



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

quarterly report

October - December 2010



This third Quarterly Report of the Securities and Futures Commission for financial year 2010-11 covers the period from 1 October to 31 December 2010. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

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Securities and Futures Commission

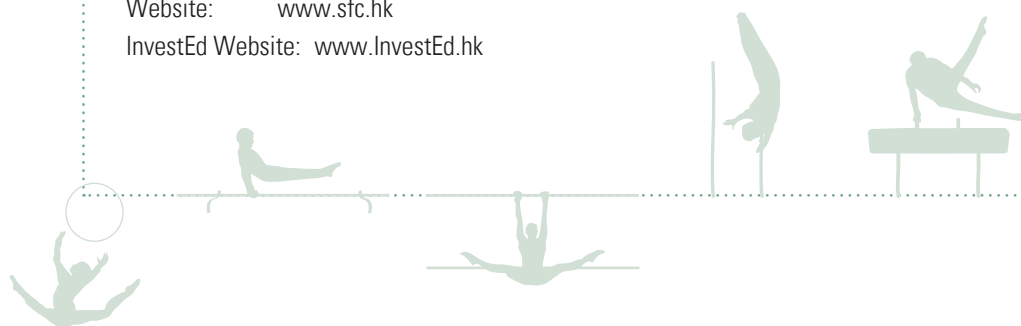
8th Floor, Chater House
8 Connaught Road Central
Hong Kong

Telephone: (852) 2840 9222

Facsimile: (852) 2521 7836

Website: www.sfc.hk

InvestEd Website: www.InvestEd.hk





chief executive officer's statement

We moved forward with regulatory changes to enhance market efficiency.

In November, we published conclusions to a consultation on the "mixed media offer" for listing applications. Companies seeking to list shares or debentures on the Stock Exchange of Hong Kong would be able to distribute paper application forms without an accompanying printed prospectus, as long as the prospectus is available on line. Well received in the consultation process, the measure is expected to be implemented in early 2011, subject to negative vetting.

With a view to extending regulatory oversight to credit rating agencies (CRAs) that conduct business in Hong Kong in mid-2011, we have been working closely with the Government to secure the introduction of the necessary amendments to the Securities and Futures Ordinance. The legislative amendment process is expected to be completed in April 2011.

This quarter saw a number of enforcement actions against those who breached their duties as directors of listed companies and against solicitors involved in insider dealing using non-public information obtained through their work.

We also worked closely with the industry by giving participants practical guidance and training to help prepare them for the requirements under the revised codes on unit trusts and mutual funds, and investment-linked assurance schemes. Separately, we drew their attention to the relevant provisions under the Prevention of Bribery Ordinance, and reminded brokers to monitor their operational capabilities and put in place appropriate contingent arrangements for the mega-sized right issues and an increase in market turnover.

To give investors more choices, we authorized the first exchange-traded fund (ETF) managed by a Hong Kong asset management subsidiary of a Korean investment and securities group, authorized two renminbi-denominated funds, offering documents of two renminbi-denominated bonds for retail investors, and saw the cross-listing of the fourth Hong Kong ETF on the Taiwan Stock Exchange this quarter.

In December, the Financial Services and the Treasury Bureau published the consultation conclusions on its proposal to establish the Investor Education Council, confirming its decision to proceed with the plan.

Our investor education work this quarter focused on reminding investors of counterparty risks of synthetic ETFs. New investor education materials were launched or updated to explain Hong Kong Depositary Receipts, renminbi products and ETFs, as well as what to note in rights issues and allotment of excess rights shares.

Martin Wheatley

Chief Executive Officer

operational review

Regulation

Enforcement actions

We continued to see results of our efforts in tackling insider dealing cases and breaches of director duties, which send a strong message to the market that we do not tolerate activities that undermine market integrity or investor interests.

Crack down on solicitors' insider dealing case

We commenced civil proceedings in the High Court against two solicitors, Ms Young Bik Fung (Young) and Mr Lee Kwok Wa (Lee), and Lee's two sisters, for alleged insider trading.

