributed through public libraries and as a supplement in two widely-read Chinese newspapers.
- Answering questions: Throughout the year, we answered over 600 investor enquiries, taking the opportunity to explain financial concepts and to address any investor misunderstandings or misconceptions.
- Staying in touch: Our Monthly Focus newsletter keeps investors abreast of relevant issues and our latest activities. We invite the

public to sign up for InvestEd news and updates after seminars and events so they can stay up-to-date in their investment-related learning and be notified as the resources and updates are added to the website.

Laying the groundwork for IEC

The financial crisis has highlighted the need to educate investors across the board about financial products. The investment products available in the market are increasing in complexity, and it is not always a simple matter to assess the differences in risks and features between the various types of products available from entities such as banks, intermediaries and insurers.

The Government sought comments from the public on a proposal to set up an IE body with a wide-ranging mandate covering all types of investment products, to be named the Investor Education Council. The Government indicated its desire to improve the financial literacy of the general public so that investors will be better equipped to make informed financial decisions and be able to manage their money wisely.

In developing the blueprint for the IEC, we drew upon our experience in IE over a decade and a half as well as findings of an SFC-commissioned study by an executive from the Financial Services Authority of the United Kingdom, which identified areas in which further IE efforts were required in Hong Kong. We subsequently worked together with the Financial Services and Treasury Bureau (FSTB) to fine-tune the proposal before it was released for public comment in early February 2010.

The SFC will continue to pursue its objective to educate investors and to work together with the FSTB in its quest to establish the IEC in the near future.

statistical comparisons

The following table shows certain key market data and statistics related to the work of the SFC in the past three years.

| | 2009-10 | change (%) | 2008-09 | change (%) | 2007-08 |
|--|-----------------|------------|----------|------------|----------|
| Market activities and transactions | | | | | |
| Number of listed companies on the Stock Exchange Main Board | 1,332 | 22% | 1,092 | 4% | 1,055 |
| Market capitalisation (\$ billion) | 18,055.6 | 79% | 10,080.8 | -40% | 16,825.3 |
| Average daily market turnover (\$ billion) | 67.1 | 14% | 58.7 | -41% | 99.0 |
| Total number of listing applications reviewed under the dual filing regime | 132 | 52% | 87 | -35% | 134 |
| Total number of takeovers and share repurchases transactions handled | 363 | 37% | 266 | -26% | 357 |
| Total NAV of all compensation funds (\$ million) | 2,023.8 | 8% | 1,873 | -2% | 1,916 |
| Licensees and investment products | | | | | |
| Applications for SFC licences | 6,518 | -9% | 7,150 | -21% | 9,035 |
| Applications to conduct new regulated activity | 19,248 | -6% | 20,450 | -20% | 25,478 |
| Total number of SFC licensees | 36,581 | -2% | 37,310 | 9% | 34,384 |
| Total number of SFC-authorized schemes | 2,599 | -8% | 2,833 | -2% | 2,881 |
| NAV of authorised unit trusts and mutual funds (US\$ billion) ¹ | 926.9 | 48% | 628.3 | -42% | 1,077.2 |
| Enforcement action | | | | | |
| Total number of cases handled | 298 | 166% | 112 | -30% | 161 |
| Entities successfully prosecuted | 34 | 26% | 27 | -59% | 66 |
| Unsuccessful prosecutions | 3 | 0% | 3 | 0% | 3 |
| Disciplinary inquiries conducted | 82 | -17% | 99 | -32% | 145 |
| Actions against licensees | 56 | 12% | 50 | -38% | 81 |



| | 2009-10 | change (%) | 2008-09 | change (%) | 2007-08 |
|---|---------|------------|---------|------------|---------|
| Reaching out | | | | | |
| Press releases issued | 151 | -21% | 192 | -15% | 227 |
| Total average daily hit rate of corporate and InvestEd websites | 719,708 | 13% | 636,668 | 3% | 615,869 |
| Public enquiries | 3,176 | -75% | 12,762 | 56% | 8,179 |
| Public complaints ² | 2,742 | -73% | 10,070 | 614% | 1,410 |
| Consultation papers issued | 6 | 100% | 3 | -50% | 6 |
| Consultation conclusions issued | 2 | -50% | 4 | 33% | 3 |
| Codes and guidelines issued | 1 | -83% | 6 | 500% | 1 |

Finances and staff

| | | | | | |
|--|---------|----|---------|------|---------|
| Income (\$ million) | 1,798.4 | 6% | 1,696.1 | -33% | 2,546.3 |
| Expenses including depreciation (\$ million) | 729.7 | 7% | 683.8 | 17% | 585.0 |
| Number of staff ³ | 501 | 5% | 478 | 8% | 442 |

¹ Net Asset Value (NAV) as at 31 December 2009, 2008 and 2007.

² The figures reflect the number of complainants.

³ The breakdown of the figures is as follows:

| | 31 March 2010 | | 31 March 2009 | | 31 March 2008 | |
|--------------|---------------|--------|---------------|--------|---------------|--------|
| | Actual | Budget | Actual | Budget | Actual | Budget |
| Professional | 373 | 401 | 349 | 383 | 322 | 356 |
| Support | 128 | 135 | 129* | 124 | 120 | 121 |
| | 501 | 536 | 478 | 507 | 442 | 477 |

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

Note: Figures have been rounded to the nearest digit, and nearest decimal for dollars.

Further statistics of the SFC's activities are provided in Activity and Market Data starting on page 109.

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 59 to 79 which comprise the consolidated and the SFC statement of financial position as at 31 March 2010 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2010 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

28 May 2010

Consolidated statement of comprehensive income

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 \$'000 | 2009 \$'000 |
|--|------|------------------|----------------|
| Income | | | |
| Levies | | 1,498,659 | 1,304,619 |
| Fees and charges | | 154,583 | 220,955 |
| Investment income | 5 | 138,351 | 164,281 |
| Less: custody and advisory expenses | | (2,230) | (1,967) |
| Investment income net of third party expenses | | 136,121 | 162,314 |
| Recoveries from Investor Compensation Fund | | 4,165 | 4,235 |
| Other income | 6 | 4,879 | 3,939 |
| | | 1,798,407 | 1,696,062 |
| Expenses | | | |
| Staff costs and directors' emoluments | 7 | 529,274 | 496,564 |
| Premises | | | |
| rent | | 58,491 | 52,257 |
| other | | 23,632 | 21,511 |
| Other expenses | 8 | 84,785 | 88,085 |
| Depreciation | | 33,468 | 25,363 |
| | | 729,650 | 683,780 |
| Surplus and total comprehensive income for the year | | 1,068,757 | 1,012,282 |

The notes on pages 64 to 79 form part of these financial statements.

Consolidated statement of financial position

At 31 March 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 \$'000 | 2009 \$'000 |
|--|-------|------------------|----------------|
| Non-current assets | | | |
| Fixed assets | 10(a) | 49,423 | 42,015 |
| Held-to-maturity debt securities | 9 | 3,769,238 | 3,588,538 |
| | | 3,818,661 | 3,630,553 |
| Current assets | | | |
| Held-to-maturity debt securities | 9 | 1,536,402 | 858,870 |
| Debtors, deposits and prepayments | 14 | 208,198 | 181,908 |
| Bank deposits | 11 | 566,709 | 454,140 |
| Cash at bank and in hand | 11 | 2,617 | 2,264 |
| | | 2,313,926 | 1,497,182 |
| Current liabilities | | | |
| Fees received in advance | | 9,260 | 65,582 |
| Creditors and accrued charges | | 71,298 | 70,704 |
| | | 80,558 | 136,286 |
| Net current assets | | 2,233,368 | 1,360,896 |
| Total assets less current liabilities | | 6,052,029 | 4,991,449 |
| Non-current liabilities | | 13 | 29,789 |
| Net assets | | 6,022,240 | 4,953,483 |
| Funding and reserves | | | |
| Initial funding by Government | | 15 | 42,840 |
| Accumulated surplus | | 5,979,400 | 4,910,643 |
| | | 6,022,240 | 4,953,483 |

Approved and authorised for issue by the SFC on 28 May 2010 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

The notes on pages 64 to 79 form part of these financial statements.

Statement of financial position

At 31 March 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 \$'000 | 2009 \$'000 |
|--|-------|------------------|----------------|
| Non-current assets | | | |
| Fixed assets | 10(b) | 49,398 | 41,977 |
| Held-to-maturity debt securities | 9 | 3,769,238 | 3,588,538 |
| | | 3,818,636 | 3,630,515 |
| Current assets | | | |
| Held-to-maturity debt securities | 9 | 1,536,402 | 858,870 |
| Debtors, deposits and prepayments | 14 | 208,048 | 181,734 |
| Bank deposits | 11 | 566,709 | 454,140 |
| Cash at bank and in hand | 11 | 2,318 | 1,784 |
| | | 2,313,477 | 1,496,528 |
| Current liabilities | | | |
| Fees received in advance | | 9,260 | 65,582 |
| Creditors and accrued charges | | 70,824 | 70,012 |
| | | 80,084 | 135,594 |
| Net current assets | | 2,233,393 | 1,360,934 |
| Total assets less current liabilities | | 6,052,029 | 4,991,449 |
| Non-current liabilities | | 13 | 29,789 |
| Net assets | | 6,022,240 | 4,953,483 |
| Funding and reserves | | | |
| Initial funding by Government | | 15 | 42,840 |
| Accumulated surplus | | 5,979,400 | 4,910,643 |
| | | 6,022,240 | 4,953,483 |

Approved and authorised for issue by the SFC on 28 May 2010 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

The notes on pages 64 to 79 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

| | Initial funding by Government \$'000 | Accumulated surplus \$'000 | Total \$'000 |
|---|--|----------------------------------|-----------------|
| Balance at 1 April 2008 | 42,840 | 3,898,361 | 3,941,201 |
| Total comprehensive income for the year | – | 1,012,282 | 1,012,282 |
| Balance at 31 March 2009 | 42,840 | 4,910,643 | 4,953,483 |
| Balance at 1 April 2009 | 42,840 | 4,910,643 | 4,953,483 |
| Total comprehensive income for the year | – | 1,068,757 | 1,068,757 |
| Balance at 31 March 2010 | 42,840 | 5,979,400 | 6,022,240 |

The notes on pages 64 to 79 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Surplus for the year | 1,068,757 | 1,012,282 |
| Adjustments for: | | |
| Depreciation | 33,468 | 25,363 |
| Investment income | (138,351) | (164,281) |
| Loss/(profit) on disposal of fixed assets | 47 | (56) |
| | 963,921 | 873,308 |
| (Increase)/decrease in debtors, deposits and prepayments | (27,022) | 58,051 |
| (Decrease)/increase in fees received in advance | (56,322) | 8,397 |
| Increase in creditors and accrued charges | 594 | 17,171 |
| Decrease in non-current liabilities | (8,177) | (9,065) |
| Net cash generated from operating activities | 872,994 | 947,862 |
| Cash flows from investing activities | | |
| Interest received | 189,147 | 172,577 |
| Held-to-maturity debt securities purchased | (1,765,672) | (2,412,946) |
| Held-to-maturity debt securities redeemed at maturity | 857,376 | 1,616,048 |
| Held-to-maturity debt securities sold | – | 96,099 |
| Fixed assets purchased | (40,923) | (51,639) |
| Fixed assets sold | – | 66 |
| Net cash used in investing activities | (760,072) | (579,795) |
| Net increase in cash and cash equivalents | 112,922 | 368,067 |
| Cash and cash equivalents at beginning of the year | 456,404 | 88,337 |
| Cash and cash equivalents at end of the year | 569,326 | 456,404 |

Analysis of the balance of cash and cash equivalents:

| | 2010 \$'000 | 2009 \$'000 |
|--------------------------|----------------|----------------|
| Bank deposits | 566,709 | 454,140 |
| Cash at bank and in hand | 2,617 | 2,264 |
| | 569,326 | 456,404 |

Notes to the consolidated financial statements

For the year ended 31 March 2010
(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.

