



20 Years of Transformation

This second Quarterly Report of the Securities and Futures Commission for financial year 2009-10 covers the period from 1 July to 30 September. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

Contents

1 Chief Executive Officer's Message

2 Operational Review

2 Regulation

4 Development

6 Education

8 Organisational Matters

9 Financial Reviews

9 Securities and Futures Commission's Condensed Consolidated Financial Statements

18 Investor Compensation Fund's Condensed Financial Statements

26 Unified Exchange Compensation Fund's Condensed Financial Statements

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Chief Executive Officer's Message

After working for months to resolve the Lehman Brothers Minibond incident, we were encouraged to see a very high level of acceptance of the repurchase scheme we agreed with the 16 distributing banks, jointly with the Hong Kong Monetary Authority. This agreement was concluded using powers available under the Securities and Futures Ordinance enabling us to reach an agreement that is in the interests of the investing public. It is important to note however that in addition to compensating investors, this agreement will help ensure that sales practices going forward are in compliance with our code of conduct requirements. It does this by requiring the banks to enhance their internal controls, especially their policies and practices relating to the sale of structured products, and implement special enhanced complaints handling procedures to resolve all complaints in relation to the sale and distribution of other structured products. Compliance with these commitments will also be verified by independent external reports.

The last quarter saw enforcement action resulting in the conviction of a former director of a major international investment bank for insider dealing for which he received a seven-year jail sentence. In imposing the maximum jail sentence within its powers, the presiding district court was reinforcing our message that insider dealing will not be tolerated.

At the end of the quarter we began a three-month consultation to solicit public comments on proposals to fine-tune the regulations governing the sale of retail investment products to the public. The co-ordinated set of proposals cover each stage of the investment life cycle including pre-sale documentation, disclosure at the point of sale, selling practices, on-going disclosure during the term of investment, and a post-sale cooling-off period. To raise awareness for the consultation and solicit public input, we have a programme of publicity activities and will keep up our outreach efforts through the rest of the year.

The listing of seven more exchange-traded funds (ETFs) tracking regional stocks and the US dollar money markets brought the total number of ETFs listed in Hong Kong to 37 at the quarter-end. Furthermore, following the signing of collaboration agreement with the Taiwan Financial Supervisory Commission, three Hong Kong ETFs were listed on the Taiwan Stock Exchange during the quarter.

As part of our long-term efforts to improve the efficiency and user friendliness of our licensing procedures, we launched the first phase of the SFC On-line Portal in September. This allows more than 36,000 licensees, registrants and associated entities the option of submitting many licensing-related documents electronically. Licensed corporations may now submit their annual returns and notifications, view their profiles and receive messages from the Securities and Futures Commission (SFC) via the Internet. In the second quarter of 2010, we plan to launch the second phase, which will allow electronic fee payment, and the final phase allowing on-line licensing applications, will be rolled out in mid-2011.

Investor education continued to be a focus for us during the quarter. We launched a television series of mini episodes and infomercials to promote the do's and don'ts of investing. Our third Investment Story Competition, once again, received keen response and attracted around 100 submissions.

Martin Wheatley
Chief Executive Officer



Operational Review

Regulation

Efforts to resolve Minibonds cases

The repurchase schemes reached with Sun Hung Kai Investment Services Ltd and KGI Asia Ltd to resolve the Minibonds cases helped 329 eligible clients recover the full amount of their initial investments in the Minibonds. Separately in July, together with the Hong Kong Monetary Authority, we agreed with 16 banks on another repurchase scheme to enable their eligible clients to recover at least 60% or 70 % of their original investments in the Minibonds, with those 65 and older receiving the higher percentage. Eligible clients had 60 days to consider whether to accept or reject the offer. To date, the scheme has received very high levels of acceptance.

As part of the repurchase arrangements, brokers and banks were required to address inadequacies and enhance their internal control systems, in particular, their policies and processes relating to the sale of structured products, and to implement special enhanced complaints handling procedures to resolve all complaints in relation to the sale and distribution of other structured products. The banks' compliance with these requirements will be verified by independent external examinations which are currently being commissioned. Our approach in the Minibonds matter accomplished a triple-win outcome for all parties concerned: eligible clients were compensated, brokers and banks could put the issue behind them and regulators were able to achieve the desired regulatory outcomes.

As we have publicly announced, our investigations into non-minibond Lehman Brothers products are continuing.

Vigorous enforcement and disciplinary actions taken

In September we secured the 10th conviction for insider dealing in the past 14 months. The District Court convicted and passed a seven-year jail sentence, the maximum that a district court can impose, on Du Jun, a former director of Morgan Stanley Asia Ltd, for insider dealing in the shares of CITIC Resources Holdings Ltd during an acquisition deal in 2007. Du was also fined \$23,324,117,

a sum equal to the notional profit he earned from his insider dealing activities. Du is the sixth person to be jailed for insider dealing since the first conviction in July 2008.