On separate occasions, Young and Lee obtained non-public, confidential and materially price sensitive information while working on the deals, which they exchanged between themselves and passed on to Lee's two sisters. They then bought shares prior to the public announcement of the deals and made a total profit of \$2.9 million.

We allege that the defendants contravened the Securities and Futures Ordinance (SFO) in various capacities and have applied for court orders, including those to restrain the defendants from disposing of the profits and traceable proceeds of their insider dealing, and to appoint an administrator to receive and distribute the profits or traceable proceeds from the insider dealing.

Executive directors disqualified for breach of duties

We successfully obtained orders from the High Court to disqualify three individuals who breached their director duties.

- Mr Yeung Kui Wong and Mr Yu Hung Wong (Yu), former executive directors of Warderly International Holdings Ltd (Warderly), were disqualified as company directors for five years and two years respectively for failing to make timely disclosure of material information to the market. This case is part of a set of proceedings in the High Court that commenced in 2009 against six former directors of Warderly who breached their duties as directors. In March 2010, we had obtained High Court orders to disqualify two of the six from being directors for five years; proceedings against the two remaining directors continue.
- Mr Steven Li Wang Tai, former executive director of Styland Holdings Ltd, was disqualified from being a director for six years for various breaches of director duties. We are taking similar actions against the former chairman and two current executive directors of the company.

Other civil actions taken

We had earlier obtained interim orders to freeze assets of up to \$997 million of Hontex International Holdings Ltd (Hontex). We subsequently located some \$832 million in assets that was frozen by the court. Besides seeking a court hearing date as soon as possible, we will seek orders to restore the funds raised by Hontex in the initial public offering (IPO) to those who subscribed to the shares and those who purchased the shares since the IPO.



Convictions secured

We secured the following convictions at the Eastern Magistracy this quarter:

Defendants	Case	Penalty
Mr Chiu Yat Man, a retail investor	Gave the investing public a false impression that there was genuine demand and supply for the relevant warrants by manipulating buy and sell orders in four derivative warrants	120 hours of community service
Mr Ma Siu Kwan and Hong Kong Business Agency Group Ltd, a company he controls	While not licensed by the SFC in any capacity, advertised on a website to sell Hong Kong listed shares held by clients	Fined \$10,000
Mr Lam Ying Kam	Gave misleading information to the SFC in his application for a licence to carry on regulated activities	Fined \$10,000
Able Alliance International Ltd and its director, Mr Thomas Chan Ping Keung	As a licensed corporation, failed to submit audited accounts, financial books and records within the prescribed period, and misled the SFC when applying for an extension of submission deadlines	Fined \$40,000
Ms Lee Chi Ying	Dealt in regulated activities without a licence	Fined \$5,000

Disciplinary actions

We took disciplinary actions against licensees for breaches and imposed sanctions ranging from fines to reprimands to bans from the industry for a fixed term or even for life.

Irregular trading activities

Defendants	Case	Penalty
Mr Chun Peng Fai	Carried out derivative trading that had the effect of falsely inflating market turnover	Banned from re-entering the industry for five years
Mr Ng Kwok Leung, a former account executive of Sun Hung Kai Investment Services Ltd	Fixed a higher closing price of shares of IRICO Group Electronics Co, Ltd as instructed by a client	Banned from re-entering the industry for three years (Following sentence by the Eastern Magistracy for market manipulation)
Mr Mok Kee Tong, a licensed representative of Lehin Securities Ltd	Carried out illegal short selling	Reprimanded and fined \$160,000 (Following conviction by the Eastern Magistracy for illegal short selling.)

operational review

Facilitation of unlawful activities

Defendants	Case	Penalty
Mr Tam Sak Man, a former account executive of Hantec International Ltd	Facilitated unlawful leveraged foreign exchange activities of Cosmos Hantec Investment (NZ) Ltd (Cosmo Hantec), a New Zealand company operating a leveraged foreign exchange trading business in New Zealand. Cosmo Hantec is not licensed by the SFC	Reprimanded and fined \$816,220