3. Significant accounting policies (cont'd)

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.

Recognition of income

We recognise income in the statement of comprehensive income 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 statement of comprehensive income 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.

3. Significant accounting policies (cont'd)

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 67). We charge depreciation to the statement of comprehensive income 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 statement of comprehensive income as an expense as incurred.

We review the carrying amounts of fixed assets for indications of impairment at the end of each reporting period. 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 statement of comprehensive income on the date of retirement or disposal.

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 67). 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, any transaction with other government departments and agencies under normal dealings are not necessarily regarded as related parties in the context of International Accounting Standard ("IAS") 24.

3. Significant accounting policies (cont'd)

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 end of the reporting period. We recognise exchange gains and losses on translation in the statement of comprehensive income.

Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of debtors and other receivables at the end of each reporting period 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 statement of comprehensive income (see also the accounting policy in respect of "impairment").

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.

Creditors and accrued charges

We state creditors and accrued charges 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 statement of financial position.

Impairment

Recognition of impairment loss

We review the carrying amounts of the SFC's assets at the end of each reporting period 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 statement of comprehensive income 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.

3. Significant accounting policies (cont'd)

Provisions and contingent liabilities

We recognise a provision in the statement of financial position 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.

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.

Changes in accounting policies

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

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

The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. The application of the revised standard did not have any impact on reported surplus or deficit, total income and expense or net assets for any period presented.

4. Taxation

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

5. Investment income

| | 2010 | 2009 |
|--|-----------------|----------|
| | \$'000 | \$'000 |
| Interest income | 188,415 | 187,325 |
| Gain on disposal of held-to-maturity debt securities | – | 1,302 |
| Amortisation of premium on held-to-maturity debt securities | (53,259) | (33,300) |
| Amortisation of discount on held-to-maturity debt securities | 3,195 | 8,954 |
| | 138,351 | 164,281 |

Interest income is derived as follows:

| | 2010 | 2009 |
|--|----------------|---------|
| | \$'000 | \$'000 |
| Interest income from held-to-maturity debt securities | 187,440 | 182,816 |
| Other interest income | 975 | 4,509 |
| Total interest income on financial assets not at fair value through profit or loss | 188,415 | 187,325 |

6. Other income

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| Investigation costs awarded | 2,302 | 1,702 |
| FinNet managed network and support fee | 974 | 1,421 |
| Exchange gain | 1,022 | – |
| Sale of SFC publications | 361 | 425 |
| Profit on disposal of fixed assets | – | 56 |
| Others | 220 | 335 |
| | 4,879 | 3,939 |

7. Staff costs and directors' emoluments

| | 2010 \$'000 | 2009 \$'000 |
|----------------------------------|----------------|----------------|
| Salaries and allowances | 479,672 | 449,735 |
| Retirement benefits | 31,087 | 28,627 |
| Medical and life insurance | 16,394 | 14,722 |
| Staff functions | 709 | 944 |
| Recruitment | 764 | 1,934 |
| Registration and membership fees | 648 | 602 |
| | 529,274 | 496,564 |

The total number of staff as at 31 March 2010 was 504 (501 for the SFC and 3 for the Investor Compensation Company Limited) (at 31 March 2009: the total number of staff was 481 comprising 478 for the SFC and 3 for the Investor Compensation Company Limited).

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

Directors' emoluments included in the above comprised:

| | Directors' fee \$'000 | Salaries, allowances & benefits in kind \$'000 | Discretionary pay \$'000 | Retirement scheme contribution \$'000 | 2010 Total \$'000 | 2009 Total \$'000 |
|---|--------------------------|---|-----------------------------|--|------------------------------------|----------------------|
| | | | | (Note 1) | | |
| Chief Executive Officer | | | | | | |
| Martin Wheatley, JP | – | 7,200 | 1,350 | 540 | 9,090 | 8,224 |
| Executive Directors | | | | | | |
| Alexa Lam | – | 5,000 | 1,125 | 500 | 6,625 | 6,719 |
| Brian Ho | – | 3,960 | 1,049 | 396 | 5,405 | 5,128 |
| Keith Lui | – | 3,960 | 832 | 396 | 5,188 | 5,128 |
| Mark Steward | – | 4,000 | 1,180 | 400 | 5,580 | 5,540 |
| Paul Kennedy | – | 4,500 | 1,035 | 450 | 5,985 | 6,030 |
| | – | 28,620 | 6,571 | 2,682 | 37,873 | 36,769 |
| Non-executive Chairman | | | | | | |
| Eddy Fong, GBS, JP | 702 | – | – | – | 702 | 702 |
| Non-executive Directors | | | | | | |
| The Hon Chan Kam-lam, SBS, JP | 234 | – | – | – | 234 | 234 |
| Angelina Lee, JP | 234 | – | – | – | 234 | 234 |
| Christopher Cheng, GBS, JP (retired 14 Nov 2009 (Note 2)) | 146 | – | – | – | 146 | 234 |
| Kenneth Kwok, BBS, SC | 234 | – | – | – | 234 | 234 |
| Professor Liu Pak-wai, SBS, JP | 234 | – | – | – | 234 | 234 |
| Shengman Zhang | 234 | – | – | – | 234 | 234 |
| Dr York Liao, SBS, JP (retired 25 May 2009 (Note 2)) | 35 | – | – | – | 35 | 234 |
| Lawrence Lee (appointed 15 Nov 2009) | 88 | – | – | – | 88 | – |
| Wong Kai Man (appointed 26 May 2009) | 199 | – | – | – | 199 | – |
| | 2,340 | – | – | – | 2,340 | 2,340 |
| Total directors' emoluments | 2,340 | 28,620 | 6,571 | 2,682 | 40,213 | 39,109 |

Note 1 This represents net contribution expenses accrued during the period ended 31 March 2010 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 2010 was \$1,763,000 (At 31 March 2009: \$1,436,000).

Note 2 Retired having completed appointment period

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

The aggregate of the emoluments of the five highest paid individuals in 2009/2010, representing the emoluments of five executive directors, was \$32,685,000 (2008/2009: \$31,641,000 for five executive directors) with the breakdown as follows:

| | 2010 | 2009 |
|---|---------------|--------|
| | \$'000 | \$'000 |
| Salaries, allowances & benefits in kind | 24,660 | 24,235 |
| Discretionary pay | 5,739 | 5,181 |
| Retirement scheme contribution | 2,286 | 2,225 |
| | 32,685 | 31,641 |

Their emoluments are within the following bands:

| | 2010 | 2009 |
|----------------------------|--------------------|-------------|
| | No. of | No. of |
| | individuals | individuals |
| \$5,000,001 to \$5,500,000 | 1 | 1 |
| \$5,500,001 to \$6,000,000 | 2 | 1 |
| \$6,000,001 to \$6,500,000 | 0 | 1 |
| \$6,500,001 to \$7,000,000 | 1 | 1 |
| \$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 | 0 | 1 |
| \$8,500,001 to \$9,000,000 | 0 | 0 |
| \$9,000,001 to \$9,500,000 | 1 | 0 |

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

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 \$nil (2009: \$20,000).

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 \$1,201,000 (2009: \$2,052,000) and the amount so forfeited available at the end of the reporting period was \$307,000 (2009: \$282,000).

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

| | 2010 | 2009 |
|---|---------------|--------|
| | \$'000 | \$'000 |
| Training and development | 4,989 | 4,537 |
| Legal and professional services | 26,287 | 34,143 |
| Information and systems services | 25,355 | 21,985 |
| Auditor's remuneration | 409 | 404 |
| Funding for the Financial Reporting Council | 4,000 | 2,500 |
| Funding for the International Accounting Standards Committee Foundation | 388 | 390 |
| General office and insurance | 6,124 | 6,834 |
| External relations | 17,186 | 15,862 |
| Exchange loss | – | 1,430 |
| Loss on disposal of fixed assets | 47 | – |
| | 84,785 | 88,085 |

9. Held-to-maturity debt securities

The Group and the SFC

| | | 2010 | 2009 |
|------------------------------|----------------------------|------------------|-----------|
| | | \$'000 | \$'000 |
| Maturing after one year | | | |
| In the second to sixth years | – unlisted | 367,743 | 402,207 |
| | – listed in Hong Kong | 96,930 | 98,565 |
| | – listed outside Hong Kong | 3,304,565 | 3,087,766 |
| | | 3,769,238 | 3,588,538 |
| Maturing within one year | – unlisted | 206,186 | 251,469 |
| | – listed outside Hong Kong | 1,330,216 | 607,401 |
| | | 1,536,402 | 858,870 |
| | | 5,305,640 | 4,447,408 |
| Amortised cost at 31 March | – unlisted | 573,929 | 653,676 |
| | – listed in Hong Kong | 96,930 | 98,565 |
| | – listed outside Hong Kong | 4,634,781 | 3,695,167 |
| | | 5,305,640 | 4,447,408 |
| Market value at 31 March | – unlisted | 583,473 | 663,342 |
| | – listed in Hong Kong | 99,853 | 102,530 |
| | – listed outside Hong Kong | 4,714,668 | 3,742,527 |
| | | 5,397,994 | 4,508,399 |

The average yield to maturity of the debt securities was 1.6% at 31 March 2010 (2009: 2.53%).

10. Fixed assets

(a) The Group

| | Furniture, fixtures and leasehold improvements \$'000 | Office equipment \$'000 | Computer application systems \$'000 | Personal computers and software \$'000 | Motor vehicles \$'000 | Total \$'000 |
|---------------------------------|---|---------------------------------------|---|--|-------------------------------------|------------------------|
| Cost | | | | | | |
| At 1 April 2009 | 61,263 | 11,147 | 138,838 | 32,091 | 1,967 | 245,306 |
| Additions | 360 | 1,223 | 22,803 | 16,537 | – | 40,923 |
| Disposals | (476) | (4,842) | – | (328) | – | (5,646) |
| At 31 March 2010 | 61,147 | 7,528 | 161,641 | 48,300 | 1,967 | 280,583 |
| Accumulated depreciation | | | | | | |
| At 1 April 2009 | 43,045 | 9,102 | 123,629 | 25,795 | 1,720 | 203,291 |
| Charge for the year | 8,775 | 717 | 14,753 | 8,976 | 247 | 33,468 |
| Written back on disposals | (476) | (4,795) | – | (328) | – | (5,599) |
| At 31 March 2010 | 51,344 | 5,024 | 138,382 | 34,443 | 1,967 | 231,160 |
| Net book value | | | | | | |
| At 31 March 2010 | 9,803 | 2,504 | 23,259 | 13,857 | – | 49,423 |
| 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 |

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 2009 | 61,248 | 11,091 | 138,838 | 31,850 | 1,967 | 244,994 |
| Additions | 360 | 1,223 | 22,803 | 16,537 | – | 40,923 |
| Disposals | (476) | (4,842) | – | (328) | – | (5,646) |
| At 31 March 2010 | 61,132 | 7,472 | 161,641 | 48,059 | 1,967 | 280,271 |
| Accumulated depreciation | | | | | | |
| At 1 April 2009 | 43,029 | 9,071 | 123,629 | 25,568 | 1,720 | 203,017 |
| Charge for the year | 8,775 | 711 | 14,753 | 8,969 | 247 | 33,455 |
| Written back on disposals | (476) | (4,795) | – | (328) | – | (5,599) |
| At 31 March 2010 | 51,328 | 4,987 | 138,382 | 34,209 | 1,967 | 230,873 |
| Net book value | | | | | | |
| At 31 March 2010 | 9,804 | 2,485 | 23,259 | 13,850 | – | 49,398 |
| 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 |

11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2010 ranged from 0.01% to 0.33% (2009: 0.05% to 0.85%). These balances mature within one year at both 31 March 2010 and 31 March 2009.

