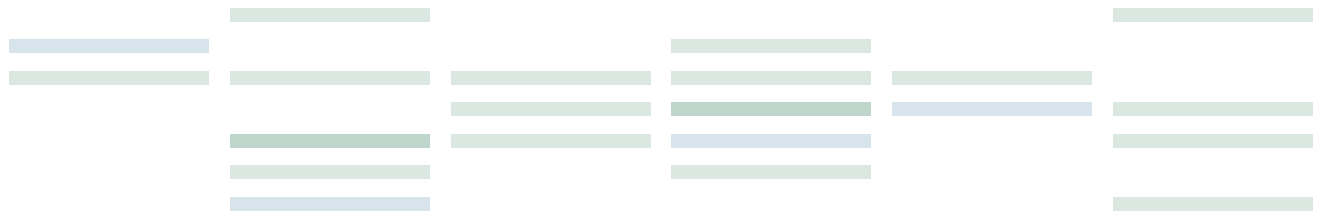


Informed Investors Quality Markets

This third Quarterly Report of the Securities and Futures Commission for financial year 2008-09 covers the period from 1 October to 31 December. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

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Office

8th Floor, Chater House,
8 Connaught Road Central, Hong Kong
Tel : (852) 2840 9222
Fax : (852) 2521 7836
Website : www.sfc.hk
InvestEd Website : www.InvestEd.hk

Chief Executive Officer's Message

Our efforts to combat misconduct and enhance integrity of the market have continued with further progress being made in tackling breaches. During the quarter, we obtained the second disqualification order for negligence of management duties to disqualify a former director of a delisted company from being a company director or being involved in the management of any company, for five years without court approval.

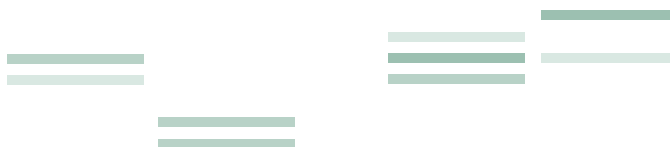
At the end of the quarter, we submitted a report to the Financial Secretary with proposals on how Hong Kong can improve its regulatory framework and enhance investor protection, following the collapse of Lehman Brothers.

While our investigations into alleged mis-selling of the Lehman Brothers Minibonds are continuing, we recently announced the conclusion of an investigation into a licensed brokerage for its practices in the sale of Minibonds. In addition to accepting a public reprimand, the brokerage agreed to repurchase, at their original value, all the Minibonds they had sold to eligible clients. The brokerage will also have its licence suspended should an independent audit, within a fixed period of time, indicate that the matters of concern to us have not been properly rectified. We believe that the approach adopted has produced a result that is in the best interest of investors. This outcome has also produced a good regulatory result and allowed the brokerage to put this matter behind it in a way that is in the best interest of its customers and business.

With investor education, we continued to use both mass media and interactive approaches to raise investors' awareness of investment risks. Following the findings of our latest retail investor survey, we have focussed our messages on reminding investors to consider the most basic factors and to "ask first" before investing.

Separately, to assist the development of exchange-traded funds in Hong Kong, we have exempted listed open-ended collective investment schemes, organised in corporate form, from disclosure of interests requirements.

An overview of our major initiatives in the third quarter is set out in more detail in this report.



Martin Wheatley

Chief Executive Officer

Operational Review

Regulation

Acting against misconduct

We continued to combat misconduct and enhance integrity of the market through our enforcement actions.

During the quarter we commenced our fifth insider dealing prosecution under the Securities and Futures Ordinance. Separately, the Eastern Magistracy granted applications by the Department of Justice to have our fourth insider dealing prosecution and a market manipulation case transferred to the District Court.

The SFC has obtained a second disqualification order for negligence of management duties. In November, we obtained an order from the High Court to disqualify a former director of a delisted company from being a company director or being involved in the management of any company for five years without court approval. The action followed an SFC investigation which found that the director had acted with gross incompetence by providing misleading information to the market and abdicating responsibility as director of a listed company. We will continue to take action against directors who breach the trust given to them by shareholders. In the same proceedings, the SFC sought disqualification orders against four other former directors of the company and the hearing dates for these applications are to be scheduled.

We have also successfully defended the use of our investigation powers. The Court of Appeal dismissed an individual's application for leave to appeal in a case concerning our decision to require him to answer questions in an investigation. The dismissal of proceedings confirmed the use of our investigation powers, which are important tools to help us protect the interests of the investing public and Hong Kong's securities and futures markets.