Internal control failings

Defendants	Case	Penalty
Noble Apex Advisors Ltd	Reached an agreement with the SFC to resolve compliance concerns after Noble Apex allowed an unlicensed person to head a team of its representatives	Reprimanded and fined \$1 million Required to engage an independent reviewer to review internal controls in relation to its regulated activities
Ms Pauline Ellen Cousins, a former managing director and responsible officer of Crown Asset Management Ltd	Produced false portfolio valuation summaries to a client Misled the client into believing that the client had invested a lump sum of \$1.75 million in an investment-linked assurance scheme when in fact the sum had been invested in shares of a hi-tech company that was subsequently put into administration	Banned from re-entering the industry for life (Following sentencing by the District Court to a jail term of 21 months)
Ms Peggy Yam Chin Yui, a former employee of CITIC Ka Wah Bank Ltd	Forged colleagues' signatures on banking documents	Banned from re-entering the industry for 18 months
Ms Portia Liu Kit Ching, a former account executive of KGI Asia Ltd and KGI Futures (Hong Kong) Ltd	Concealed a secret trading account from her employer Failed to obtain proper written authorization from her client Failed to record client orders	Licence suspended for nine months
Mr Ali Lau Ka Lung, responsible officer of Cheong Lee Securities Ltd	Failed to keep a proper audit trail of the discretionary trades Failed to systematically and evenly allocate the trades to clients	Reprimanded and fined \$50,000



Appeals

In addition to prosecutions and disciplinary actions, we also took actions to uphold convictions by the courts on cases we prosecuted.

Court of Final Appeal

- The Court of Final Appeal (CFA) dismissed the leave application of Mr Alan Chung Wai Wa to appeal against his conviction for unlicensed dealing in leveraged foreign exchange by the Eastern Magistracy on grounds that Chung had no reasonable grounds for leave to appeal.
- The CFA dismissed an interim injunction obtained by the SFC against Kayden Ltd. Earlier, the SFC had brought proceedings to freeze assets of four defendants, including Kayden Ltd alleging insider trading in the shares of Asia TeleMedia Ltd. The CFA decision will not affect the interim injunctions against the other three defendants and the SFC will continue to pursue the case.

Court of Appeal

- The Court of Appeal (CA) allowed our appeal against the decisions of the Securities and Futures Appeal Tribunal which: (i) reduced the penalty of Mr Asser Li Kwok Keung to 18 months suspension from a 10 years ban previously imposed by the SFC; and (ii) equated the SFC's role in disciplinary proceedings with that of a prosecutor in criminal proceedings.
In a unanimous decision, the CA increased Li's suspension period to three years and ruled that criminal procedures are not applicable to SFC disciplinary proceedings.
- The CA dismissed the appeals by Mr Patrick Fu Kor Kuen and Mr Francis Lee Shu Yuen against their convictions for manipulating derivative warrants but reduced their jail sentences to 20 months and 21 months respectively. The District Court had convicted them of 20 counts of creating a false and misleading appearance of active trading in derivative warrants issued by Macquarie Bank Ltd and passed sentences of 33 months to Fu and 36 months to Lee.
- The CA upheld the insider dealing convictions against Mr Sammy Ma Hon Kit and his wife Ms Cordelia Tso Kin Wah. However the Court allowed the appeal by their son, Mr Ronald Ma Chun Ho, whose conviction for insider dealing was quashed. The principal offender in this case – Mr Ma Hon Yeung (sentenced to 26 months imprisonment and fined \$230,000) and his girlfriend Ms Ivy Lo Yuk Wah (sentenced to 12 months imprisonment and

fined \$210,000) – did not pursue any appeal. This case was the first indictable prosecution in Hong Kong since insider dealing was made a criminal offence under the SFO in 2003.