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 2010, 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 statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 31 March 2010 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 statement of comprehensive income on a straight line basis over the lease period from 2004 to 2013 as an integral part of the lease expense.

14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$198,321,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2009: \$173,478,000). 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 2009 and 2010.

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 2010 not provided for in the financial statements were as follows:

| | 2010 | 2009 |
|-----------------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Authorised and contracted for | 35,072 | 32,761 |
| Authorised but not contracted for | 23,026 | 8,056 |

17. Commitment to pay rents for offices

At 31 March 2010, 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 and the SFC | |
|---------------------------------|------------------------------|---------|
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| Payable next year | 74,765 | 68,343 |
| Payable in one to five years | 148,738 | 202,631 |
| Payable in more than five years | — | — |
| | 223,503 | 270,974 |

During the year ended 31 March 2010, \$58,491,000, net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2009: \$52,257,000).

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, \$4,165,000 was recovered from ICF for ICC's expenses (2009: \$4,235,000). As at 31 March 2010, the amount due to ICF from ICC was \$260,000 (at 31 March 2009: \$477,000).

(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 (2009: \$19,000) including the provision for audit fee of \$10,000 (2009: \$10,000).

19. Financial instruments

Financial instruments 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 adviser 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 statement of financial position after deducting any impairment allowance.

(b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rate 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 2010, it is estimated that a general increase of 100 basis points, with all other variables held constant, would increase the SFC's surplus and accumulated surplus by approximately \$13.6 million (2009: \$8.5 million). The extent of any decrease in interest rates is expected to be minimal (2009: 1%) which would decrease the SFC's surplus by an insignificant amount (2009: \$8.5 million). As at 31 March 2010 the average duration of the SFC's investment portfolio was 1.06 years (31 March 2009: 1.88 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2009.

(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 end of the reporting period.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2010 and 2009 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 end of the reporting period 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 2010

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 2010 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 SFC's results of operations and financial position.

In addition, the following developments may 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 |
|----------------------------|--|
| Improvements to IFRSs 2009 | 1 July 2009 or 1 January 2010 |

Investor Compensation Fund (the Fund)

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 2010.

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 82 to 95.

3. Members of the Committee

The members of the Committee during the year ended 31 March 2010 and up to the date of this report were:

Mr Keith Lui (Chairman)

Mr Gerald Greiner (retired on 1 April 2010)

Mr Kenneth H W Kwok, BBS, SC

Mrs Alexa Lam

Mr Eric Yip (appointed on 1 April 2010)

4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the 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

28 May 2010

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 82 to 95 which comprise the statement of financial position as at 31 March 2010 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 2010 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

28 May 2010

Statement of comprehensive income

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 \$'000 | 2009 \$'000 |
|--|------|----------------|----------------|
| Income | | | |
| Net investment income/(loss) | 5 | 154,796 | (32,716) |
| Exchange difference | | 1,733 | (2,596) |
| Recoveries | | 1,345 | – |
| | | 157,874 | (35,312) |
| Expenses | | | |
| Investor Compensation Company expenses | 7 | 4,165 | 4,235 |
| Compensation expense | 8 | 363 | 994 |
| Auditor's remuneration | | 86 | 84 |
| Bank charges | | 755 | 768 |
| Professional fees | | 2,975 | 2,827 |
| Sundry expenses | | – | 1 |
| | | 8,344 | 8,909 |
| Surplus/(deficit) and total comprehensive income for the year | | 149,530 | (44,221) |

The notes on pages 86 to 95 form part of these financial statements.

Statement of financial position

At 31 March 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 \$'000 | 2009 \$'000 |
|--|------|------------------|----------------|
| Current assets | | | |
| Financial assets designated at fair value through profit or loss | | | |
| – Debt securities | 9 | 1,517,803 | 1,554,614 |
| – Pooled Fund | 9 | 184,523 | 113,112 |
| Interest receivable | | 16,371 | 20,253 |
| Due from Investor Compensation Company | | 261 | 477 |
| Fixed and call deposits with banks | 10 | 150,452 | 116,037 |
| Cash at bank | 10 | 102,283 | 20,074 |
| | | 1,971,693 | 1,824,567 |
| Current liabilities | | | |
| Provision for compensation | 8 | 5,656 | 8,032 |
| Creditors and accrued charges | | 895 | 801 |
| Fair value adjustment on unsettled trades | | 7 | 129 |
| | | 6,558 | 8,962 |
| Net current assets | | 1,965,135 | 1,815,605 |
| Net assets | | 1,965,135 | 1,815,605 |
| Representing: | | | |
| Compensation fund | | | |
| Contributions from Unified Exchange Compensation Fund | 11 | 994,718 | 994,718 |
| Contributions from Commodity Exchange Compensation Fund | 11 | 108,923 | 108,923 |
| Accumulated surplus | | 861,494 | 711,964 |
| | | 1,965,135 | 1,815,605 |

Approved and authorised for issue by the Securities and Futures Commission (the SFC) on 28 May 2010 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 86 to 95 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

| | Contributions from Unified Exchange Compensation Fund \$'000 | Contributions from Commodity Exchange Compensation Fund \$'000 | Accumulated surplus \$'000 | Total \$'000 |
|---|---|---|----------------------------------|-----------------|
| Balance at 1 April 2008 | 994,718 | 108,923 | 756,185 | 1,859,826 |
| Total comprehensive income for the year | – | – | (44,221) | (44,221) |
| Balance at 31 March 2009 | 994,718 | 108,923 | 711,964 | 1,815,605 |
| Balance at 1 April 2009 | 994,718 | 108,923 | 711,964 | 1,815,605 |
| Total comprehensive income for the year | – | – | 149,530 | 149,530 |
| Balance at 31 March 2010 | 994,718 | 108,923 | 861,494 | 1,965,135 |

The notes on pages 86 to 95 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Surplus/(loss) for the year | 149,530 | (44,221) |
| Net investment (income)/loss | (154,796) | 32,716 |
| Exchange difference | (1,733) | 2,596 |
| Decrease in amount due from Investor Compensation Company | 216 | 59 |
| Decrease in unsettled regular purchase of financial assets | – | 46,987 |
| Decrease in provision for compensation | (2,376) | (14,946) |
| Increase/(decrease) in accounts payable and accrued charges | 94 | (85) |
| Net cash (used in)/generated from operating activities | (9,065) | 23,106 |
| Cash flows from investing activities | | |
| Purchase of debt securities | (1,158,241) | (1,346,351) |
| Sale or maturity of debt securities | 1,220,937 | 1,279,250 |
| Sale of equity securities | 733 | 861 |
| Interest received | 62,260 | 69,545 |
| Net cash generated from investing activities | 125,689 | 3,305 |
| Net increase in cash and cash equivalents | 116,624 | 26,411 |
| Cash and cash equivalents at beginning of the year | 136,111 | 109,700 |
| Cash and cash equivalents at end of the year | 252,735 | 136,111 |

Analysis of the balance of cash and cash equivalents:

| | 2010 \$'000 | 2009 \$'000 |
|------------------------------------|----------------|----------------|
| Fixed and call deposits with banks | 150,452 | 116,037 |
| Cash at bank | 102,283 | 20,074 |
| | 252,735 | 136,111 |

Notes to the financial statements

For the year ended 31 March 2010
(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 Limited (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 statement of comprehensive income 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 end of the reporting period. We record exchange gains and losses on translation in the statement of comprehensive income.

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 statement of comprehensive income 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 statement of comprehensive income.

(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 end of the reporting period 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 statement of financial position 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 the end of each reporting period 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 statement of comprehensive income 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.

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 the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

Creditors and accrued charges

We state creditors and accrued charges 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.

Contingent liabilities

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. Of these, the following developments are relevant to the Fund's financial statements:

- IAS 1 (revised 2007), Presentation of financial statements
- Amendments to IFRS 7, Financial instruments: Disclosures – improving disclosure about financial instruments

3. Significant accounting policies (cont'd)

Changes in accounting policies (con'd)

The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. The application of the revised standard did not have any impact on reported surplus or deficit, total income and expense or net assets for any period presented.

As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in note 13 about the fair value measurement of the Fund's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Fund has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

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 income/(loss)

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Interest income from bank deposits | 129 | 1,497 |
| Interest income on financial assets designated at fair value through profit or loss | 52,853 | 64,446 |
| Realised gain/(loss) on disposal of equity securities | 5 | (34) |
| Realised gain/(loss) on redemption/disposal of debt securities | 4,043 | (14,285) |
| Gain/(loss) on revaluation of equity securities | 71,812 | (88,496) |
| Gain on revaluation of debt securities | 25,954 | 4,156 |
| Net investment income/(loss) | 154,796 | (32,716) |

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

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| Interest income on financial assets not at fair value through profit or loss | 129 | 1,497 |
| Interest income on financial assets designated at fair value through profit or loss | 52,853 | 64,446 |
| | 52,982 | 65,943 |

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 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 2010, ICC incurred costs of \$4,165,000 for its operations (2009: \$4,235,000).

8. Provision for compensation

| | \$'000 |
|--|----------|
| 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 |
| Add: provision made during the year ended 31 March 2010 | 363 |
| Less: compensation paid during the year ended 31 March 2010 | (2,739) |
| Balance as at 31 March 2010 | 5,656 |

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 2010 all provisions were expected to be paid within one year.

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

| | 2010 \$'000 | 2009 \$'000 |
|---|------------------|----------------|
| (a) Debt securities | | |
| (i) Listing status | | |
| Listed – outside Hong Kong at quoted market prices | 345,199 | 282,991 |
| Listed – outside Hong Kong based on valuation techniques | 63,001 | 35,630 |
| Listed – in Hong Kong | 51,608 | 110,578 |
| Unlisted | 1,057,995 | 1,125,415 |
| | 1,517,803 | 1,554,614 |
| (ii) Maturity profile | | |
| Within one year | 317,118 | 526,000 |
| After one year but within two years | 406,937 | 237,674 |
| After two years but within five years | 629,833 | 607,542 |
| After five years | 163,915 | 183,398 |
| | 1,517,803 | 1,554,614 |
| (iii) The weighted average effective interest rate of debt securities on 31 March 2010 was 2.0% (2009: 2.7%). | | |
| (b) Pooled fund | | |
| Unlisted | 184,523 | 113,112 |

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 2010 ranged from 0.04% to 0.2% (2009: 0.4% to 0.72%). The balances mature within one year at both 31 March 2010 and 31 March 2009.

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 2010, the SFC had \$994,718,000 (2009: \$994,718,000) and \$108,923,000 (2009: \$108,923,000) paid 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 statement of financial position.

(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 2010 the duration was 2.11 years (31 March 2009: 2.13 years).

13. Financial instruments (cont'd)

(iii) Interest rate risk (cont'd)

At 31 March 2010, 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 million (2009: \$35.4 million). Further, at 31 March 2010, it is estimated that a general increase of 100 basis points in 3 month interest rates, with all other variables held constant, would increase the Fund's surplus and accumulated surplus by approximately \$3 million (2009: \$4.6 million). The extent of any decrease in interest rates is expected to be minimal (2009: 1%) which would decrease the Fund's surplus by an insignificant amount (2009: \$4.6 million). Other components of accumulated surplus would not be affected (2009: 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 end of the reporting period 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 end of the reporting period. The analysis is performed on the same basis for 2009.