The Securities and Futures Appeals Tribunal (SFAT) upheld four SFC decisions. In one case, the SFAT upheld our decisions to fine two individuals for lapses in duty when acting as a sponsor of a listing applicant. They were fined \$200,000 and \$40,000 respectively. In another case, the SFAT backed our decisions to publicly reprimand and fine a licensed corporation and a person involved in its management for failing to safeguard client assets of more than \$30 million. They were fined \$750,000 and \$350,000 respectively. Both the corporation and the individual have lodged appeals against the decisions in the Court of Appeal.

We successfully prosecuted one individual for market manipulation, another individual for cold calling and deceiving a leveraged foreign exchange investor and a corporation for breaches for disclosure of interests. The fines for the three

cases totalled \$74,000.

During the quarter, we took disciplinary action against eight individuals for various breaches. The penalties included bans from re-entering the industry, public reprimands and fines.

Monitoring the market

Following the significant price fluctuations during the Closing Auction Session (CAS) on 30 May, the SFC and Hong Kong Exchanges and Clearing Ltd (HKEx) have been closely monitoring activities during CASs, especially when rebalancing events occur. Also, prior to rebalancing events, we issued joint press releases with HKEx to remind the investing public of potential stock price volatility during the CAS. On 28 November, HKEx issued a public consultation paper seeking public comment on restricting stock price movements during the session. We will continue to liaise with HKEx with a view to enhancing the arrangement.

Maintaining market standards

As volatility increased following the collapse of Lehman Brothers Holdings Inc (Lehman Brothers) last year, many markets around the world made significant changes to their rules on short selling. In particular, some regulators banned "naked" short selling (a practice that has been prohibited in Hong Kong since short selling was first introduced) or suspended short selling for certain stocks. In view of the different approaches to short-selling restrictions in different jurisdictions, an emerging view that these restrictions were not wholly effective and the significant compliance burden they created, a task force of the International Organisation of Securities Commissions has been established to examine this issue. This international task force, chaired by the SFC's Chief Executive Officer, will develop principles for regulation of short selling, with a focus on establishing a common international approach.

On 30 December, we issued a circular to inform the industry of a phased approach to implementing revised advertising guidelines for marketing materials of SFC-authorized collective investment schemes (CIS). The guidelines were revised to enhance disclosures in CIS marketing materials, codify regulatory practices and facilitate post-vetting of marketing materials. All new marketing materials were required to comply from 1 January 2009. In view of the practical difficulties faced by the industry in updating existing marketing materials, we have adopted administrative measures to allow a grace period until 31 March 2009. Issuers who continue to have difficulties may approach the SFC for discussions in accordance with procedures set out in the circular. In the meantime, we maintain active surveillance of marketing materials to ensure compliance with the revised approach and

that investors' interests are safeguarded.

Our supervisory and inspection teams identified a number of regulatory breaches and control deficiencies among brokers and these were brought to the attention of the industry and accountancy bodies, through circular and seminars. We have stressed that the SFC will not tolerate such breaches and deficiencies and that brokers should put in place proper systems and controls to ensure full compliance with applicable regulatory requirements. Separately, we issued a circular to remind intermediaries of the need to maintain good practices in supervision and risk management, with particular reference to senior management responsibilities, trading controls and red-flag transactions reporting.

During the quarter, we approved Listing Rules amendments proposed by The Stock Exchange of Hong Kong Ltd in relation to 15 substantive policy issues. These Listing Rules amendments came into effect on 1 January 2009, with the exception of amendments to extend the black-out period restricting directors from trading in shares of listed companies of which they are directors. In light of market comments, the implementation of the extension was postponed until 1 April 2009 and the listing committee has also proposed a reduction of the black-out period to accommodate market concerns.

The Takeovers Panel met on 23 October to consider whether the trigger and creeper provisions in the Takeovers Code should be temporarily relaxed in light of current market conditions. The Panel was opposed to any relaxation of the provision of the relevant rules and the reasons for its recommendation are set out in a statement issued by the Executive on 29 October. The Panel met again on 29 October to consider whether additional safeguards should be introduced in connection with financial advisers' confirmation of sufficiency of financial resources in Code transactions. The Panel's recommendation on possible additional safeguards is set out in the seventh Takeovers Bulletin issued on 29 December.

Managing the Lehman Brothers crisis

Regulation of the industry

Following the collapse of Lehman Brothers in September, we met with or notified in writing unlisted retail structured notes issuers to remind them of the importance of the following:

- exercising their duty more diligently within the current regulatory framework to disclose risks and to explain their products;
- notifying distributors of information that may materially affect their ability to perform their obligations under the notes; and
- taking a more proactive role in addressing investors' concern such as the need to issue "frequently asked questions" to explain to investors the impact of Lehman Brothers' collapse on their investments.

Separately, we issued a circular to issuers of retail investment products on 3 October to remind them of their duty to ensure they keep their offering documents up-to-date and with sufficient information for investors to make an informed decision. The circular also reminded issuers to ensure that their marketing materials are clear, fair and that they present a balanced picture with adequate and prominent risk disclosure, in compliance with all applicable regulations.