Regulatory enhancements

Measures to enhance investor protection

In October, we published a consultation paper on our proposal to refine the requirements for evidencing whether a person qualifies as a high-net-worth professional investor under the Securities and Futures (Professional Investor) Rules. We proposed to adopt a principles-based approach so that firms can use any method to assure themselves that an investor meets the required asset/portfolio threshold at the relevant date to qualify as a professional investor, as long as proper records of the assessment process are kept. To enable firms that so wish to carry on with existing methods, such as the use of accountant's certificate, the current methods will also be preserved.

We received 16 written submissions in November. Most respondents expressed support of the proposals in principle, with some respondents calling for more flexibility or requesting for additional guidance.

In November, we held training sessions for the Hong Kong Securities Professionals Association and the Hong Kong Institute of Certified Public Accountants, giving practical guidance on how to apply to intermediaries conduct the new regulatory measures to enhance investor protection regarding the sale of investment products.

Other regulatory changes

In October, we published the conclusions paper in relation to our consultation exercise on proposals to extend regulatory oversight to credit rating agencies (CRAs) in Hong Kong. Respondents overwhelmingly indicated support for the creation of a regulatory regime for CRAs that conduct business in this city.

After careful consideration, we decided to adopt a majority of the proposals set out in the consultation paper issued on 19 July and have fine-tuned the draft Code of Conduct for Persons Providing Credit Rating Services accordingly, as detailed in the consultation conclusions.

We have been working closely with the Government to secure the introduction of the necessary amendments to the SFO for the creation of the new regulatory regime for CRAs. The legislative amendment process is expected to be completed in April 2011, with a view to complete the licensing of CRAs and their rating analysts operating in Hong Kong in early June 2011.

In November, we released the conclusions to the joint-consultation to allow companies seeking to list shares or debentures on the Stock Exchange of Hong Kong Ltd (SEHK) to distribute paper application forms without an accompanying printed prospectus, as long as the prospectus is available on line. Similar waivers will be granted to issuers of SFC-authorized collective investment schemes listed on SEHK.

This proposal received wide support from professional associations, market practitioners, law firms, members of the public and an environmental group. Subject to negative vetting, the changes will become effective in early 2011.

In another joint consultation exercise with the SEHK, we proposed changes to streamline property valuation disclosure requirements in applicants' prospectuses and issuers' circulars. The objective is to remove unnecessary burden on applicants and issuers and to require meaningful disclosure to enhance the quality of information provided to investors. The consultation closes mid-February 2011.

Separately, the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Bill (the Bill) was gazetted in October for introduction into the Legislative Council (LegCo) in November. Subject to the passage of the Bill by the LegCo, the Government aims to implement the requirements in April 2012.

Market supervision and standards

In December, we published our annual review of the performance of SEHK in terms of its regulation of listing matters in 2009. In the report, we noted that the operational procedures and decision-making processes reviewed were appropriate to enable SEHK to discharge its statutory obligation of maintaining an orderly, informed and fair market.

During the quarter, we held three joint seminars with the Independent Commission Against Corruption, in which we reminded licensed corporations of the importance of business ethics, the relevant provisions under the Prevention of Bribery Ordinance, corruption-prone areas in the securities sector and related preventive measures. We took the opportunity to remind participants to implement proper policies and procedures related to business ethics including receipt or provision of benefits, dealing with conflicts of interests, acceptance of gifts and rebates, etc.

Briefing sessions were held this quarter to prepare product issuers, industry practitioners and law firms on how to produce a product key facts statement and implement other requirements under the revised Code on Unit Trusts and Mutual Funds and the revised Code on Investment-linked Assurance Schemes. Industry stakeholders were given further practical guidance to better prepare their operations for meeting the product key facts statement requirement, which will be in full force by 25 June 2011.

We issued a circular in October to draw licensed corporations' attention to the guidance note issued by the Office of the Privacy Commissioner for Personal Data on the collection and use of personal data in direct marketing.

In view of the announcements of mega-sized right issues by some listed companies and the recent increase in market turnover, we reminded brokers in a circular this November to monitor their operational capabilities and put in place appropriate contingent arrangements.