(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 24.2% in the benchmark index would increase/decrease the Fund's profit and accumulated surplus by approximately \$36 million (2009: a general increase/decrease of 27.5% in the benchmark index would decrease/increase the Fund's loss and increase/decrease the Fund's accumulated surplus by approximately \$23.2 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 end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the end of the reporting period. 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 2009.

13. Financial instruments (cont'd)

(vi) Fair values of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3: (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2010 and 2009.

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 fund 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.

| | 2010 | | | |
|--------------------|-------------------|-------------------|-------------------|------------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Assets | | | | |
| Trading securities | | | | |
| – listed | 396,807 | 63,001 | – | 459,808 |
| – unlisted | 277,500 | 780,495 | – | 1,057,995 |
| Pooled fund | | | | |
| – unlisted | 184,523 | – | – | 184,523 |
| | 858,830 | 843,496 | – | 1,702,326 |

During the year there were no significant transfers between instruments in Level 1 and Level 2.

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 2009: \$450,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2010

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 2010 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 may result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

Improvements to IFRS: 2009

Effective for accounting periods beginning on or after

1 July 2009 or 1 January 2010

Unified Exchange Compensation Fund (the Fund)

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 2010.

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 98 to 108.

3. Members of the committee

The members of the Committee during the year ended 31 March 2010 and up to the date of this report were:

Mr Keith Lui (Chairman)
Mr Gerald Greiner
Mrs Alexa Lam
Mr Kenneth H W Kwok, BBS, SC
Mr Eric Yip

4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the 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

10 May 2010

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 98 to 108 which comprise the statement of financial position as at 31 March 2010 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 2010 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

10 May 2010

Statement of comprehensive income

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 \$'000 | 2009 \$'000 |
|--|------|----------------|----------------|
| Income | | | |
| Interest income | | 149 | 1,146 |
| Recoveries | 5 | 310 | 99 |
| | | 459 | 1,245 |
| Expenses | | | |
| Auditor's remuneration | | 38 | 38 |
| Professional fees | | 13 | 13 |
| Sundry expenses | | 1 | 1 |
| | | 52 | 52 |
| Surplus and total comprehensive income for the year | | 407 | 1,193 |

The notes on pages 102 to 108 form part of these financial statements.

Statement of financial position

At 31 March 2010

(Expressed in Hong Kong dollars)

| | Note | 2010 \$'000 | 2009 \$'000 |
|--|------|------------------|----------------|
| Current assets | | | |
| Equity securities received under subrogation | | 2 | 307 |
| Interest receivable | | 4 | 44 |
| Fixed and call deposits with banks | | 68,958 | 67,270 |
| Cash at bank | | 22 | 334 |
| | | 68,986 | 67,955 |
| Current liabilities | | | |
| Creditors and accrued charges | 6 | 10,305 | 10,281 |
| | | 10,305 | 10,281 |
| Net current assets | | 58,681 | 57,674 |
| Net assets | | 58,681 | 57,674 |
| Representing: | | | |
| Compensation fund | | | |
| Contributions from the SEHK | 7 | 47,600 | 47,000 |
| Excess transaction levy from the SEHK | 9 | 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 | 10 | 3,002 | 3,002 |
| Accumulated surplus | | 15,510 | 15,103 |
| | | 1,053,399 | 1,052,392 |
| Contributions to Investor Compensation Fund | 11 | (994,718) | (994,718) |
| | | 58,681 | 57,674 |

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 10 May 2010 and signed on its behalf by

Keith Lui
Chairman

Gerald Greiner
Committee Member

The notes on pages 102 to 108 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

| | 2010 | 2009 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Compensation Fund balance as at 1 April | 57,674 | 56,031 |
| Net contribution from the SEHK | 600 | 450 |
| Total comprehensive income for the year | 407 | 1,193 |
| Compensation Fund balance as at 31 March | 58,681 | 57,674 |

The notes on pages 102 to 108 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | 2010 | 2009 |
|--|---------------|---------|
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Surplus for the year | 407 | 1,193 |
| Interest income | (149) | (1,146) |
| Decrease in equity securities received under subrogation | 305 | 363 |
| Decrease in provision for compensation | – | (27) |
| Increase in creditors and accrued charges | 24 | 5,973 |
| Net cash generated from operating activities | 587 | 6,356 |
| Cash flows from investing activities | | |
| Interest received | 189 | 1,202 |
| Net cash generated from investing activities | 189 | 1,202 |
| Cash flows from financing activities | | |
| Contributions from the SEHK | 600 | 450 |
| Net cash generated from financing activities | 600 | 450 |
| Net increase in cash and cash equivalents | 1,376 | 8,008 |
| Cash and cash equivalents at beginning of the year | 67,604 | 59,596 |
| Cash and cash equivalents at end of the year | 68,980 | 67,604 |

Analysis of the balance of cash and cash equivalents:

| | 2010 | 2009 |
|------------------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Fixed and call deposits with banks | 68,958 | 67,270 |
| Cash at bank | 22 | 334 |
| | 68,980 | 67,604 |

Notes to the financial statements

For the year ended 31 March 2010
(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 (2009: 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 14; special levy surplus detailed in note 10; and transaction levy received before the SFO became effective from 1 April 2003.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF and less contributions from the SEHK (deposits for transferred trading rights) as disclosed on the face of the statement of financial position.

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 end of the reporting period 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.

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. |

3. Significant accounting policies (cont'd)

Impairment

(i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at the end of each reporting period 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 statement of comprehensive income 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.

Creditors and accrued charges

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

Contingent liabilities

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.

3. Significant accounting policies (cont'd)

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 one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Fund. Of these, the following development is relevant to the Fund's financial statements:

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

The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. The application of the revised standard did not have any impact on reported surplus or deficit, total income and expense or net assets for any period presented.

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 SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund has arranged to liquidate a substantial portion of shares during the year. 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 2010 after deducting relevant processing fees and charges for collecting and selling the shares 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. According to IFRS 7, these subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period 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. Creditors and accrued charges

Creditors 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 seven trading rights having been transferred during the six months to 31 March 2010 (2009: five trading rights had been transferred during the six months to 31 March 2009).

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 \$1,300,000 in respect of 26 new trading rights were received from the SEHK.

The SEHK also advised the SFC of 27 trading rights in total having been relinquished since September 2008. 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 \$700,000 to the SEHK in respect of 14 of these relinquished trading rights.

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

| | 2010 | 2009 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Balance brought forward | 47,000 | 46,550 |
| Add: 26 new trading rights issued (2009: 19) | 1,300 | 950 |
| Less: 14 relinquished trading rights refunded (2009: 10) | (700) | (500) |
| Balance carried forward | 47,600 | 47,000 |

8. 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 2010, shares with a market value \$2,009, 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.

9. 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.

10. Special levy surplus

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

11. 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 2010 amounted to \$994,718,000 (2009: \$994,718,000).

12. 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, 9, 11 and 14).

13. 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. At 31 March 2010, it is estimated that a general increase of 100 basis points, with all other variables held constant, would increase the Fund's surplus and accumulated surplus by approximately \$0.69 million (2009: \$0.67 million). The extent of any decrease in interest rates is expected to be minimal (2009: 1%) which would decrease the Fund's surplus by an insignificant amount (2009: \$0.67 million). 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 statement of financial position 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.

14. 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 2010, 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:

| | 2010 | 2009 |
|---|-----------------|----------|
| | \$'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) | (29,946) |
| 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 | 70,816 |

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 statement of financial position given that the Fund is not aware of any need for requesting the SEHK for replenishment in the near future.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2010

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 2010 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 may 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 |
| Improvements to IFRSs 2009 | 1 July 2009 or 1 January 2010 |

activity and market data

Activity data

Table 1 Number of authorised investment products

| | 2009-10 | 2008-09 | 2007-08 |
|---|--------------|--------------|--------------|
| Unit trusts and mutual funds | 1,968 | 2,093 | 2,123 |
| Investment-linked assurance schemes | 239 | 235 | 229 |
| Pooled retirement funds | 34 | 35 | 36 |
| Mandatory Provident Fund (MPF) master trust schemes | 37 | 36 | 38 |
| MPF pooled investment funds ¹ | 296 | 305 | 298 |
| Others ² | 25 | 129 | 157 |
| Total | 2,599 | 2,833 | 2,881 |

¹ 130 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 three investment-linked deposits, 14 paper gold schemes and eight REITs.

Table 2 Authorised unit trusts and mutual funds – breakdown by type

| | Number | % | Total NAV ¹ (US\$ million) | % |
|--------------------------------|--------------|--------|--|--------|
| Bond | 329 | 18.24 | 249,376 | 26.91 |
| Equity | 1,100 | 60.98 | 470,019 | 50.71 |
| Diversified | 89 | 4.93 | 40,846 | 4.41 |
| Money market | 41 | 2.27 | 74,640 | 8.05 |
| Fund of funds | 82 | 4.54 | 6,635 | 0.72 |
| Index | 84 | 4.66 | 74,279 | 8.01 |
| Guaranteed | 61 | 3.38 | 1,616 | 0.17 |
| Hedge | 11 | 0.61 | 676 | 0.07 |
| Other specialised ² | 7 | 0.39 | 8,789 | 0.95 |
| | 1,804 | 100.00 | 926,876 | 100.00 |
| Umbrella structures | 164 | | | |
| No. of authorised funds | 1,968 | | | |

¹ Net Asset Value as at 31 December 2009.

² Includes Futures and Options Funds and Leveraged Funds.

Table 3 Authorised unit trusts and mutual funds – breakdown by origin

| | Umbrella funds | Sub-funds | Single funds | Total | % | Total NAV¹ (US\$ million) | % |
|--------------------------------|-----------------------|------------------|---------------------|--------------|---------------|---|---------------|
| Hong Kong | 27 | 83 | 60 | 170 | 8.64 | 31,892 | 3.44 |
| Luxembourg | 58 | 1,133 | 4 | 1,195 | 60.72 | 597,705 | 64.49 |
| Ireland | 32 | 246 | 2 | 280 | 14.23 | 196,093 | 21.16 |
| Guernsey | 2 | 1 | 0 | 3 | 0.15 | 1 | 0.00 |
| United Kingdom | 4 | 47 | 5 | 56 | 2.85 | 40,041 | 4.32 |
| Other Europe | 0 | 0 | 15 | 15 | 0.76 | 682 | 0.07 |
| Bermuda | 3 | 16 | 4 | 23 | 1.17 | 4,951 | 0.53 |
| British Virgin Islands | 2 | 4 | 0 | 6 | 0.30 | 25 | 0.00 |
| Cayman Islands | 36 | 145 | 32 | 213 | 10.82 | 9,371 | 1.01 |
| Others | 0 | 0 | 7 | 7 | 0.36 | 46,115 | 4.98 |
| No. of authorised funds | 164 | 1,675 | 129 | 1,968 | 100.00 | 926,876 | 100.00 |

¹ Net Asset Value as at 31 December 2009 (excluding "umbrella funds").