On 31 December, we submitted a report at the request of the Financial Secretary to propose how Hong Kong can improve its regulatory framework and enhance investor protection and education, following events triggered by the collapse of Lehman Brothers. Set against the context of the current regulatory framework, the report identifies some specific regulatory issues relevant to the sale of financial products in Hong Kong, including Minibonds and other structured products. It also recommends reassessing the adequacy of the current regulatory framework in dealing with today's sophisticated markets and institutions and suggests some areas for consideration by the Financial Secretary.

Investigation into alleged mis-selling of Minibonds

The investigation of Minibond complaints has been the SFC's highest priority since September of last year and considerable resources have been devoted to this task.

During the quarter we explained the 'top down' approach to our investigations, to both public and private audiences, on many occasions. Our objective is to deal efficiently and effectively with the many complaints that have been lodged with ourselves and the Hong Kong Monetary Authority (HKMA). Given the vast number of complaints that have been lodged – over 27,000, we do not believe that the separate investigation of individual complaints, at this stage, is the best way forward. Furthermore, the large numbers of complaints are suggestive of problems, which may be common for the vast majority of the complainants, and our investigatory approach must take this into account.

In January, we were pleased to announce the conclusion of our first investigation into the sale of Minibonds. This has resulted in an agreement with a brokerage to fully compensate eligible Minibond investors with their purchase cost. In considering the outcome achieved, it is important to recognise that we have no statutory power to order the payment of compensation, regardless of the results of our investigation. This agreement was therefore negotiated. The negotiation has allowed investors to be repaid and it has also allowed the brokerage to put this matter behind it in a way that is best for its customers and business. Furthermore, from a regulatory perspective, we have issued a public reprimand, highlighted our areas of concern and also ensured that future investors are protected from similar risks. This is achieved by agreeing that the brokerage will rectify the matters of concern and that their licence will be withdrawn if similar issues are identified by an independent audit within a specific period.

We believe that this approach works because it provides a triple-win formula for all parties.

Our investigations into alleged mis-selling of Minibonds by more than 20 other distributors are continuing as fast as possible. We are sensitive to public expectations that we keep them advised of progress. However, it is also in the best interest of Minibond investors that we do not risk prejudicing the integrity of our investigation by making public comments about our ongoing work. It is extremely important to ensure that we conduct our work fairly and in accordance with established legal principles, or else we could be subject to legal challenge.

For this reason we have withheld certain information in our report to the Financial Secretary and are also not able to give detailed reports about the stage of our investigation into the various distributors of Lehman Brothers Minibonds. We hope that investors and the public will appreciate why we adopt this approach and allow us to concentrate on completing further investigations as quickly as possible. On completing our investigations, we will publish a final version of our summary findings.

Communicating with investors

In response to investors concerns regarding their Lehman Brothers-related investments, we met with investor representatives and legislators a number of times during the quarter. Written responses on specific issues were given to the Legislative Council as well as a number of individual legislators. A list of unlisted retail structured products was also made available on our InvestEd website, for investors' easy reference.

Complaints received

We continued to receive a large number of complaints related to Lehman Brothers. From the onset of the Lehman Brothers incident through 31 December, we received 8,419 complaints of which 6,908 complaints were made in the quarter. We referred 7,694 of these complaints to HKMA.

Development

Promoting product development

The Hong Kong Futures Exchange launched its gold futures contract on 20 October subsequent to our approval in June. A turnover of 480 contracts was recorded on the first day of trading and now averages 60 contracts per day.

We amended a set of guidelines to exempt those open-ended CIS offered to the public and listed locally as corporations, from disclosure of interests under Part XV of the Securities and Futures Ordinance. Most exchange-traded funds (ETFs) listed in Hong Kong are in trust form and are not subject to the disclosure requirements. Given that both trust-form ETFs and corporate-form ETFs are open-ended, it was appropriate that both should have the same disclosure treatment. We believe that the exemption, which came into effect on 31 October, will assist the development of Hong Kong's ETF market and bring Hong Kong's regulatory requirements in line with international standards and practices.

In November, representatives of the SFC joined delegates from the Office of the Secretary of Financial Services and the Treasury on a visit to financial regulators and market players in Dubai. The purpose of the visit was to exchange information and views on the development of Islamic finance in Hong Kong and globally. We also participated in the Hong Kong Islamic Finance Forum organised by *Euromoney* and spoke on the development and growth opportunities of the Islamic finance industry and Hong Kong's role as a gateway for Islamic finance in Mainland China.

During the quarter, we received 2,143 new licence applications, 41% fewer than in the last quarter. The number of licensees and registrants stood at 37,345 as at 31 December, up 0.6% from the previous quarter and 12.2% more than the same period a year ago.