We commenced another insider dealing case in the Eastern Magistracy in which we alleged that Pablo Chan Pak Hoe purchased a total of 3.88 million shares of Universe International Ltd while in possession of confidential and price-sensitive information regarding a proposal made by Goldwyn Management Ltd to acquire Universe shares from a majority shareholder.

During the quarter the High Court granted two interim injunctions to freeze assets of entities and individuals, pending the conclusion of our investigations, to prevent dissipation of assets and to ensure that sufficient assets remained to satisfy any restoration or compensation orders made by the court.

One of the interim injunctions related to Wong Kwong Yu, the former chairman of GOME Electrical Appliances Holdings Ltd, his wife Du Juan and two companies he controlled comprising assets of about \$1.6 billion. We alleged that the fraud in the securities dealing of GOME shares had caused a loss of about \$1.6 billion to GOME and its shareholders. This is the largest amount that the SFC has ever applied to the court to freeze.

The other interim injunction to freeze assets related to Tiger Asia Management LLC, a New York-based asset management company, and three of its senior officers. The assets involved totalled \$29.9 million. We alleged insider dealing in and market manipulation of the shares of China Construction Bank Corporation. We are seeking orders to unwind the relevant transactions to restore the affected parties to their pre-transaction positions and to prevent Tiger Asia and the three senior officers from trading in listed securities and derivatives in Hong Kong in similar circumstances.

During this quarter, we sought orders from the High Court to disqualify from company directorship six current and former directors of Warderly International Holdings Ltd. We alleged that these directors failed to manage Warderly with the necessary degree of skill, care, diligence and competence expected given their knowledge of and experience with the company. They were also alleged to have failed to ensure that the company fully



complied with disclosure requirements under the Listing Rules. The case continues into the next quarter.

We sought High Court orders to restrain a futures trader from placing orders on the futures market during the Pre-Open Allocation Sessions, alleging that he had placed various orders on the futures exchange between February 2007 and July 2009, with a view to manipulating the final calculated opening price. The trader provided the High Court with an undertaking not to place any order on the futures markets during such sessions. Until the court rules on the SFC's allegations or makes a further order, the undertaking remains effective. We are also prosecuting the trader for alleged price rigging arising from different orders of futures contracts placed during the Pre-Market Opening Period between February 2007 and September 2007.

In August we saw the Eastern Magistracy giving jail sentences of two months, suspended for 12 months, to two market manipulators for ramping up the share price of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co. Ltd and manipulating two derivatives warrants respectively.

We prosecuted a new type of market misconduct this quarter, charging that David Vong Tat-leong, chief executive officer of Vongroup Ltd, disclosed or was involved in the disclosure of false or misleading information issued by the company. Information that was likely to induce transactions in the shares of Vongroup or maintain or increase its share price. The case will go to trial in the District Court later this month.

We imposed banning orders on six people, including three life-long bans for breaches of manipulating settlement processes, using an inaccurate report to compile financial returns and making false representations about academic qualifications in licence applications. We suspended five people for various breaches including placing manipulative orders, failing to notice that wash sales (trades involving no change in beneficial ownership) might result from matched trades, facilitating the operation of a secret account and failing to supervise. We also reprimanded and fined three licensed corporations for various internal control failures.

Market closely monitored

In August we issued a press release and a circular to remind brokerages to vigilantly manage their securities margin financing

risks and regularly conduct stress test on their financial resources.

In addition, we provided further guidance to brokerages on margin lending policy and controls by way of a new set of Frequently Asked Questions (FAQs). The FAQs were prepared based on the findings of a special review of the securities margin financing business of 10 selected brokerages we conducted earlier this year with the assistance of an independent accounting firm.

Market standards advanced

A consultation paper on increasing short position transparency was released on 31 July. The consultation paper sought market views on various issues relating to the crafting of Hong Kong's short-position reporting regime. The consultation conclusion, to be released in due course, will put forth a proposed reporting model.

On 25 September we began a three-month consultation to solicit public comments on proposals to enhance the current regulatory regime for the sale of investments to the public. Designed to fine-tune existing regulations governing the sale of retail investment products, the proposals contained in the consultation paper cover each stage of the investment life cycle. The key proposals put forward were on pre-sale documentation, disclosure at the point of sale and after, selling practices, and post-sale cooling-off period. To arrive at the proposals for this consultation, we closely examined the regulatory regimes in major jurisdictions and informally consulted the industry.