Noting investor concerns

During the quarter, the number of non-Lehman Brothers-related complaints increased moderately from the last quarter. As of 31 December, the accumulated number of Lehman Brothers-related complaints totaled 9,071 of which 90 of were received this quarter where most were related to the alleged breach of section 107¹ of the SFO.

¹ Section 107 of the SFO relates to the "Offence to fraudulently or recklessly induce others to invest money."

Analysis of complaints of market malpractices

	For the quarter ended 31/12/2010	For the quarter ended 30/09/2010	For the quarter ended 31/12/2009
Nature of complaints			
Conduct of licensed intermediaries and registered institutions	97	110	90
Listing-related matters and disclosure of interests	114	125	400
Market misconduct	110	81	53
Products	4	2	2
Other financial activities	125	89	104
Miscellaneous	0	3	0
Subtotal	450	410	649
Complaints related to Lehman Brothers	90	28	47
Total	540	438	696

Note: The figures reflect the number of complainants.

Development

Enhancing regulatory ties with the Mainland and other jurisdictions

We continued to have high-level dialogues with the Mainland to bring forward policy initiatives that would further help equip Hong Kong as an international financial centre and a testing ground for the financial reform and liberalisation of the Mainland market. During the quarter, we met with representatives from the Hong Kong and Macao Affairs Office, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, the State Administration of Foreign Exchange and the Development Research Center of the State Council to exchange views on various Hong Kong-Mainland co-operation issues. We also provided support to the Government to promote the relevant co-operation measures.

At the regional level, our effort continued in furthering Hong Kong's co-operation with Mainland regions and cities, including Shanghai, Beijing, Guangdong and Shenzhen. Among other initiatives, we attended the Beijing-Hong Kong Financial Services Co-operation Symposium and met with Shenzhen government officials to explore Hong Kong-Qianhai co-operation opportunities in the financial services sector.

As part of an arrangement under the memorandum of understanding with Taipei, we met with representatives of Taiwan Financial Supervisory Commission in Hong Kong and gave them an overview of our regulatory regime.

Promoting development of markets and products

Accelerating Hong Kong's development as an offshore renminbi centre

We have been working closely with the Government and Mainland regulatory authorities to solidify Hong Kong's status as an offshore renminbi centre. We continued to promote the development of renminbi businesses in Hong Kong and had dialogues with industry participants both in Hong Kong and the Mainland to exchange views on the developments of renminbi-denominated investment products. For instance, at the Wealth Management and Private Banking Asia Conference in Shanghai, we spoke and shared with the audience regulatory changes in Hong Kong, the latest progress of renminbi investment products and how these changes may affect the wealth management industry. We also had discussions with the Ministry of Finance to facilitate the offering of renminbi treasury bonds in Hong Kong.

Implementing a scripless securities market

Since the consultation conclusions on the proposed operational model for a Hong Kong scripless securities market was issued in September 2010, representatives from Hong Kong Exchanges and Clearing Ltd, the Federation of Share Registrars and the SFC have held regular meetings to discuss and agree on the operational details and processes for implementation. Meanwhile, our work on related legislative changes to facilitate the process continued.

Authorizing more products for public offer

During the quarter, we authorized two renminbi-denominated funds and the issuance of two offering documents relating to renminbi bond offers. The issue size of these two bond offers (retail tranche only) totalled RMB5.5 billion.

In December 2010, we authorized the first exchange-traded fund (ETF) managed by a Hong Kong asset management subsidiary of a Korean investment and securities group, thus expanding the mix of ETF managers. We also saw the cross-listing of the fourth Hong Kong ETF on the Taiwan Stock Exchange.

Number of authorized collective investment schemes

	As at 31/12/2010	As at 31/12/2009
Unit trusts and mutual funds	1,937	1,955
Investment-linked assurance schemes	244	238
Pooled retirement funds	35	35
MPF master trust schemes	40	37
MPF pooled investment funds ¹	324	298
Others ²	22	20
Total	2,602	2,583

¹ In this category, 121 of the funds were offered both as retail unit trusts and pooled investment funds for MPF purposes.

² Other schemes comprise 14 paper gold schemes and eight real estate investment trusts.