Cooperation with the Mainland

On 20 November we held a training workshop in Hong Kong, for chief financial officers of 25 state-owned enterprises, on the impact of globalisation and the development of the city's

Statistics of public complaints

Nature of complaints	Q4 2008	Q3 2008	Q4 2007
Conduct of licensed intermediaries and registered institutions	7,062	1,581	102
Listing related matters & disclosure of interests	67	69	106
Market misconduct	77	64	62
Products	7	12	8
Other financial activities	67	66	60
Miscellaneous	7	9	3
Total	7,287¹	1,801 ¹	341

¹ The surge in the number of complaints was due to the influx of complaints, from mid-September 2008, related to the collapse of Lehman Brothers.

financial regulatory system. This workshop was initiated by the State-owned Assets Supervision and Administration Commission of the State Council and organised by PriceWaterhouseCoopers, and aimed to enhance the skills and knowledge of state-owned enterprises in managing risks from an international perspective.

The Vice Chairman of the China Securities Regulatory Commission (CSRC), Mr Yao Gang, visited the SFC on 18 December. We hosted a welcome reception for Mr Yao at which he met over 60 senior representatives from the Hong Kong financial industry. During his visit, Mr Yao stressed the importance of strengthening cooperation between securities markets on the Mainland and in Hong Kong and that the CSRC would actively support the measures and policies Hong Kong adopts towards this end. Mr Yao also reiterated that the CSRC would continue to lend support to qualified Mainland enterprises considering a Hong Kong listing and to Mainland securities and futures institutions seeking to set up branches in the territory.

Communication with the industry

In October we published a report on the local trends and patterns of short selling and recent developments in overseas short-selling regulations. Separately, we have provided weekly updates to the market on short-selling activities.

The October issue of the Enforcement Reporter highlighted

the issue of mis-selling. The Reporter also noted the commencement of proceedings in the High Court with three cases seeking orders against a number of current and former company directors for alleged misconduct. It also gave an account of further progress in combating insider dealing.

The seventh issue of the Takeovers Bulletin was published in December. In addition to the Takeovers Panel's recommendations mentioned in the Regulation section of this report, the Bulletin also included a reminder to market participants of the importance of bringing Code issues to the Executive's attention at the earliest opportunity. It also contained two revised Practice Notes on partial offers and the meaning of "reporting on in accordance with Rule 10 of the Takeovers Code".

Education

We continued to make use of a combination of mass-media and interactive approaches in our investor education initiatives to maximise their effectiveness and to reach as wide an audience as possible.

Our second Investment Triathlon, a cross-media financial knowledge competition illustrating the risks of financial instruments, kicked off in October with quizzes in the Hong Kong Economic Times. Semi-finalists then competed in the second round in the "Investment Era" programme of Radio

Number of authorised collective investment schemes as at 31 December 2008

	31 December 2008	30 September 2008	31 December 2007
Unit trusts and mutual funds	2,218	2,231	2,040
Investment-linked assurance schemes	235	237	221
Pooled retirement funds	36	36	36
MPF master trust / industry schemes	36	36	36
MPF pooled investment funds	305¹	304	285
Real estate investment trusts	7	7	7
Other schemes	136²	136	145
Total	2,973	2,987	2,770

¹ Included in this category (30 Sept 2008: 136; 31 Dec 2007: 128) are 137 funds that are offered both as retail unit trusts and pooled investment funds for Mandatory Provident Fund purposes.

² These include 122 investment-linked products and 14 paper gold schemes.

Number of Licensees and Registrants as at 31 December 2008

	As at 31 December 2008	As at 30 September 2008	Change in %	As at 31 December 2007	Change in %
Licensed Corporations	1,547	1,501	+3.1	1,416	+9.3
Registered Institutions	102	103	-1.0	99	+3.0
Individuals	35,696	35,505	+0.5	31,759	+12.4
Total	37,345	37,109	+0.6	33,274	+12.2

Television Hong Kong between November and December. The grand finale was broadcast on Cable TV in January 2009. The event drew over 560 entries from the public.

Earlier in 2008 we conducted a comprehensive assessment of retail investors individuals' investment knowledge and attitude to help prioritise our educational efforts more efficiently. The survey findings, which were published in December, revealed that most respondents knew little about at least one of the products they had invested in and many had unrealistic expectations about risks and returns. As an immediate response to the finding that many investors are still not aware of the fundamentals of investing, we produced a "Five Elements" calendar card to remind investors to ask the basic but critical questions before making investment decisions. Our Investor Education approach for 2009 will also focus on the fundamentals.