The Task Force on Unregulated Financial Markets and Products of the International Organization of Securities Commissions (IOSCO), in which the SFC is a member, published a Final Report after market consultation. The Report focused on regulation of the securitisation and credit default swaps (CDS) markets, including recommendations on supporting information sharing and regulatory co-operation between IOSCO members and other supervisory bodies of CDS market.

Noting investor concerns

The total number of complaints recorded an increase of 17% compared with the last quarter. As of 30 September, we had received 8,863 Lehman Brothers-related complaints, 329 of which were received in the third quarter.

Analysis of complaints of market malpractices

Nature of complaints	For the quarter ended 30/09/2009	For the quarter ended 30/06/2009	For the quarter ended 30/09/2008
Conduct of licensed intermediaries and registered institutions	191	242	151
Listing-related matters and disclosure of interests	105	89	77
Market misconduct	86	81	72
Products	9	5	10
Other financial activities	89	88	74
Miscellaneous	4	5	5
Subtotal	484	510	389
Complaints related to Lehman Brothers	329	282	1,448
Total	813	792	1,837

Note: The figures reflect the number of complainants.

Development

Product and market development promoted

During the quarter, seven exchange-traded funds (ETFs), tracking the performance of different regional stocks and the US dollar money markets, were listed, bringing the total number of ETFs listed in Hong Kong to 37.

Following the exchange of the Side Letter to the Memorandum of Understanding with the Taiwan Financial Supervisory Commission in May, three Hong Kong ETFs were listed on the Taiwan Stock Exchange in August. Among these ETFs, W.I.S.E. CSI 300 China

Tracker raised more than \$1.64 billion in its public offering in September and ranked second in terms of average daily turnover in Taiwan's ETF market. The first Taiwan ETF, Polaris Taiwan Top 50, was also listed on The Stock Exchange of Hong Kong Ltd in August and has since been actively traded.

As at the end of September 2009, Hong Kong was the second-largest ETF market in Asia in terms of both turnover and aggregate market capitalisation.

There were a total of 2,645 authorised collective investment schemes as at 30 September, a decrease of around 8% compared with last year.

Number of authorised collective investment schemes

	As at 30/09/2009	As at 30/09/2008
Unit trusts and mutual funds	2,007	2,231
Investment-linked assurance schemes	235	237
Pooled retirement funds	35	36
MPF master trust schemes	37	36
MPF pooled investment funds	311 ¹	304
Others	20 ²	21
Total	2,645	2,865

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

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



Number of licensees and registrants

	As at 30/09/2009	As at 30/06/2009	Change in %	As at 30/09/2008	Change in %
Licensed Corporations	1,589	1,569	+1.2%	1,501	+5.8%
Registered Institutions	105	102	+2.9%	103	+1.9%
Individuals	34,515	34,952	-1.2%	35,505	-2.7%
Total	36,209	36,623	-1.1%	37,109	-2.4%

Process efficiency enhanced

Following a pilot run in August, the SFC On-line Portal was officially launched on 30 September, offering over 36,000 licensees, registrants and associated entities the option to electronically submit annual returns and notifications to the SFC. Using the portal, intermediaries may also view their profile information and receive messages from the SFC. As a second phase, the portal will be enhanced to facilitate on-line payments for annual fees and other charges commencing in the second quarter of 2010.

During the quarter, we received 3,063 new licence applications, up about 50% from the previous quarter. On the other hand, the total number of licensees and registrants dipped 2.4% to 36,209 from the same period a year ago.

We continued to receive and process licence applications from new dark pool service providers during the quarter. At the same time, to further increase our understanding of dark pool operations and help us formulate appropriate regulatory policies for these activities, we visited a number of dark pool service providers in Hong Kong and exchanged views on various areas, including their future development and their possible impact on Hong Kong's stock market.

Positioning Hong Kong as key financial partner of Mainland cities

In support of the positioning of Hong Kong in the Greater Pearl River Delta Region (PRD) under the "Framework for Pearl River Delta Region's Development and Reform Planning" released by the National Development and Reform Commission, we provided strategic input to the Government upon reviewing the study

reports on the Greater PRD-Hong Kong co-operations prepared by the Guangdong Finance Office.

Co-operation initiatives between Hong Kong and Guangdong were done through various means and channels during the quarter. For instance, we attended the "Exchange Forum on Hong Kong and PRD Implementation of PRD Development Plan" hosted by the Government alongside the Chief Executive and representatives from nine PRD cities. We further assisted the Government in its participation in the Hong Kong-Guangdong Co-operation Joint Conference 13th Working Meeting by considering Hong Kong's response to Guangdong's agenda.