Table 4 Number of licensees as at 31 March 2010 (31 March 2009 in brackets)

| | Corporations | | Representatives | | Responsible Officers | | Total | | % Change |
|--|---------------------|----------------|------------------------|-----------------|-----------------------------|----------------|---------------|-----------------|---------------------|
| Stock Exchange participants | 422 | (421) | 10,736 | (10,175) | 1,378 | (1,371) | 12,536 | (11,967) | 5 |
| Futures Exchange participants | 116 | (113) | 926 | (816) | 120 | (104) | 1,162 | (1,033) | 12 |
| Stock Exchange and Futures Exchange participants | 56 | (44) | 2,852 | (2,393) | 291 | (226) | 3,199 | (2,663) | 20 |
| Non-participants | 1,037 | (987) | 16,016 | (18,154) | 2,631 | (2,506) | 19,684 | (21,647) | -9 |
| Grand total | 1,631 | (1,565) | 30,530 | (31,538) | 4,420 | (4,207) | 36,581 | (37,310) | -2 |

Table 5 Takeovers activities

| | 2009-10 | 2008-09 | 2007-08 |
|--|------------|------------|----------------|
| Codes on Takeovers and Mergers and Share Repurchases | | | |
| General and partial offers under Takeovers Code | 37 | 27 | 52 |
| Privatisations | 9 | 6 | 5 |
| Whitewash waiver applications | 41 | 34 | 39 |
| Other applications under Takeovers Code | 254 | 190 | 254 |
| Off-market and general offer repurchases | 9 | 7 | 3 |
| Other applications under Share Repurchases Code | 13 | 2 | 4 |
| Total | 363 | 266 | 357 |
| Takeovers Bulletins | 4 | 4 | 4 |
| Executive Statements | | | |
| Sanctions imposed with parties' agreement ¹ | 1 | 0 | 2 |
| Takeovers and Mergers Panel | | | |
| Meetings for review of the Takeovers and Share Repurchases Codes | 1 | 5 | 3 |
| Hearings before the Panel (disciplinary and non-disciplinary) | 3 | 3 | 8 |
| Statements issued by the Panel ² | 1 | 3 | 3 ³ |

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 structured products¹ offered to the public

| | 2009-10 | 2008-09 | 2007-08 |
|---|---------|---------|---------|
| Authorisations granted under section 105 of the SFO | 24 | 61 | 145 |
| Authorisations granted to register prospectuses under the Companies Ordinance | 0 | 31 | 76 |

¹ The data includes the number of offer and marketing documents in respect of investment-linked deposits (2009-10 only), equity-linked investments, and structured notes.

Table 7 Authorisations of offer and marketing documents for renminbi (RMB) bonds

| | 2009-10 | 2008-09 | 2007-08 |
|---|----------------|----------------|----------------|
| Authorisations granted under section 105 of the SFO | 4 | 4 ¹ | 3 ² |
| Authorisations granted to register prospectuses under the Companies Ordinance | 3 ³ | 3 ⁴ | 1 ⁵ |

¹ Include one RMB bond offering with a retail issue size of RMB1,500 million.

² Include two RMB bond offerings with an aggregate retail issue size of RMB3,500 million.

³ Three RMB bond offerings with an aggregate retail issue size of RMB5,974 million.

⁴ Three RMB bond offerings with an aggregate retail issue size of RMB4,500 million.

⁵ One RMB bond offering with a retail issue size of RMB1,500 million.

Table 8 Breaches by licensed corporations noted during inspections

| Nature of breaches | 2009-10 | 2008-09 | 2007-08 |
|--|----------------|----------------|----------------|
| Failure to comply with Financial Resources Rules | 12 | 25 | 30 |
| Failure to safekeep client securities | 7 | 16 | 34 |
| Failure to maintain proper books and records | 15 | 13 | 14 |
| Failure to safekeep client money | 21 | 19 | 28 |
| Unlicensed dealing and other registration issues | 6 | 0 | 5 |
| Breach of licensing condition | 1 | 2 | 2 |
| Breach of requirements of contract notes / statements of account / receipts | 30 | 30 | 32 |
| Failure to make filing / notification | 1 | 3 | 3 |
| Breach of margin requirements | 5 | 2 | 3 |
| Illegal short selling of securities | 2 | 1 | 0 |
| Dealing malpractices | 2 | 0 | 1 |
| Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission | 132 | 154 | 105 |
| Breach of Corporate Finance Adviser Code of Conduct | 16 | 1 | 0 |
| Breach of Fund Manager Code of Conduct | 12 | 12 | 6 |
| Non-compliance with anti-money laundering guidelines | 6 | 23 | 23 |
| Breach of other rules and regulations of the Exchanges | 15 | 2 | 4 |
| Internal control weaknesses | 107 | 188 | 129 |
| Others | 51 | 56 | 41 |
| Total | 441 | 547 | 460 |

Table 9 Successful prosecutions – insider dealing*

| Case | Defendants | Date of conviction | Fine (\$) / Penalty | Investigation costs awarded (\$) |
|--------------------------|----------------------|---------------------------|--|---|
| 1 | FONG Yen-hwung, Ryan | 6.7.2009 | 1,372,218 and 12 months immediate custodial sentence | – |
| 2 | LAM Kar Fai, Allen | 6.7.2009 | 69,000 and six months immediate custodial sentence | – |
| 3 | DU Jun | 10.9.2009 | 23,324,117 and seven years' imprisonment | 933,340 |
| Total: 3 entities | | | 24,765,335 | 933,340 |

* Cases where fines were below \$10,000 are not shown in the table.

Table 10 Successful prosecutions – market manipulation*

| Case | Defendants | Date of conviction | Fine (\$) / Penalty | Investigation costs awarded (\$) |
|--------------------------|---------------------------|--------------------|---|----------------------------------|
| 1 | ZHU Li | 26.8.2009 | 10,000 and two months' imprisonment suspended for 12 months | 39,942 |
| 2 | CHANG Kar Hung | 27.8.2009 | 9,000 and two months' imprisonment suspended for 12 months | 28,263 |
| 3 | CHAN Chin Yuen | 13.11.2009 | 30 months' imprisonment | 288,400 |
| 4 | AU YEUNG Man Chun, Elaine | 13.11.2009 | 26 months' imprisonment | 288,400 |
| 5 | CHAN Chin Tat | 13.11.2009 | 26 months' imprisonment | 288,400 |
| 6 | CHUI Siu Fung | 13.11.2009 | 26 months' imprisonment | 288,400 |
| 7 | LEUNG Man Kin | 5.1.2010 | 160 hours' community service for each summons concurrently | 16,570 |
| Total: 7 entities | | | 19,000 | 1,238,375 |

* Cases where fines were below \$10,000 are not shown in the table.

Table 11 Successful prosecutions – unlicensed/unauthorised activities*

| Case | Activities/Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|--------------------------------------|-----------------------|--------------------|-----------|----------------------------------|
| Unlicensed investment adviser | | | | |
| 1 | LAW Chun Pon | 2.4.2009 | 10,000 | 39,975 |

* Cases where fines were below \$10,000 are not shown in the table.

Table 12 Successful prosecutions – disclosure of interests*

| Case | Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|--------------------------|-------------------------------------|--------------------|----------------|----------------------------------|
| 1 | LIU Su Ke | 2.6.2009 | 10,000 | 4,582 |
| 2 | CHIU Suet Ying | 25.6.2009 | 12,000 | 7,170 |
| 3 | IU Chung | 23.7.2009 | 24,000 | 6,677 |
| 4 | Ming Yuan Investments Group Ltd | 23.7.2009 | 24,000 | 6,677 |
| 5 | DnB NOR Asset Management (Asia) Ltd | 3.9.2009 | 18,000 | 11,075 |
| 6 | Natural Beauty Bio-Technology Ltd | 10.9.2009 | 18,000 | 8,685 |
| 7 | LAU Chi Yung, Kenneth | 24.9.2009 | 80,000 | 7,499 |
| Total: 7 entities | | | 186,000 | 52,365 |

* Cases where fines were below \$10,000 are not shown in the table.

Table 13 Successful prosecution – provision of false or misleading information*

| Case | Defendants | Date of conviction | Penalty | Investigation costs awarded (\$) |
|------|----------------------|--------------------|------------------------------|----------------------------------|
| 1 | KO Chung Ting, Peter | 5.11.2009 | 150 hours' community service | 27,185 |

* Cases where fines were below \$10,000 are not shown in the table.

Table 14 Successful prosecutions – failure to answer questions raised by the investigator

| Case | Defendants | Date of conviction | Penalty | Investigation costs awarded (\$) |
|--------------------------|----------------|--------------------|------------------------|----------------------------------|
| 1 | CHAN Chin Tat* | 9.2.2010 | one month imprisonment | – |
| 2 | CHUI Siu Fung* | 9.2.2010 | one month imprisonment | – |
| Total: 2 entities | | | | |

* Served the penalty concurrently with their sentences for market manipulation.

Table 15 Most significant disciplinary actions

| Item | Company/Name | Date of action | Conduct | Action / SFAT decision |
|-------------|--|-----------------------|---|--|
| 1 | Tsun Chi Yuen Securities Company Ltd Tsun Chi Shing, Alfred | 31.3.2010 | Failure to prevent and stop one of its representatives from trading certain warrants in an abusive manner which falsely inflated their turnover | Reprimanded and fined \$2 million Licence suspended for 12 months |
| 2 | Fong Yen-hwung, Ryan | 24.3.2010 | Engaging in insider dealing activities | Banned for life |
| 3 | Li Kwok Keung, Asser | 23.3.2010 | Providing misleading information to the SFC | SFAT decided to suspend Li for 18 months |
| 4 | Hui Chui Yiu, Emily | 16.3.2010 | Conducting transactions in clients' accounts without consent from clients | Banned for two years |
| 5 | Hung Chi Wah | 9.3.2010 | Defrauding clients | SFAT affirmed the SFC's decision to ban Hung for life |
| 6 | Fukoku Investment (Asia) Ltd Wong Kin Man Anthony | 25.2.2010 | Failure to detect and stop an unlicensed firm from carrying out activities that appeared to be a boiler room scam | Reprimanded and fined \$2 million Licence suspended for two years and RO approval revoked |
| 7 | Chau Chin Hung, Edmond | 28.1.2010 | Engaging in market misconduct activities including false trading and price rigging | Reprimanded, fined \$2 million and banned for life |
| 8 | Chau Sik Ki | 14.1.2010 | Misappropriation for clients' assets | Revocation and banned for life |
| 9 | Karl Thomson Investment Consultants Ltd | 12.1.2010 | Sale of Minibonds | Karl Thomson repurchased Minibonds from 11 customers involving a return of around \$1.4 million to customers |
| 10 | Dah Sing Bank Ltd Mevas Bank Ltd | 23.12.2009 | Distribution of Principal Protected Notes (PPNs) issued by a Lehman Brothers group entity | Dah Sing and Mevas repurchased PPNs from about 529 customers involving a return of about \$72 million to customers |
| 11 | Grand Cathay Securities (Hong Kong) Ltd | 17.12.2009 | Distribution of Minibonds | Grand Cathay repurchased Minibonds from 37 customers involving a return of over \$30 million to customers |
| 12 | Cheung Sau Lin, Connie | 17.12.2009 | Failure to deter false trading and price rigging orders made by staff | Licence suspended for three years |
| 13 | Lam Kar Fai, Allen | 23.11.2009 | Insider dealing | Banned for life |
| 14 | Grand Investment (Securities) Ltd | 2.11.2009 | Failure to prevent clients from trading in an abusive manner | Reprimanded and fined \$3 million |
| | Lee Tak Lun | | Failure to monitor clients' trading activities | Licence suspended for 12 months |
| | Chung Wing Han, Wendy | | Failure to monitor clients' trading activities | Licence suspended for 18 months |