From November 2008 to February 2009, we ran 15 episodes of an interview programme entitled "Special Investor Education TV Programmes" on now Business News Channel. In the programme, representatives from the SFC, HKEx, academia and the securities industry explained a broad spectrum of topical issues ranging from financial markets to risks associated with various investment products, as well as ways to select investment funds and brokerages.

Also in November, we launched a 12-week radio programme, on Metro Finance Radio and Metro Information Channel, to offer Dr Wise's advice on better understanding risks and investment issues. Through his column, Dr Wise continued to advise investors to consider risk and return on a relative rather than absolute basis, and warned that even well-educated and experienced professionals can become victims of investment scams. His column also reminded investors about the various terms of preference shares.

A total of 21 talks, seminars and university courses were organised for around 3,000 attendees during the quarter.

We continued to handle enquiries from retail investors on a range of topics, foremost of which related to Lehman Brothers. In the third quarter, we received 3,628 enquiries, compared with 1,653 in the same period a year ago.

Organisational Matters

We had 475 staff members as at 31 December, compared with 434 a year ago.

Total revenue for the quarter was \$389 million, compared with \$851 million in the same period last year and \$476 million in the previous quarter. Expenditure was \$172 million, 17% below our approved budget. This resulted in a surplus of \$217 million for the quarter, compared with \$710 million a year ago and \$312 million in the previous quarter. Our reserves stood at \$4.8 billion at the end of December.

We welcomed the re-appointment by the Financial Secretary of Mr Kenneth Kwok, Professor Liu Pak-wai and Mr Shengman Zhang as Non-Executive Directors for a term of two years with effect from 1 January 2009 to 31 December 2010.

Following our announcement of formal investigation into the affairs of Citic Pacific Ltd in October, The Honourable Henry H L Fan has requested a leave of absence as Chairman and member of the Takeovers and Mergers Panel, member of the Takeovers Appeal Committee and ex-officio member of the Nominations Committee, to avoid any perception of conflict or potential conflict of interest. The duties of the Chairman were immediately taken up by Mr Stephen Clark, a Deputy Chairman of the Panel, until further notice.

Securities and Futures Commission

Consolidated income and expenditure account

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2008	31 December 2007	31 December 2008	31 December 2007
		\$'000	\$'000	\$'000	\$'000
Income					
Levies		1,058,464	1,611,960	293,342	732,792
Fees and charges		176,297	229,669	51,685	79,993
Investment income		126,486	89,901	42,529	36,803
Less: custody and advisory expenses		(1,470)	(945)	(488)	(372)
Investment income net of third party expenses		125,016	88,956	42,041	36,431
Recoveries from the Investor Compensation Fund		3,273	2,839	1,062	914
Other income		2,850	3,152	1,129	1,103
		1,365,900	1,936,576	389,259	851,233
Expenses					
Staff costs and directors' emoluments	8	371,859	330,349	127,824	109,937
Premises					
rent		37,752	15,938	14,506	5,352
other		16,111	12,557	5,443	4,229
Other expenses		46,259	38,904	16,980	18,463
Depreciation		16,477	8,736	7,306	3,359
		488,458	406,484	172,059	141,340
Surplus	2	877,442	1,530,092	217,200	709,893

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

Securities and Futures Commission

Consolidated balance sheet

At 31 December 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2008	At 31 March 2008
		\$'000	\$'000
Non-current assets			
Fixed assets		40,552	15,749
Held-to-maturity debt securities	3	2,850,568	2,123,610
		2,891,120	2,139,359
Current assets			
Held-to-maturity debt securities	3	1,310,326	1,646,043
Bank deposits		650,694	85,612
Debtors, deposits and prepayments		174,320	225,211
Cash at bank and in hand		4,381	2,725
		2,139,721	1,959,591
Current liabilities			
Fees received in advance		64,299	57,185
Creditors and accrued charges		107,667	53,533
		171,966	110,718
Net current assets		1,967,755	1,848,873
Total assets less current liabilities		4,858,875	3,988,232
Non-current liabilities		40,232	47,031
Net assets		4,818,643	3,941,201
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		4,775,803	3,898,361
		4,818,643	3,941,201

Securities and Futures Commission

Balance sheet

At 31 December 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2008	At 31 March 2008
		\$'000	\$'000
Non-current assets			
Fixed assets		40,513	15,737
Held-to-maturity debt securities	3	2,850,568	2,123,610
		2,891,081	2,139,347
Current assets			
Held-to-maturity debt securities	3	1,310,326	1,646,043
Bank deposits		650,694	85,612
Debtors, deposits and prepayments		174,006	225,016
Cash at bank and in hand		3,849	2,334
		2,138,875	1,959,005
Current liabilities			
Fees received in advance		64,299	57,185
Creditors and accrued charges		106,782	52,935
		171,081	110,120
Net current assets		1,967,794	1,848,885
Total assets less current liabilities		4,858,875	3,988,232
Non-current liabilities	4	40,232	47,031
Net assets		4,818,643	3,941,201
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus	2	4,775,803	3,898,361
		4,818,643	3,941,201