To strengthen multilateral ties with Mainland cities, we met with Vice Mayor Tu Guangshao of Shanghai to exchange views on how to establish more extensive co-operation between the city and Hong Kong in the financial sector. We also participated in a financial services delegation led by the Government to meet with the Shanghai Municipal Government and regulatory authorities to explore co-operation opportunities.

At the request of the China Securities Regulatory Commission (CSRC), we held a sharing session with representatives from the CSRC and other Mainland regulators, during which we expressed our views on and shared our experience in listing and supervision of overseas companies.

We continued to liaise with Mainland authorities on initiatives under Supplement VI to the Closer Economic Partnership Agreement in support of measures for the securities sector.

Communication with industry continues

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, suitability obligations and the licensing-related functions of the newly-launched on-line portal. The meeting was well received and deemed constructive in enhancing regulatory co-operation within the financial industry.

We issued a circular to licensed corporations and registered institutions to clarify that business activities arising out of promotion and offering and sale of investment-linked assurance schemes (ILAS) will not trigger licensing obligations under the Securities and Futures Ordinance. Accordingly, insurers, corporate insurance brokers and insurance intermediaries who merely promote, offer or sell ILAS to the public are not required to be licensed by the SFC; nor will SFC licences be granted for merely carrying on such activities.

In July we published the Fund Management Activity Survey 2008. The SFC conducts an annual survey of fund management activities of licensed corporations, registered institutions and insurance companies in Hong Kong. The recently published findings showed that Hong Kong's combined fund management business amounted to \$5,850 billion at the end of 2008, representing a year-on-year decline of 39.3% against the backdrop of a significant downturn in the financial markets as a result of the credit crunch in 2008. However, the value of combined fund management business remained in an uptrend on a trailing three-year-average basis.

In September we released the latest issue of the Report of the Survey on Hedge Fund Activities of SFC-licensed Managers/Advisors. According to the report, the total number of hedge funds as at 31 March 2009 was nearly five times the level in 2004, the earliest year covered by the survey. The report also shows despite the fall sustained in financial markets during 2008, asset under management/advisory totalled US\$ 55.3 billion as at 31 March 2009, representing six times the level in 2004.

We published the 10th issue of the Takeovers Bulletin in September. Among other issues, the Bulletin reminded investors of the importance of early identification of Takeovers Code implications and consultation with the Executive as well as

an explanation on arrangements relating to offers affected by adverse weather conditions. It also carried two revised Practice Notes on treatment of profit forecasts and offers for convertible securities and warrants.

Education

During the quarter, we continued our mass-media and interactive activities so as to reach as large an audience as possible. These included a television series and some radio segments.

The "Know How to Invest Wisely" television series was launched in September. The campaign promotes the do's and don'ts of investing, covering topical issues such as the need for proper handling of discretionary accounts, the risks of leveraging, areas to note in takeovers, and investing in structured products and investment-linked assurance schemes. Full-length five-minute versions of the series broadcast on Cable TV featured dramatised situations as well as comments from market professionals. Abridged one-minute versions were also broadcast on Cable TV, Now Business News Channel and other media outlets while 20-second infomercials were screened on TVB Jade.

Our third Investment Story Competition attracted around 100 submissions from the public who shared investment experience in various financial products. From 15 September, winning entries were published in the Hong Kong Economic Journal every Tuesday until 28 October and broadcast as dramas in the weekly programme "Cross Trade" of Hong Kong Commercial Radio for a year.

We have been broadcasting a series of radio segments "Education Tips by Dr Wise" on Metro Radio since mid-September. Topics covered included investing in IPO stocks, features and risks of bonds, equity-linked instruments, leveraged investing, takeovers, fund investments and the SFC's regulatory regime. Key messages of the series were also carried on Metro Finance's website.



Bonds featured prominently in our investor education during the quarter. We devoted two Dr Wise columns to explain the features and risks of investing in bonds and bond funds. We also updated the products section of our InvestEd website to give investors a better understanding of renminbi bonds.

At a time when initial public offerings (IPOs) were being hotly pursued, Dr Wise warned against the misconception that IPO subscriptions were a “sure win” which received wide media coverage.

In light of a revival of retail interest in equity-linked products, short videos on risks of investing in structured products were aired on public buses in August. We continued to remind investors of the importance of asking the right questions through the use of posters at bus shelters and decorated public transport vehicles.

During the quarter, we collaborated with the Education Bureau and the Civil Service Bureau to host a number of seminars for around 1,400 secondary school teachers and retiring civil servants. We covered topics ranging from investors’ rights and responsibilities to scams and market misconducts, risks of investing and retirement planning.

In September, we started accreditable elementary courses on investing and financial planning for undergraduates of The University of Hong Kong as part of the elective curriculum. These courses were an extension of our existing on-going programmes for undergraduates at The Chinese University of Hong Kong and Lingnan University.