Table 15 Most significant disciplinary actions (cont'd)

| Item | Company/Name | Date of action | Conduct | Action / SFAT decision |
|------|--|----------------|--|---|
| 15 | Asia Pacific Securities Ltd Chan Yau Fung, Canice | 22.10.2009 | Breach of FRR requirements | Reprimanded and fined \$1.4 million Revocation |
| 16 | Sun Hung Kai Investment Services Ltd | 12.10.2009 | Insufficient internal controls to prevent staff misconduct | Reprimanded and fined \$4 million |
| 17 | Lin Ko Ming | 5.10.2009 | Failure to conduct properly as a responsible officer and breaching the GEM Listing Rules | Banned for seven years |
| 18 | Ko Wai Lun, Aaron | 24.9.2009 | Unauthorised trades; forgery of client signature; providing misleading information and lying to the employer | Banned for 10 years |
| 19 | Kwan Chi Shing, Stephen | 8.9.2009 | Misrepresentation in licence application | Banned for life as responsible officer and three years as licensed representative |
| 20 | Yenn Man Han, Stephen | 26.8.2009 | Placing manipulative orders and conducting wash sales in pre-opening and closing auction sessions for a number of stocks | Licence suspended for 12 months |
| 21 | Shun Loong Securities Co Ltd Wilhelm Soeharsono Budihardjo | 19.8.2009 | Failure to monitor clients' abusive trading activities | Reprimanded and fined \$2 million Licence suspended for 12 months |
| 22 | Yuen Shing Kuen | 30.7.2009 | Failure to take appropriate action on suspicious instructions received from a client | Licence suspended for two years |
| 23 | VC Capital Ltd | 27.7.2009 | Failure to conduct adequate due diligence as sponsor | Reprimanded and fined \$1.5 million |
| 24 | ABN AMRO Bank N.V. Bank of China (Hong Kong) Ltd Bank of Communications Co Ltd The Bank of East Asia, Ltd Chiyu Banking Corporation Ltd Chong Hing Bank Ltd CITIC Ka Wah Bank Ltd Dah Sing Bank Ltd Fubon Bank (Hong Kong) Ltd Industrial and Commercial Bank of China (Asia) Ltd Mevas Bank Ltd Nanyang Commercial Bank Ltd Public Bank (Hong Kong) Ltd Shanghai Commercial Bank Ltd Wing Hang Bank Ltd Wing Lung Bank Ltd | 22.7.2009 | Distribution of Minibonds | 16 banks agreed to repurchase Minibonds from their customers. This involved an immediate return of about \$5.5 billion to more than 29,000 customers plus potential further return from collateral recovery. The banks also agreed to investigate and review complaints made by customers of other unlisted structured products and remediate them where appropriate. In addition, the 16 banks have engaged independent reviewers to comprehensively review their internal controls and complaint handling procedures. |

Table 15 Most significant disciplinary actions (cont'd)

| Item | Company/Name | Date of action | Conduct | Action / SFAT decision |
|------|---------------------|----------------|---|---|
| 25 | Wong Wang, Ronnie | 9.7.2009 | Unauthorised trades | Banned for two years |
| 26 | Chan Sheung Ling | 6.7.2009 | Facilitating secret accounts and use incorrect report to compile financial return which was in breach of the Client Money Rules | Banned for life |
| | Li Agnes | | Operating secret accounts and abusing employer's settlement process | Banned for life |
| 27 | Leung Yu Fung | 25.6.2009 | Misappropriation of clients' assets | Banned for life |
| 28 | Ng Shui King | 23.6.2009 | Failure to comply with account-opening procedures and received instructions from the unlicensed person without proper authorisation | Licence suspended for two years and six months |
| 29 | Chan Wang Fai | 8.6.2009 | Front running | Revocation and fined for \$930,000 |
| 30 | Law Kai Yee | 2.6.2009 | Unlicensed leveraged forex trading | SFAT upholds SFC's disciplinary decisions to suspend Law's licence for two years and three months |
| | Ng Chiu Mui | | Unlicensed leveraged forex trading | Revoked licence and banned for 10 years |
| | Tang Yuen Ting | | Unlicensed leveraged forex trading | Banned Tang for nine months and fined \$1,455,496 |
| 31 | Tanrich Futures Ltd | 2.6.2009 | Cold calling breaches | Reprimanded and fined \$4 million |
| | Yip Man Fan | | Neglected management responsibility | Banned for nine months |
| 32 | Yip Kim Wah | 19.5.2009 | Conducted unauthorised and negligent trading resulting in client's losses | Banned for life |
| 33 | Pang Keng Chan | 14.4.2009 | Failure to take appropriate actions against suspicious instructions from a client | Licence suspended for two years |
| 34 | KGI Asia Ltd | 5.4.2009 | Distribution of Minibonds | KGI repurchased Minibonds from five customers involving \$1.6 million |

Table 16 Requests for regulatory co-operation

| | 2009-10 | | 2008-09 | | 2007-08 | |
|---|---------|-----|---------|-----|---------|-------|
| | In | Out | In | Out | In | Out |
| Enforcement-related requests for assistance | 88 | 89 | 55 | 66 | 65 | 55 |
| Licensing-related requests for assistance | 144 | 847 | 263 | 926 | 254 | 1,004 |

'In' represents requests received, while 'out' are requests made.

Market data

Table 17 Statistical information and financial position of the Hong Kong securities industry¹

| | As at 31.12.2009 | As at 31.12.2008 | As at 31.12.2007 |
|--|--------------------------------|--------------------------------|--------------------------------|
| Total number of securities dealers and securities margin financiers | 769 | 741 | 691 |
| Total number of active cash clients ² | 957,651 | 918,750 | 924,131 |
| Total number of active margin clients ² | 138,772 | 113,823 | 110,043 |
| Total number of active clients (+6%) | 1,096,423 | 1,032,573 | 1,034,174 |
| Balance Sheet | (\$ million) | (\$ million) | (\$ million) |
| Cash in hand and at bank ³ | 276,962 | 251,982 | 257,372 |
| Amounts receivable from margin clients ⁴ | 40,160 | 17,217 | 41,765 |
| Amounts receivable from clients and other dealers arising from dealing in securities | 120,754 | 86,369 | 204,336 |
| Proprietary positions | 143,467 | 94,003 | 139,394 |
| Other assets | 137,182 | 141,203 | 205,965 |
| Total assets (+22%) | 718,525 | 590,774 | 848,832 |
| Amounts payable to clients and other dealers arising from dealing in securities | 263,372 | 211,565 | 333,904 |
| Total borrowings from financial institutions | 48,572 | 37,015 | 114,754 |
| Short positions held for own account | 36,891 | 11,186 | 50,909 |
| Other liabilities | 177,965 | 156,661 | 173,885 |
| Total shareholders' funds ⁵ | 191,725 | 174,347 | 175,380 |
| Total liabilities and shareholders' funds (+22%) | 718,525 | 590,774 | 848,832 |
| | 12 months to 31.12.2009 | 12 months to 31.12.2008 | 12 months to 31.12.2007 |
| Profit and loss | (\$ million) | (\$ million) | (\$ million) |
| Total value of transactions ⁶ | 46,347,239 | 53,923,632 | 64,704,725 |
| Net securities commission income | 31,676 | 40,120 | 55,560 |
| Gross interest income | 3,979 | 9,586 | 16,781 |
| Other income ⁷ | 62,841 | 59,188 | 84,610 |
| Total operating income (-10%) | 98,496 | 108,894 | 156,951 |
| Total overheads and interest expense | 90,164 | 87,707 | 102,647 |
| Total operating profit (-61%) | 8,332 | 21,187 | 54,304 |
| Net profit on proprietary trading | 12,905 | 5,860 | 10,523 |
| Net profit for the period (-21%) | 21,237 | 27,047 | 64,827 |

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 operates 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 the 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 \$114,352 million (31.12.2008: \$89,932 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):

| | |
|-------------------------|-------------------------|
| <u>As at 31.12.2009</u> | <u>As at 31.12.2008</u> |
| 5.2 | 4.4 |

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 18 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.

| | 2009-10 | 2008-09 | 2007-08 |
|---|--------------------|--------------------|---------|
| SFC (year ended on 31 March) ¹ | | | |
| Number of staff | 501 | 478 | 442 |
| Total expenditure (\$ million) | 730 | 684 | 585 |
| US Securities and Exchange Commission (SEC) (year ended on 30 September) ² | | | |
| Number of staff | 3,816 ⁵ | 3,656 ⁵ | 3,511 |
| Total expenditure (\$ million) | 8,689 ⁵ | 7,441 ⁵ | 7,046 |
| UK Financial Services Authority (FSA) (year ended on 31 March) ³ | | | |
| Number of staff (at year-end date) | 2,800 ⁶ | 2,730 | 2,535 |
| Total expenditure (\$ million) | 5,207 ⁶ | 3,999 | 5,026 |
| Australian Securities & Investment Commission (ASIC) (year ended on 30 June) ⁴ | | | |
| Number of staff (at year-end date) | Data not available | 1,698 | 1,669 |
| Total expenditure (\$ million) | Data not available | 1,585 | 1,950 |

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 FY2011 Congressional Justification.

⁶ Budget figures extracted from FSA Business Plan 2009/2010.

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 Governance chapter.

Committees of the SFC

Advisory Committee

Advises the Commission on any matter of policy regarding the performance of its functions.

| Chairman | Members | |
|------------------------------|--|--|
| Dr FONG Ching, Eddy, GBS, JP | CHAN Henry CHEW Fook-aun EU Andrew Douglas Dr HU Zulu, Fred KENNEDY Paul Michael LAM Cheung, Alexa WHEATLEY Martin, JP WONG Kwai-lam WONG Shou Yeh, David WU Thomas Jefferson | LEE Kin Ping, Christophe (to 31.5.2009) MAISANO Jack (to 31.5.2009) PICKERELL Blair Chilton (to 31.5.2009) TSE Koon Hang, Ada (to 31.5.2009) YIP Lai Shing (to 31.5.2009) DICKENS Mark Francis (from 1.6.2009) LIN Yong (from 1.6.2009) FU Yu Ning (from 1.6.2009) CHEONG Ying Chew, Henry (from 1.6.2009) LEUNG Margaret (from 1.6.2009) |
| No of meetings: 4 | Average attendance rate: 82.7% | |

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 Commission 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, there were no circumstances that called for the convening of a meeting of the Committee.

| Chairman | Members | |
|--------------------------|--|---|
| LAM Cheung, Alexa | SHEK Chi Fai, Derek ESPINA Anthony MONDOVITS Andreas Georg SO Yuk Sing, Christine VAS Judy | Professor SO Wai Man, Raymond Professor CHAN Ka Lok Professor CHAN Man Man, Johannes, SC Professor CHENG Yu Shek, Joseph, JP |
| No of meetings: 0 | Average attendance rate: N/A | |

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 twice to consider a new waiver request, and discuss the proposed revisions to the Code on Unit Trusts and Mutual Funds as proposed under the *Consultation Paper on Proposals to Enhance Protection for the Investing Public* issued on 25 September 2009.

| Chairman | Full Members | |
|--------------------------|--|---|
| LAM Cheung, Alexa | Dr AU King Lun Professor CHAN Ka Lok CHOI Fung Yee, Christina HEUNG Shu Fai HSU Li Ching LEE Kevin Dr LIAO York, SBS, JP (to 31.03.2010) | Professor LIU Pak-wai, SBS, JP (from 22.06.2009) McSHANE Darren Mark MONDOVITS Andreas Georg (to 31.03.2010) NG Joo Yeow, Gerry (to 08.09.2009) NG Ka Yiu, Desmond (from 08.09.2009) NG To Han, Simon (to 31.03.2010) PICKERELL Blair Chilton |
| | Alternate Members | |
| | KWAN Sau Ha MAK Tat Cheung | MASSEY LI Susan Hong (from 22.06.2009) |
| No of meetings: 2 | Average attendance rate: 86% | |

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 (ILAS) 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 consider the key proposals in respect of amendments to the ILAS Code, and discuss general market trends and regulatory policy matters.

| Chairman | Members | |
|--------------------------|--|---|
| LAM Cheung, Alexa | Professor CHAN Ka Lok CHOI Fung Yee, Christina CHU Alex Wing Yiu (from 5.1.2010) HON Wai Ming, Angel LAU Ka Shi Dr LIAO York, SBS, JP (to 31.3.2010) Professor LIU Pak-wai, SBS, JP (from 22.6.2009) | LUK Kin Yu, Peter MAK Tat Cheung McSHANE Darren Mark TO Kok Ying (to 29.12.2009) WONG Chien Kuo, James YIP Chi Leung |
| No of meetings: 1 | Average attendance rate: 75% | |

Committee on Real Estate Investment Trusts

Advises the Commission 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 | LAW Shing Mui, Alice |
| | CHENG Wai Meng, Milton (from 1.4.2009) | LEUNG Kar Cheung, Catherine (from 1.4.2009) |
| | CHENG Yu Shek, Joseph, JP (from 1.4.2009) | MURRAY Alastair Elliot |
| | CHOI Fung Yee, Christina | Professor PANG Tsan Wing, SBS (from 1.4.2009) |
| | CHOW Mo Fong, Susan | PO Wai Kwong |
| | FOK Glenn | STEVENSON Thomas Brian, SBS |
| | HUI Chiu Chung, JP | WESTLEY Kevin Anthony |
| No of meetings: 1 | Average attendance rate: 80% | |

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 Commission in its investor education work.