Securities and Futures Commission

Consolidated cash flow statement

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2008	31 December 2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the period	877,442	1,530,092
Adjustments for :		
Depreciation	16,477	8,736
Investment income	(126,486)	(88,956)
Interest received	126,932	53,989
Gain on sale of fixed assets	(59)	(1)
	894,306	1,503,860
Decrease / (increase) in debtors, deposits and prepayments	65,825	(77,973)
Increase in creditors and accrued charges	54,134	39,679
Increase in fees received in advance	7,114	4,810
Decrease in non-current liabilities	(6,799)	(7,817)
Net cash generated from operating activities	1,014,580	1,462,559
Cash flows from investing activities		
Held-to-maturity debt securities bought	(1,449,440)	(1,866,599)
Held-to-maturity debt securities redeemed	948,022	427,041
Held-to-maturity debt securities sold	94,797	-
Fixed assets bought	(41,228)	(7,149)
Fixed assets sold	67	1
Net cash used in investing activities	(447,842)	(1,446,706)
Net increase in cash and cash equivalents	566,738	15,853
Cash and cash equivalents at beginning of the nine months period	88,337	57,151
Cash and cash equivalents at end of the nine months period	655,075	73,004
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 31 December 2008	At 31 December 2007
	\$'000	\$'000
Bank deposits	650,694	70,272
Cash at bank and in hand	4,381	2,732
	655,075	73,004

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2008 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 Investor Compensation Company Limited (ICC) in the SFC's condensed financial statements made up to 31 December 2008. 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 2008 to the interim financial report.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2008.

There are no new standards or interpretations issued by the IASB with effect on or after 31 March 2008 which would apply to these condensed financial statements.

2. Accumulated surplus

The Group and the SFC

Movements of accumulated surplus during the nine months ended 31 December 2008 are as follows:

	Unaudited \$'000
Balance at 31 March 2008	3,898,361
Surplus	877,442
Balance at 31 December 2008	4,775,803

3. Held-to-maturity debt securities

As of 31 December 2008, the total market value of held-to-maturity debt securities amounted to \$4,243,359,000 (31 March 2008 : \$3,854,146,000), which was above the total carrying cost of \$4,160,894,000 (31 March 2008 : \$3,769,653,000).

4. 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 income and expenditure account on a straight line basis over the lease period from 2004 to 2013 as an integral part of the lease expense.

Securities and Futures Commission

5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 31 December 2008. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange fluctuation

All our balance sheet items are denominated in either United States dollars or Hong Kong dollars, and, as a result, we are not exposed to significant exchange rate risk.

7. Investments in subsidiaries

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

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 31 December 2008, 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 balance sheet which is expressed in thousands of dollars.

FinNet has not commenced operations. The balance sheet of FinNet as at 31 December 2008 and the income and expenditure account for the period then ended were immaterial. Therefore, we have not accounted for its result in the condensed consolidated financial statements.

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

8. Related party transactions

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

- (a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$3,273,000 (2007 : \$2,839,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.

Securities and Futures Commission

(b) Remuneration for key management personnel (including all non-executive directors) comprised :

	Unaudited nine months ended	
	31 December 2008	31 December 2007
	\$'000	\$'000
Short-term employee benefits	22,255	21,293
Post employment benefits	1,897	1,399
	24,152	22,692

The total remuneration is included in "staff costs and directors' emoluments" on page 8.

(c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$464,000 (2007 : \$536,000).

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2008.

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 16 to 18.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2008 and up to the date of this report were : -

Mr Keith Lui (Chairman)

Mr Gerald Greiner

Mr Kenneth H W Kwok, BBS, SC

Mrs Alexa Lam

4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the nine months.

On behalf of the Committee

Keith Lui

Chairman

11 February 2009

Investor Compensation Fund

Income and expenditure account

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2008	31 December 2007	31 December 2008	31 December 2007
		\$'000	\$'000	\$'000	\$'000
Income					
Net investment income		(42,594)	99,421	1,710	33,204
Exchange difference		(2,623)	(1,989)	(1,304)	3,492
		(45,217)	97,432	406	36,696
Expenses					
Investor Compensation Company expenses	2	3,273	2,839	1,061	914
Compensation made / (write backs)	3	937	(11,323)	405	(6)
Auditors' remuneration		63	59	21	20
Bank charges		573	577	178	192
Professional fees		2,176	2,208	658	748
Sundry expenses		1	1	-	-
		7,023	(5,639)	2,323	1,868
(Deficit) / Surplus for the period		(52,240)	103,071	(1,917)	34,828
Accumulated surplus brought forward		756,185	629,760	705,862	698,003
Accumulated surplus carried forward		703,945	732,831	703,945	732,831