Organisational Matters

At 30 September we had 501 staff members, compared with 472 a year ago.

Total revenue for the quarter was \$462 million, down slightly from \$476 million a year ago and \$472 million in the previous quarter. Expenditure was \$177 million, 13% below our approved budget. This resulted in a surplus of \$285 million for the quarter, compared with \$312 million in the same quarter last year and \$295 million in the previous quarter. Our reserves stood at \$5.5 billion at 30 September.

The Government re-appointed Mr Eddy Fong as Chairman for another two-year term, effective from 20 October 2009. The Government also re-appointed three Executive Directors during the quarter. Mr Brian Ho, Executive Director of Corporate Finance and Mr Keith Lui, Executive Director of Supervision of Markets, were re-appointed for another three-year term effective from 28 August 2009. Mr Mark Steward, Executive Director of Enforcement, was re-appointed for another three-year term effective from 25 September 2009. The current term of appointment of Mr Paul Kennedy, the SFC's Chief Operating Officer, was extended for nine months to 15 July 2010.

The SFC welcomed the re-appointment of the Hon Chan Kam-lam and appointment of Mr Lawrence Lee Kam-hung by the Government as Non-Executive Directors for a term of two years, effective from 15 November 2009.

Consolidated statement of comprehensive income

For the three months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited and unreviewed Three months ended	
		30 September 2009 \$'000	30 September 2008 \$'000
Income			
Levies		382,473	357,627
Fees and charges		43,660	73,597
Investment income		35,313	42,530
Less : custody and advisory expenses		(555)	(508)
Investment income net of third party expenses		34,758	42,022
Recoveries from the Investor Compensation Fund		1,040	1,133
Other income		196	1,317
		462,127	475,696
Expenses			
Staff costs and directors' emoluments		133,474	122,315
Premises			
rent		14,506	14,599
other		5,920	5,450
Other expenses		16,577	15,453
Depreciation		6,668	5,350
		177,145	163,167
Surplus for the period		284,982	312,529

Consolidated statement of comprehensive income

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2009	30 September 2008
		\$'000	\$'000
Income			
Levies		769,613	765,122
Fees and charges		91,033	124,612
Investment income		70,850	83,957
Less : custody and advisory expenses		(1,083)	(982)
Investment income net of third party expenses		69,767	82,975
Recoveries from Investor Compensation Fund		2,048	2,212
Other income		2,119	1,723
		934,580	976,644
Expenses			
Staff costs and directors' emoluments	9	268,719	244,365
Premises			
rent		29,011	23,246
other		11,569	10,670
Other expenses		32,408	29,280
Depreciation		12,745	9,171
		354,452	316,732
Surplus for the period	3	580,128	659,912

The notes on pages 14 to 16 form part of the condensed consolidated financial statements.

Consolidated statement of financial position

At 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2009	At 31 March 2009
		\$'000	\$'000
Non-current assets			
Fixed assets		48,267	42,015
Held-to-maturity debt securities	4	3,353,049	3,588,538
		3,401,316	3,630,553
Current assets			
Held-to-maturity debt securities	4	1,427,853	858,870
Debtors, deposits and prepayments		205,089	181,908
Bank deposits		650,989	454,140
Cash at bank and in hand		3,251	2,264
		2,287,182	1,497,182
Current liabilities			
Fees received in advance		24,021	65,582
Creditors and accrued charges		97,250	70,704
		121,271	136,286
Net current assets			
		2,165,911	1,360,896
Total assets less current liabilities			
		5,567,227	4,991,449
Non-current liabilities			
	5	33,616	37,966
Net assets			
		5,533,611	4,953,483
Funding and reserves			
Initial funding by Government			
		42,840	42,840
Accumulated surplus			
	3	5,490,771	4,910,643
		5,533,611	4,953,483

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

The notes on pages 14 to 16 form part of the condensed consolidated financial statements.

Statement of financial position

At 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2009	At 31 March 2009
		\$'000	\$'000
Non-current assets			
Fixed assets		48,235	41,977
Held-to-maturity debt securities	4	3,353,049	3,588,538
		3,401,284	3,630,515
Current assets			
Held-to-maturity debt securities	4	1,427,853	858,870
Debtors, deposits and prepayments		204,929	181,734
Bank deposits		650,989	454,140
Cash at bank and in hand		2,553	1,784
		2,286,324	1,496,528
Current liabilities			
Fees received in advance		24,021	65,582
Creditors and accrued charges		96,360	70,012
		120,381	135,594
Net current assets			
		2,165,943	1,360,934
Total assets less current liabilities			
		5,567,227	4,991,449
Non-current liabilities			
	5	33,616	37,966
Net assets			
		5,533,611	4,953,483
Funding and reserves			
Initial funding by Government			
		42,840	42,840
Accumulated surplus			
	3	5,490,771	4,910,643
		5,533,611	4,953,483

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

The notes on pages 14 to 16 form part of the condensed consolidated financial statements.