Last year, the Committee met once to discuss and comment on the Government's proposal to set up the Investor Education Council.

| Chairman | Full Members | |
|--------------------------|---|--|
| KENNEDY Paul Michael | CHIU Ying Chun, Ronald Professor HO Shun Man LAI, Ivy Wan Ying Lam Po Yee LEE Yiu Sun LEUNG Wing Cheung, William, JP | LIU Tat Yin, Kennedy SIN Tak Wah SHIU Barbara SO Wai Sang, Kenneth TAI Chi Kin |
| | Alternate Members | |
| | CHEUNG Marn-kay TAM Sau Ngor, Vera | YIP Chee Hang, Eric |
| No of meetings: 1 | 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 Nominations Committee considered and approved the reappointment of members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

| Ex-officio Members | Members |
|--|--|
| WHEATLEY Martin, JP (Chairman) CLARK Stephen Edward HO Yin Tung, Brian | Dr FONG Ching, Eddy, GBS, JP KWOK Hing Wai, Kenneth, BBS, SC |
| | Alternate members to CLARK Stephen Edward |
| | GRAHAM David KO, Teresa Yuk Yin, JP LIU Chee Ming MAGUIRE John Martin |
| No of meetings: 1 | Average attendance rate: 100% |

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met three times and discussed a number of issues, including accounting convergence, proposed changes to requirements for connected transactions, circulars and listing documents, property valuation and continuous disclosure obligation.

| Chairman | Members | |
|--------------------------|--|---|
| HO Yin Tung, Brian | CHAN Chun Hung, Vincent KERR William Walter Raleigh LECKIE Stuart Hamilton, OBE, JP LUNG Hak Kau BROWN Melissa | CHAN Chi Keung, Raymond KWOK Lam Kwong, Larry BBS, JP MUH Anthony Yi Tong NGAN Wai Wah PULLING Edward |
| No of meetings: 3 | Average attendance rate: 58% | |

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.

During the year, the Group met once to advise on one listing application which involved a complex debt restructuring and substantial uncertainties over an extended period of time after listing.

| Members | |
|--|---|
| ALDER Ashley Ian CHEUNG Ching Leung, David CHOW Siu Lui CLARK Stephen John FONG Chi Wai, Alex HOWE Christopher John | IP Koon Wing, Ernest LEE Raymond NESBITT Gavin Paul NG Sze Yuen, Terry SIU Kai Lau, James YEUNG Eirene |
| No of meetings: 1 | Average attendance rate: 33% |

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 | BEST Roger Thomas, JP TISDALL Stephen Clifford KO Teresa Yuk Yin, JP LAM Cheung, Alexa KEYES Terence Francois | LUI Kei Kwong, Keith STEWART Mark Robert WONG Tin Yau, Kelvin, DBA, FHKIoD TSOI Tong Hoo, Tony 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 Dr FONG Ching, Eddy, GBS, JP KWOK Hing Wai, Kenneth, BBS, SC, JP LEE Lawrence, JP | LEE Pui Ling, Angelina, JP Professor LIU Pak-wai, SBS, JP WONG Kai-man, BBS, JP 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 FONG Loong Choon, Julian NESBITT Gavin Paul NG Chi Keung, Victor NG Wai Sum, Sam | NORRIS Nicholas Andrew RICHARDSON David Alexander SHAFTESLEY Colin TANG Yuen Shun, Cynthia WONG Shiu Hoi, Peter |
| Deputy Chairman | | |
| CHARLTON Julia Frances | | |
| No of meetings: 0 | Average attendance rate: N/A | |

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 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 once to consider policy issues under the Takeovers Code and three times to rule on matters relating to the application of the Takeovers Code.

| Chairman | Members | |
|--------------------------------------|--------------------------------------|--------------------------------------|
| CLARK Stephen Edward (from 1.4.2009) | CHAN Yuk Sing, Freeman | NORRIS Nicholas Andrew |
| | CHARLTON Julia Frances | RODGERS Daniel James |
| | DENNY Roger Michael (from 1.4.2009) | (from 1.4.2009) |
| | DESAI Kalpana | SABINE Martin Nevil |
| | IP Koon Wing, Ernest (from 1.4.2009) | SLEVIN Francis Joseph (to 31.3.2010) |
| | Dr KWOK Chi Piu, Bill (to 31.3.2010) | TAN Siew Boi, May |
| | KWOK Tun Ho, Chester | TORTOISHELL Andrew (from 1.4.2009) |
| | LEE Pui Ling, Angelina, JP | WEBB David Michael |
| | LIU Che Ning | WINTER Richard David |
| | LIU Swee Long, Michael | WONG Oi Ming, Christine |
| | LIU Yun Bonn (from 1.4.2009) | YEH V-Nee |
| | LUNG Hak Kau | YU Ka Po, Benita |
| | NESBITT Gavin Paul | |

Deputy Chairmen

GRAHAM David
 KO, Teresa Yuk Yin, JP
 LIU Chee Ming
 MAGUIRE John Martin

| | |
|---|-------------------------------------|
| No of policy meetings: 1 | Average attendance rate: 62% |
| No. of transaction-related meetings: 3 | Average attendance rate: N/A |

Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Members

| | |
|--------------------------------------|--------------------------------------|
| CHAN Yuk Sing, Freeman | LUNG Hak Kau |
| CHARLTON Julia Frances | MAGUIRE John Martin |
| CLARK Stephen Edward | NESBITT Gavin Paul |
| DENNY Roger Michael (from 1.4.2009) | NORRIS Nicholas Andrew |
| DESAI Kalpana | RODGERS Daniel James (from 1.4.2009) |
| GRAHAM David | SABINE Martin Nevil |
| IP Koon Wing, Ernest (from 1.4.2009) | SLEVIN Francis Joseph (to 31.3.2010) |
| KO, Teresa Yuk Yin, JP | TAN Siew Boi, May |
| Dr KWOK Chi Piu, Bill (to 31.3.2010) | TORTOISHELL Andrew (from 1.4.2009) |
| KWOK Tun Ho, Chester | WEBB David Michael |
| LEE Pui Ling, Angelina, JP | WINTER Richard David |
| LIU Che Ning | WONG Oi Ming, Christine |
| LIU Chee Ming | YEH V-Nee |
| LIU Swee Long, Michael | YU Ka Po, Benita |
| LIU Yun Bonn (from 1.4.2009) | |

No of meetings: 0

Average attendance rate: N/A

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 31 March 2010.

| Chairman | Members |
|------------------------|---|
| CHAN Siu-chung, Justin | FUNG Hau Chung, Andrew LAM Yuk Kun, Lawrence LAU Cheuk Hang, Philip |
| Deputy Chairman | |
| TAN Cheng Soo, Eddie | |

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 | Members | |
|---------------------------------|---|---|
| CHOW Wing Kin, Anthony, SBS, JP | Professor CHAN Yuk Shee, BBS, JP CHIU Chi Cheong, Clifton Dr FONG Ching, Eddy, GBS, JP FUNG Hau Chung, Andrew Dr KAM Pok Man (to 30.3.2010) | LAI Ying Sie, Benedict, JP LEE Jor Hung, Dannis, BBS Dr Hon LEUNG Mei-fun, Priscilla LIU Che Ning SUN Tak Kei, David, BBS, JP |

Securities and Futures Appeals Tribunal

Reviews on application, the merits of regulatory decisions under the Securities and Futures Ordinance by the SFC, the Hong Kong Monetary Authority and an investor compensation company recognised by the SFC, and to hear and determine any question or issue arising out of or in connection with any review.

| Chairman | Members |
|--|--|
| The Honourable Mr Justice Saunders, Judge of the Court of First Instance of the High Court | CHAN Kam Wing, Clement CHAN Yuen Fan, Florence CHEONG Ying Chew, Henry CHIU Lai Kuen, Susanna CHUI Yik Chiu, Vincent Professor HO Shun Man, Simon Professor HO Yan Ki, Richard KWOK Lam Kwong, Larry, BBS, JP KWAN Pak Chung, Edward KUNG Yiu Fai, Ronald Dr LAM Kit Lan, Cynthia LEUNG Kar Cheung, Catherine MURRAY Alastair Elliot PANG Yuk Wing, Joseph, JP SZE Tsai Ping, Michael TANG Yuen Shun, Cynthia THORNHILL Richard John Rev TONG Hin Sum, Paul TSAI Wing Chung, Philip TSANG Sui Cheong, Frederick WONG Yuen Fai, Stanley WU King Cheong, Henry, BBS, JP |

abbreviations and index

Abbreviations

| | | | |
|--|-------|--|-------|
| Australian Securities and Investments Commission | ASIC | Initial public offering | IPO |
| China Securities Regulatory Commission | CSRC | International Organization of Securities Commissions | IOSCO |
| Closer Economic Partnership Arrangement | CEPA | Investor Education Council | IEC |
| Committee on Payment and Settlement Systems | CPSS | Legislative Council | LegCo |
| Corporate social responsibility | CSR | Lehman Brothers | LB |
| Equity-linked investments | ELIs | Mandatory Provident Fund | MPF |
| Exchange-traded funds | ETFs | Memorandum of Understanding | MOU |
| Executive Directors, SFC | EDs | Non-Executive Directors, SFC | NEDs |
| Financial Resources Rules | FRR | Process Review Panel | PRP |
| Financial Services and the Treasury Bureau | FSTB | Real Estate Investment Trusts | REITs |
| Financial Services Authority, UK | FSA | Securities and Exchange Commission, US | SEC |
| Financial Stability Board | FSB | Securities and Futures Appeals Tribunal | SFAT |
| Financial Supervisory Commission, Taiwan | FSC | Securities and Futures Commission | SFC |
| Group of Twenty | G-20 | Securities and Futures Ordinance | SFO |
| Hong Kong Exchanges and Clearing Ltd | HKEx | Securities Commission Malaysia | MSC |
| Hong Kong Monetary Authority | HKMA | Standing Committee on Standards Implementation | SCSI |
| Hong Kong Society of Financial Analysts Ltd | HKSFA | The Stock Exchange of Hong Kong Ltd | SEHK |
| Hong Kong Special Administrative Region | HKSAR | | |

Index

The index does not include references in the financial statements.