Investor Compensation Fund

Balance sheet

At 31 December 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2008 \$'000	Audited At 31 March 2008 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,652,032	1,502,130
- Equity securities		114,239	202,926
Interest receivable		24,707	21,411
Due from Investor Compensation Company		464	536
Unsettled regular purchases of financial assets		-	46,987
Fixed and call deposits with banks		22,922	104,916
Cash at bank		1,983	4,784
		1,816,347	1,883,690
Current liabilities			
Provision for compensation	3	7,975	22,978
Accounts payable and accrued charges		786	886
		8,761	23,864
Net current assets		1,807,586	1,859,826
Net assets		1,807,586	1,859,826
Representing :			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		703,945	756,185
		1,807,586	1,859,826

Investor Compensation Fund

Cash flow statement

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2008	31 December 2007
	\$'000	\$'000
Cash flows from operating activities		
(Deficit) / surplus for the period	(52,240)	103,071
Net investment income	42,594	(99,421)
Exchange difference	2,623	1,989
Decrease in amount due from Investor Compensation Company	72	44
Decrease in unsettled regular purchase of financial assets	46,987	-
Decrease in provision for compensation	(15,003)	(22,686)
(Decrease) / increase in accounts payable and accrued charges	(100)	48
Net cash generated from / (used in) operating activities	24,933	(16,955)
Cash flows from investing activities		
Purchase of debt securities	(991,438)	(983,651)
Sale or maturity of debt securities	832,697	1,016,826
Sale of equity securities	722	706
Interest received	48,291	50,015
Net cash (used in) / generated from investing activities	(109,728)	83,896
Net (decrease) / increase in cash and cash equivalents	(84,795)	66,941
Cash and cash equivalents at beginning of the nine-month period	109,700	28,063
Cash and cash equivalents at end of the nine-month period	24,905	95,004
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 31 December 2008	At 31 December 2007
	\$'000	\$'000
Cash at bank	1,983	5,117
Fixed and call deposits with banks	22,922	89,887
	24,905	95,004

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2008 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 2008 to the interim financial report.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2008.

There are no new standards or interpretations issued by the IASB with effect on or after 31 March 2008 which would apply to these condensed financial statements except for the following matter:

On 13 October 2008 the IASB issued amendments to IAS 39 'Financial Instruments: Recognition and Measurement', which effective from 1 July 2008 would permit reclassification of non-derivative financial assets out of the 'fair value through profit or loss' category if certain requirements are met. No reclassifications out of the 'fair value through profit or loss' category have been made during the nine months ended 31 December 2008.

2. Investor Compensation Company expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the nine months ended 31 December 2008, ICC incurred \$3,273,000 for its operation (For the nine months ended 31 December 2007 : \$2,839,000).

3. Provision for compensation

	Unaudited \$'000
Balance as at 31 March 2007	45,214
Add: provision made during the year ended 31 March 2008	6,450
Less: provision reversed during the year ended 31 March 2008	(17,323)
Less: compensation paid during the year ended 31 March 2008	(11,363)
Balance as at 31 March 2008	22,978
Add: provision made during the nine months ended 31 December 2008	4,621
Less: provision reversed during the nine months ended 31 December 2008	(3,684)
Less: compensation paid during the nine months ended 31 December 2008	(15,940)
Balance as at 31 December 2008	7,975

We maintained provision for liabilities arising from claims received resulting from three default cases for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for these cases is set at the lower of \$150,000 per claimant or the amount claimed. As at 31 December 2008 all provisions were expected to be paid within one year.

Investor Compensation Fund

4. Related party transactions

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

5. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$450,000 (31 March 2008 : \$2,403,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

In September 2008, following the Lehman Brothers group's default, the SFC approved the issue of restriction notices on four entities of Lehman Brothers in Hong Kong to preserve the assets of the companies and their clients, and to protect the interests of these clients and the investing public. At the date of this report, the assessment of whether and to which extent an obligation of the Fund exists under the Securities and Futures Ordinance (Cap. 571) in respect of such default, if any, has not been completed, and therefore it is not practical to estimate any financial effect at this stage. No claims in respect of the Lehman Brothers' companies in Hong Kong have been received up to the date of this report.

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2008.

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 22 to 25.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2008 and up to the date of this report were: -

Mr Keith Lui (Chairman)

Mr Gerald Greiner

Mrs Alexa Lam

Mr Kenneth H W Kwok, BBS, SC

Mr Eric Yip

4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the nine months.