Consolidated statement of cash flows

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2009	30 September 2008
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	580,128	659,912
Adjustments for:		
Depreciation	12,745	9,171
Investment income	(70,850)	(83,957)
Loss/(gain) on disposal of fixed assets	43	(59)
	522,066	585,067
(Increase)/decrease in debtors, deposits and prepayments	(33,227)	15,232
Increase in creditors and accrued charges	26,546	32,109
(Decrease)/increase in fees received in advance	(41,561)	5,177
Decrease in non-current liabilities	(4,350)	(4,532)
Net cash generated from operating activities	469,474	633,053
Cash flows from investing activities		
Interest received	104,902	81,537
Held-to-maturity debt securities bought	(688,766)	(1,222,245)
Held-to-maturity debt securities redeemed	331,266	493,822
Held-to-maturity debt securities sold	–	94,797
Fixed assets bought	(19,040)	(30,201)
Fixed assets sold	–	67
Net cash used in investing activities	(271,638)	(582,223)
Net increase in cash and cash equivalents	197,836	50,830
Cash and cash equivalents at beginning of the six-month period	456,404	88,337
Cash and cash equivalents at end of the six-month period	654,240	139,167

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2009	At 30 September 2008
	\$'000	\$'000
Bank deposits	650,989	134,975
Cash at bank and in hand	3,251	4,192
	654,240	139,167

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2009 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) in the SFC's condensed financial statements made up to 30 September 2009. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2009 to the interim financial report, except for the changes in presentation that are expected to be reflected in the 2009 annual financial statements. Details of these changes are set out in note 2.

There were no significant changes in the operation of the SFC for the six months ended 30 September 2009.

2. Changes in accounting policies

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

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

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

3. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the six months ended 30 September 2009 are as follows:

	Unaudited
	\$'000
Balance at 31 March 2009	4,910,643
Surplus for the period	580,128
Balance at 30 September 2009	5,490,771

4. Held-to-maturity debt securities

As of 30 September 2009, the total market value of held-to-maturity debt securities amounted to \$4,887,445,000 (31 March 2009: \$4,508,399,000), which was above the total carrying value of \$4,780,902,000 (31 March 2009: \$4,447,408,000).

5. Non-current liabilities

The Group and the SFC

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

6. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 September 2009. Therefore we do not provide an ageing analysis of debtors and creditors.

7. Exchange fluctuation

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

8. Investments in subsidiaries

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

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 30 September 2009, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 30 September 2009 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

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

9. Related party transactions

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

- (a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$2,048,000 (2008: \$2,212,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all directors) comprised :

	Unaudited six months ended	
	30 September 2009	30 September 2008
	\$'000	\$'000
Short-term employee benefits	15,480	14,695
Post employment benefits	1,341	1,032
	16,821	15,727

The total remuneration is included in "staff costs and directors' emoluments" on page 10. Discretionary pay is not included above as the decision to pay is not determinable at this point in time.

- (c) Included in creditors and accrued charges is an amount due to the Investor Compensation Fund amounting to \$509,000 (2008 comparative period: \$554,000).

Independent review report to the board of directors of the Securities and Futures Commission (the SFC)

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

Introduction

We have been instructed to review the interim financial report set out on pages 10 to 16 which comprises the consolidated and the SFC's statements of financial position as of 30 September 2009 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

1 December 2009

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 2009.

1. Establishment of the Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Fund on 1 April 2003.

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 19 to 24.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 2009 and up to the date of this report were :-

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

4. Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman

1 December 2009

Statement of comprehensive income

For the three months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 September 2009 \$'000	30 September 2008 \$'000
Income		
Net investment income/(loss)	51,996	(23,863)
Exchange difference	9	(3,175)
	52,005	(27,038)
Expenses		
Investor Compensation Company expenses	1,040	1,133
Compensation expenses	-	805
Auditor's remuneration	22	21
Bank charges	191	194
Professional fees	743	737
	1,996	2,890
Surplus/(deficit) for the period	50,009	(29,928)
Accumulated surplus brought forward	761,396	735,790
Accumulated surplus carried forward	811,405	705,862

Investor Compensation Fund

Statement of comprehensive income

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2009 \$'000	30 September 2008 \$'000
Income			
Net investment income / (loss)		103,594	(44,304)
Exchange difference		(39)	(1,319)
		103,555	(45,623)
Expenses			
Investor Compensation Company expenses	3	2,049	2,212
Compensation expenses	4	162	532
Auditor's remuneration		43	42
Bank charges		392	395
Professional fees		1,468	1,518
Sundry expenses		-	1
		4,114	4,700
Surplus/(deficit) for the period		99,441	(50,323)
Accumulated surplus brought forward		711,964	756,185
Accumulated surplus carried forward		811,405	705,862

The notes on pages 23 and 24 form part of the condensed financial statements.