| A | B |
|---|---|
| Advisory Committee, SFC pp. 17, 18, 20, 120 | Boiler room Boiler room fraud involves unscrupulous but plausible salespeople cold calling potential investors and using high pressure sales tactics to persuade them to buy real or bogus investments. It is so-called because the fraudsters who started this in North America operated mainly out of basements. p. 115 |
| Alert List, SFC The list gives the names and particulars of unlicensed entities believed to be or to have been targeting investors, or claiming to have an association with Hong Kong with the ulterior objective of making money from unsuspecting individuals. It is available on www.InvestEd.hk . pp. 11, 54, 55 | C |
| Asian financial crisis pp. 5, 6 | Chief Executive, HKSAR p. 12 |
| Audit Committee, SFC pp. 12, 13, 15, 17, 18, 19, 120 | China A-share pp. 5, 46 |
| Australian Securities and Investments Commission (ASIC) ASIC is Australia's corporate, markets and financial services regulator. An independent government body, ASIC enforces company and financial services laws to protect consumers, investors and creditors in Australia. pp. 20, 31, 38, 119 | China Insurance Regulatory Commission p. 44 |
| Automated trading services This refers to services provided by means of electronic facilities (outside of those provided by a recognised exchange company or clearing house) whereby offers to sell or purchase securities or futures contracts are made or accepted in a way that results in a binding transaction in accordance with established methods. pp. 10, 47 | China Securities Regulatory Commission (CSRC) This refers to Mainland China's regulator of the securities and futures markets. An enterprise unit under the State Council mandated to regulate, maintain and promote the securities and futures markets of China. p. 30, 44 |
| | Closer Economic Partnership Arrangement VI (CEPA VI) This is China's free trade agreement with Hong Kong, which grants easier access to China markets for Hong Kong-made products and Hong Kong-based service companies. The first of a series of CEPA agreements was signed in June 2003. CEPA covers three broad areas: tariff agreements for the trade of goods, preferential treatment for service suppliers and mutual recognition of professional qualifications, and an agreement to enhance co-operation in various trade and investment facilities to improve the overall business environment. pp. 3, 44 |

Codes on Takeovers and Mergers and Share Repurchases
pp. 39, 40, 49, 111, 122, 126

Collective investment schemes
pp. 39, 47, 121

Committee on Payment and Settlement Systems (CPSS)
p. 48

Companies Ordinance
pp. 39, 111

Corporate social responsibility (CSR)
pp. 7, 24, 26, 27

Court of Appeal
p. 35

Court of Final Appeal
p. 35

Court of First Instance
pp. 35, 36, 37, 128

D

Dark pool
Also known as alternative trading venues, these are facilities that allow dealing outside traditional exchanges without public disclosure of prices.
pp. 7, 47

Director of Audit, HKSAR
p. 14

District Court
pp. 35, 36

Disclosure of information
p. 35

Disclosure of interests
p. 41, 114

Dr Wise
pp. 11, 53, 55

Dual filing
An arrangement that came into effect with the enactment of the SFO, dual filing is a regime under which all corporate disclosure and listing application materials are filed with both The Stock Exchange of Hong Kong Ltd (SEHK) and the SFC. It allows the SFC to exercise enforcement powers against persons issuing false or misleading corporate information.
pp. 10, 13, 40, 49, 56, 124

E

Equity-linked investments (ELIs)
pp. 52, 53, 111

Exchange Participants
These are companies that have obtained participation and/or trading rights from Hong Kong Exchanges and Clearing Ltd (HKEx) to trade on either SEHK or Hong Kong Futures Exchange Ltd (HKFE).
pp. 45, 110

Exchange-traded funds (ETFs)
These are basically index-tracking investment funds traded on stock exchanges, much like stocks.
pp. 5, 30, 44, 46

Executive Committee, SFC
pp. 12, 17, 20, 24

Executive Council, HKSAR
p. 19, 47

Executive Director, SFC (EDs)
pp. 12, 13, 15, 17, 20, 40

F

Federation of Share Registrars Ltd
p. 47

Securities and Futures (Financial Resources) Rules (FRR)
pp. 112, 116, 118

Financial Secretary, HKSAR
pp. 12, 30, 38

Financial Services and the Treasury Bureau (FSTB)
p. 38, 55

Financial Services Authority, UK (FSA)
An independent non-governmental body, the FSA is the single statutory body responsible for regulating the United Kingdom's financial services industry, including the authorisation and supervision of deposit taking, insurance and investment business.
pp. 20, 31, 38, 55, 119

Financial Stability Board (FSB)
The group was established in April 2009 as an enlarged version of the Financial Stability Forum, itself an advisory group founded in 1999 to promote international financial stability through better information exchange and international co-operation. Membership of the FSB includes all countries in the Group of Twenty as well as Spain and the European Commission. It collaborates with the International Monetary Fund to identify problems in the financial system, provides early warning of macroeconomic and financial risks and oversees action to address them.
pp. 2, 3, 20, 41

Financial Supervisory Commission, Taiwan
An independent authority responsible for regulating Taiwan's banking, securities and insurance sectors.
pp. 46, 48

Flexible options contracts
p. 47

G

Grey market
p. 37

Group of Twenty (G-20)
The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was founded in 1999 to bring together systemically important industrialised and developing economies to discuss key issues of the global economy. The G-20 helps support growth and development world-wide by providing opportunities for open and constructive discussion between industrial and emerging countries on key issues related to global economic stability.
pp. 2, 3, 41, 48

| | | | |
|--|--|--|---------------|
| H | | IOSCO's Task Force on Short Selling | pp. 7, 20, 41 |
| Hang Seng China Enterprises Index | p. 47 | <hr/> | |
| Hang Seng Index | pp. 30, 47 | J | |
| Hong Kong Council of Social Service | p. 27 | Judicial review | |
| Hong Kong Exchanges and Clearing Ltd (HKEx) | | p.13 | |
| HKEx owns and operates the only stock exchange and the only futures exchange in Hong Kong. It is the holding company of SEHK, HKFE and their related clearing houses. | pp. 5, 10, 14, 18, 20, 31, 40, 41, 45, 47, 125 | <hr/> | |
| Hong Kong Futures Exchange Ltd | | K | |
| 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 for trading matters. | p. 10 | "Know your client" | |
| Hong Kong Institute of Certified Public Accountants | pp. 12, 20, 40 | p. 9, 38 | |
| Hong Kong Monetary Authority (HKMA) | pp. 18, 19, 38, 41, 128 | <hr/> | |
| Hong Kong Society of Financial Analysts Ltd (HKSFA) | p. 53 | L | |
| <hr/> | | Lehman Brothers (LB) | |
| I | | pp. 3, 5, 26, 34, 37, 38, 41 | |
| Initial public offering (IPO) | pp. 40, 46, 52, 53 | Legislative Council (LegCo) | |
| Insider dealing | pp. 5, 30, 31, 34, 35, 36, 112, 115 | pp. 14, 18, 26, 38, 47 | |
| Interim injunctions | p. 35 | List of Investment Products | |
| International Organization of Securities Commissions (IOSCO) | pp. 7, 20, 41, 48, 55 | Compiled on a best-effort basis, the list contains investment products offering documents which have been authorised by the SFC. Available on www.InvestEd.hk . | |
| An international co-operative body made up of securities regulators world-wide, IOSCO is recognised as the international standard-setter for securities markets. | | p. 59 | |
| InvestEd (www.InvestEd.hk) | pp. 11, 14, 53, 54, 55, 57 | Listing Rules | |
| This is the SFC portal that provides investors with educational information on investments and regulations. | | pp. 35, 37, 45, 116 | |
| Investor Compensation Co, Ltd | pp. 11, 18, 20, 41, 122 | <hr/> | |
| Investor Compensation Fund | | M | |
| A fund established and managed by the Investor Compensation Co, Ltd to pay compensation to investors of any nationality who suffers pecuniary losses as a result of a default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. | pp. 11, 18, 20, 122 | Mandatory Provident Fund (MPF) | |
| Investor Education Council (IEC) | pp. 3, 7, 52, 55, 123 | pp. 16, 18, 19, 109 | |
| <hr/> | | Mandatory Provident Fund Schemes Authority | |
| | | pp. 18, 19 | |
| | | Market manipulation | |
| | | pp. 5, 31, 34, 35, 36, 113, 114 | |
| | | 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) | |
| | | This refers to a co-operative arrangement or agreement signed to promote collaboration between organisations. | |
| | | pp. 45, 46, 47, 48 | |
| | | Minibonds | |
| | | pp. 5, 31, 34, 37, 38, 115, 116, 117 | |
| | | Mutual funds | |
| | | pp. 16, 38, 56, 109, 110, 121 | |
| <hr/> | | N | |
| | | Non-Executive Directors, SFC (NEDs) | |
| | | pp. 12, 13, 15, 17, 18, 19 | |

| | |
|---|--|
| O | |
| Office of The Ombudsman, HKSAR | pp. 12, 13 |
| OTC Derivatives Regulators' Forum | p. 48 |
| P | |
| Performance pledges, SFC | p. 16 |
| Police, HKSAR | p. 54 |
| Prosecution | pp. 10, 31, 34, 35, 56, 112, 113, 114 |
| 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 made by the SFC and its staff in the performance of its regulatory functions. | pp. 12, 13, 18, 128 |
| R | |
| Real Estate Investment Trusts (REITs) | pp. 20, 39, 47, 49, 109, 122 |
| Regulated activity | p. 9, 56 |
| Retail Investor Survey | p. 53 |
| S | |
| Securities Commission Malaysia (MSC) | pp. 31, 47 |
| Securities and Exchange Commission, US (SEC) | p. 119 |
| Securities and Futures (Stock Market Listing) Rules | p. 40 |
| Securities and Futures Appeals Tribunal (SFAT) | pp. 12, 13, 18, 19, 37, 115, 116, 117, 128 |
| Securities and Futures Ordinance (SFO) | pp. 8, 9, 11, 16, 17, 18, 34, 35, 36, 37, 39, 49, 111, 122, 124, 128 |
| SFC Guide | pp. 31, 55 |
| SFC Online Portal | |
| An electronic platform for licensing-related matters of the SFC, the website gives intermediaries the option to submit on line licensing notifications and annual returns, make payments using electronic gateways, and eventually process all licensing-related matters. Phase one was launched in September 2009. | pp. 6, 14, 26, 28, 31, 45, 49 |
| Short selling | pp. 3, 6, 7, 20, 39, 41, 49, 112 |
| Singapore Exchange Securities Trading Ltd | p. 47 |
| Standing Committee on Standards Implementation (SCSI) | pp. 3, 20, 41 |
| Standing Committee 3 on Regulation of Market Intermediaries | p. 7, 41 |
| State Securities Commission of Vietnam | pp. 30, 47, 48 |
| Statutory body | This refers to a body corporate established by an ordinance in Hong Kong. pp. 8, 24, 119 |
| T | |
| Taiwan Stock Exchange | p. 46 |
| Takeovers | pp. 10, 18, 19, 39, 40, 49, 52, 56, 111, 122, 123, 126, 127 |
| Takeovers and Mergers Panel, SFC | pp. 19, 111, 123, 126, 127 |
| Task Force on Unregulated Financial Markets and Products | p. 48 |
| Task Force on Commodity Futures Markets | p. 48 |
| 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 front-line regulator of Stock Exchange Participants in relation to trading matters and listing activities on the Main Board and Growth Enterprise Market. pp. 10, 18, 19, 35, 37, 40, 45, 46, 47, 49 |
| U | |
| Unit trusts | pp. 16, 19, 20, 38, 56, 109, 110, 121 |
| W | |
| World Federation of Exchanges | It is the trade organisation of publicly regulated stock, futures, and options exchanges. Its membership comprises the world's leading bourses. The federation acts as a discussion and policy forum for issues, including self regulation, enforcement, trading halts and securities business conduct. p. 55 |

Publisher Information

Publisher Securities and Futures Commission
Office 8th Floor, Chater House
8 Connaught Road Central
Hong Kong
Telephone: (852) 2840 9222
Facsimile: (852) 2521 7836
Website: www.sfc.hk
InvestEd Website: www.InvestEd.hk

Auditor KPMG

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the publisher.

A Chinese version of this Annual Report is available.



Concept design and production:
Sedgwick Richardson
www.sedgwick-richardson.com