On behalf of the Committee

Keith Lui

Chairman

11 February 2009

Unified Exchange Compensation Fund (the Fund)

Income and expenditure account

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2008	31 December 2007	31 December 2008	31 December 2007
		\$'000	\$'000	\$'000	\$'000
Income					
Net investment income		973	2,736	436	730
Recoveries	2	(315)	26,949	(125)	(16)
		658	29,685	311	714
Expenses					
Compensation made		-	1,643	-	-
Recoveries re-distributed	3	-	33,210	-	-
Auditors' remuneration		28	27	10	9
Professional fees		13	359	-	347
Sundry expenses		1	3	-	2
		42	35,242	10	358
Surplus / (deficit)		616	(5,557)	301	356
Accumulated surplus brought forward		13,910	19,210	14,225	13,297
Accumulated surplus carried forward		14,526	13,653	14,526	13,653

Unified Exchange Compensation Fund

Balance sheet

At 31 December 2008

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2008	At 31 March 2008
		\$'000	\$'000
Current assets			
Equity securities received under subrogation	2	331	670
Interest receivable		186	100
Fixed and call deposits with banks		67,206	59,223
Cash at bank		251	373
		67,974	60,366
Current liabilities			
Accounts payable and accrued charges	7	10,950	4,308
Provision for compensation	3	27	27
		10,977	4,335
Net current assets		56,997	56,031
Net assets		56,997	56,031
Representing :			
Compensation fund			
Contributions from the SEHK	4	46,900	46,550
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		14,526	13,910
		1,051,715	1,050,749
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		56,997	56,031

Unified Exchange Compensation Fund

Statement of changes in equity

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2008	31 December 2007
	\$'000	\$'000
Compensation fund balance as at 1 April	56,031	60,881
Net contributions from the SEHK	350	200
Surplus / (deficit) for the period	616	(5,557)
Compensation fund balance as at 31 December	56,997	55,524

Unified Exchange Compensation Fund

Cash flow statement

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2008	31 December 2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus / (deficit) for the period	616	(5,557)
Net interest income	(973)	(2,736)
Decrease / (increase) in equity securities received under subrogation	339	(256)
Increase in accounts payable and accrued charges	6,642	343
Increase in recoveries to be re-distributed	-	73
Decrease in provision for compensation	-	(1,796)
Net cash generated from / (used in) operating activities	6,624	(9,929)
Cash flows from investing activities		
Interest received	887	2,722
Net cash generated from investing activities	887	2,722
Cash flows from financing activities		
Contributions from the SEHK	800	450
Contributions refunded to the SEHK	(450)	(250)
Net cash generated from financing activities	350	200
Net increase / (decrease) in cash and cash equivalents	7,861	(7,007)
Cash and cash equivalents at beginning of the nine-month period	59,596	66,337
Cash and cash equivalents at end of the nine-month period	67,457	59,330
Analysis of the balance of cash and cash equivalents :		
	Unaudited	
	At 31 December 2008	At 31 December 2007
	\$'000	\$'000
Cash at bank	251	316
Fixed and call deposits with banks	67,206	59,014
	67,457	59,330

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2008

(Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund prepares the interim financial report in accordance with International Accounting Standard 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 2008 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 2008 to the interim financial report.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2008.

There are no new standards or interpretations issued by the IASB with effect on or after 31 March 2008 which would apply to these condensed financial statements.

2. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 December 2008 after deducting relevant processing fees and charges for collecting and selling the securities received.

3. Provision for compensation

	Unaudited \$'000
Balance as at 1 April 2007	1,823
Less: amount paid during the year ended 31 March 2008	(3,439)
Add: provision made during the year ended 31 March 2008	1,643
Balance as at 31 March 2008 and 31 December 2008	<u>27</u>

We maintain provision for claim in respect of one SEHK exchange participant for which the SEHK has published a notice calling for claims. There is no other outstanding claim against the Fund. As at 31 December 2008 all provisions were expected to be paid within one year.

Unified Exchange Compensation Fund

4. Contributions from the SEHK

During the nine months, deposits of \$800,000 in respect of sixteen new trading rights were received from the SEHK.

The SEHK also advised the SFC of sixteen trading rights in total having been relinquished since October 2007. The SFC had refunded to the SEHK the deposit of \$450,000 in respect of nine of these sixteen trading rights during the nine months ended 31 December 2008. The SFC shall refund to the SEHK the deposit of \$350,000 in respect of the remaining seven 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 nine months, there were no significant related party transactions other than those disclosed in the financial statements.

6. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund except for the claim set out in note 3.

Shares were allocated to the Fund under its subrogation rights in relation to the C.A. Pacific case (refer to note 2). As at 31 December 2008, shares with a market value \$331,000, 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 \$10,922,000 as at 31 December 2008 (\$4,273,000 as at 31 March 2008). These amounts are determined based on cashier's orders expired and corresponding bank debit notes.