Statement of financial position

At 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2009 \$'000	Audited At 31 March 2009 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities		1,636,097	1,554,614
– Equity securities		167,168	113,112
Interest receivable		16,909	20,253
Due from Investor Compensation Company		509	477
Fixed and call deposits with banks		30,563	116,037
Cash at bank		70,808	20,074
		1,922,054	1,824,567
Current liabilities			
Provision for compensation	4	6,120	8,032
Accounts payable and accrued charges		888	801
Fair value adjustment on unsettled trades		-	129
		7,008	8,962
		1,915,046	1,815,605
Net current assets			
		1,915,046	1,815,605
Net assets			
Representing:			
<u>Compensation fund</u>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		811,405	711,964
		1,915,046	1,815,605

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

The notes on pages 23 and 24 form part of the condensed financial statements.

Investor Compensation Fund

Statement of cash flows

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2009	30 September 2008
	\$'000	\$'000
Cash flows from operating activities		
Surplus/(deficit) for the period	99,441	(50,323)
Net investment (income)/loss	(103,594)	44,304
Exchange difference	39	1,319
Increase in amount due from Investor Compensation Company	(32)	(18)
Decrease in unsettled regular purchase of financial assets	-	46,987
Decrease in provision for compensation	(1,912)	(12,530)
Increase/(decrease) in accounts payable and accrued charges	87	(44)
Net cash (used in)/generated from operating activities	(5,971)	29,695
Cash flows from investing activities		
Purchase of debt securities	(924,024)	(797,402)
Sale or maturity of debt securities	862,039	687,573
Sale of equity securities	311	507
Interest received	32,905	35,914
Net cash used in investing activities	(28,769)	(73,408)
Net decrease in cash and cash equivalents	(34,740)	(43,713)
Cash and cash equivalents at beginning of the six-month period	136,111	109,700
Cash and cash equivalents at end of the six-month period	101,371	65,987

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2009	At 30 September 2008
	\$'000	\$'000
Cash at bank	70,808	714
Fixed and call deposits with banks	30,563	65,273
	101,371	65,987

Notes to the condensed financial statements

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2009 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2009 to the interim financial report, except for the changes in presentation that are expected to be reflected in the 2009 annual financial statements. Details of these changes are set out in note 2.

2. Changes in accounting policies

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

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

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

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

3. Investor Compensation Company expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the six months ended 30 September 2009, ICC incurred \$2,049,000 for its operation (For the six months ended 30 September 2008 : \$2,212,000).

4. Provision for compensation

	\$'000
Balance as at 1 April 2008	22,978
Add: provision made during the year ended 31 March 2009	4,679
Less: provision reversed during the year ended 31 March 2009	(3,685)
Less: compensation paid during the year ended 31 March 2009	(15,940)
Balance as at 31 March 2009	8,032
Add: provision made during the six months ended 30 September 2009	162
Less: compensation paid during the six months ended 30 September 2009	(2,074)
Balance as at 30 September 2009	6,120

We maintained provision for liabilities arising from claims received resulting from three default cases for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for these cases is set at the lower of \$150,000 per claimant or the amount claimed. As at 30 September 2009, all provisions were expected to be paid within one year.

5. Related party transactions

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

6. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 4, 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 \$443,000 (31 March 2009: \$450,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

In September 2008, following the Lehman Brothers group's default, the SFC approved the issue of restriction notices on four entities of Lehman Brothers in Hong Kong to preserve the assets of the companies and their clients, and to protect the interests of these clients and the investing public. At the date of this report, the assessment of whether and to which extent an obligation of the Fund exists under the SFO in respect of such default, if any, has not been completed, and therefore it is not practical to estimate any financial effect at this stage. No claims in respect of the Lehman Brothers' companies in Hong Kong have been received up to the date of this report.

Independent review report to the board of directors of the Securities and Futures Commission (the SFC)

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

Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 20 to 24 which comprises the statement of financial position of the Investor Compensation Fund (the Fund) as of 30 September 2009 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

1 December 2009

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 2009.

1. Establishment of the Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Fund. However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect on 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After reserving sufficient money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 27 to 33.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 2009 and up to the date of this report were :-

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

4. Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman

20 November 2009

Statement of comprehensive income

For the three months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 September 2009	30 September 2008
	\$'000	\$'000
Income		
Interest income	29	298
Recoveries	(10)	(162)
	19	136
Expenses		
Auditor's remuneration	10	9
Professional expenses	13	13
	23	22
(Deficit)/surplus for the period	(4)	114
Accumulated surplus brought forward	15,327	14,111
Accumulated surplus carried forward	15,323	14,225

Unified Exchange Compensation Fund

Statement of comprehensive income

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2009	30 September 2008
		\$'000	\$'000
Income			
Interest income		116	537
Recoveries	3	136	(190)
		252	347
Expenses			
Auditor's remuneration		19	18
Professional expenses		13	13
Sundry expenses		-	1
		32	32
Surplus for the period		220	315
Accumulated surplus brought forward		15,103	13,910
Accumulated surplus carried forward		15,323	14,225

The notes on pages 32 and 33 form part of the condensed financial statements.

Statement of financial position

At 30 September 2009
(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2009	At 31 March 2009
		\$'000	\$'000
Current assets			
Equity securities received under subrogation	3 & 6	430	307
Interest receivable		6	44
Fixed and call deposits with banks		67,924	67,270
Cash at bank		368	334
		68,728	67,955
Current liabilities			
Accounts payable and accrued charges	7	10,284	10,281
Net current assets			
		58,444	57,674
Net assets			
		58,444	57,674
Representing:			
<u>Compensation fund</u>			
Contributions from the SEHK	4	47,550	47,000
Excess transaction levy from the SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from the SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		15,323	15,103
		1,053,162	1,052,392
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		58,444	57,674

The notes on pages 32 and 33 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2009	30 September 2008
	\$'000	\$'000
Compensation fund balance as at 1 April	57,674	56,031
Net contributions from the SEHK	550	350
Surplus for the period	220	315
Compensation fund balance as at 30 September	58,444	56,696

The notes on pages 32 and 33 form part of the condensed financial statements.

Statement of cash flows

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2009	30 September 2008
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	220	315
Interest income	(116)	(537)
(Decrease)/increase in equity securities received under subrogation	(123)	195
Increase in accounts payable and accrued charges	3	6,645
Net cash (used in)/generated from operating activities	(16)	6,618
Cash flows from investing activities		
Interest received	154	497
Net cash generated from investing activities	154	497
Cash flows from financing activities		
Contributions from the SEHK	550	350
Net cash generated from financing activities	550	350
Net increase in cash and cash equivalents	688	7,465
Cash and cash equivalents at beginning of the six-month period	67,604	59,596
Cash and cash equivalents at end of the six-month period	68,292	67,061

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2009	At 30 September 2008
	\$'000	\$'000
Cash at bank	368	1,000
Fixed and call deposits with banks	67,924	66,061
	68,292	67,061

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2009
(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2009 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2009 to the interim financial report, except for the changes in presentation that are expected to be reflected in the 2009 annual financial statements. Details of these changes are set out in note 2.

There were no significant changes in the operation of the Fund for the six months ended 30 September 2009.

2. Changes in accounting policies

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

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

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

3. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 September 2009 after deducting relevant processing fees and charges for collecting and selling the securities received.

4. Contributions from the SEHK

During the six months, deposits of \$900,000 in respect of eighteen new trading rights were received from the SEHK.

The SEHK also advised the SFC of seventeen trading rights in total having been relinquished since September 2008. The SFC had refunded to the SEHK the deposit of \$350,000 in respect of seven of these seventeen trading rights during the six months ended 30 September 2009. The SFC shall refund to the SEHK the deposit of \$500,000 in respect of the remaining ten trading rights at the end of a six-month period after the relinquishment took effect.

5. Related party transactions

The Fund has related party relationships with the ICF, the SFC and the SEHK. During the six months, there were no significant related party transactions other than those disclosed in the financial statements.

6. Contingent liabilities

As at the date of this report, there 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 3). As at 30 September 2009, shares with a market value \$430,000, which are listed on the SEHK, remained unsold. Any excess of recovered amounts (if any) after disposal of these remaining shares will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

7. Accounts payable and accrued charges

Accounts payable and accrued charges include liabilities for compensation payments re-established of \$10,253,000 as at 30 September 2009 (\$10,242,000 as at 31 March 2009). These amounts are determined based on cashier's orders expired and corresponding bank debit notes.

Unified Exchange Compensation Fund

Independent review report to the board of directors of the Securities and Futures Commission (the SFC)

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

Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 28 to 33 which comprises the statement of financial position of the Unified Exchange Compensation Fund (the Fund) as of 30 September 2009 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

20 November 2009