Unlisted structured products¹ offered to the public

	For the quarter ended 31/12/2010
Offering documents authorized	18
Advertisements authorized	0

¹ This category comprises the common structured investment products such as structured notes, equity-linked investments and equity-linked deposits.

Attracting listings from overseas

This quarter, we recognised four new overseas jurisdictions for listing in Hong Kong, namely, Brazil, Isle of Man, Japan, and the State of California in the USA, bringing the number of overseas jurisdictions recognised by the Listing Rules to 14. Since the end of September, we saw five new listings from companies incorporated in one of the recognised overseas jurisdictions bringing the total number of such listings to 18 as of the end of December.

The new listings included a secondary listing of a Brazilian incorporated company that marked the first from its jurisdiction, and was also the first-ever listing of Hong Kong Depositary Receipts. The remaining four new listings were primary listings of companies incorporated in British Columbia of Canada, the British Virgin Islands and Singapore.

New post-vetting regime

Since the post-vetting regime came into effect on 25 June 2010 allowing certain routine takeovers-related announcements to be published without being submitted to the SFC for comment, we are pleased to note that market practitioners generally have complied with the new requirements without difficulty. The vast majority of the post-vetted announcements have followed the prescriptive guidance and have included appropriate information as required. We will continue to monitor compliance with a view to including additional documents in the Post-Vet List, which names the routine announcements that do not require vetting by the SFC prior to publication.

Number of licensees and registrants

	As at 31/12/2010	As at 30/09/2010	Change in %	As at 31/12/2009	Change in %
Licensed Corporations	1,731	1,701	1.8	1,608	7.6
Registered Institutions	109	108	0.9	107	1.9
Individuals	36,291	36,495	-0.6	34,345	5.7
Total	38,131	38,304	-0.5	36,060	5.7

Licensing of intermediaries

During this quarter, we received 2,804 applications, down 22% from the previous quarter and up about 9% from a year ago. Licensees and registrants increased about 6% from the same period last year to 38,131.

Communicating with market participants

We maintained active communication with market participants on the latest regulatory initiatives to supervise selling of investment products. At the Worldwide Conference of the Financial Planning Standards Board and a conference held by the Institute of Financial Planners of Hong Kong held during the quarter, we shared with the industry a number of issues, including an overview of key problems and concerns in the financial planning and advisory arena, regulators' actions in some major jurisdictions to enhance intermediary selling practices, the latest international regulatory developments, and how professional bodies may contribute towards developing a healthy and vibrant financial planning industry.

We published the 15th issue of the Takeovers Bulletin, which, among other things, carried a reminder to directors of listed companies that they should not make or trigger a general offer during a black-out period and gave a brief update on the post-vetting regime.

Education

Raising public awareness on the risks of popular investment products remains one of our investor education (IE) priorities.

During this quarter, the focus of our work was on reminding the public of the counterparty risks of synthetic exchange-traded funds (ETFs). We did so through various programmes, using multiple media. These include: the punchy 45-second radio segments "Info-wise by Dr Wise" on Metro Finance, short video clips aired on buses and articles posted on the InvestEd website (www.InvestEd.hk). In the InvestEd Intelligence e-newsletter, we explained, in particular, a new system introduced to help identify synthetic ETFs. The marker "X" must be placed at the beginning of the stock short names of synthetic ETFs displayed by the HKEx's trading system, while an asterisk "*" and an annotation must appear after the product name of SFC-vetted offering documents and marketing materials.

The "Know the Protective Measures" campaign continued with short videos and infomercials to remind investors of the Key Facts Statements (KFS), the post-sale cooling-off arrangement and the ban on use of gifts for product promotion on TVB Jade, Cable TV and now TV, as well as on buses and trains. We also launched video tutorials to present the KFS in interesting scenarios, interview segments on RTHK Radio 1, short radio segments on Metro Finance and articles in our weekly column in Headline Daily to educate the public on the new protective measures.

The second issue of InvestEd Intelligence published in November also discussed common misconception about the price quoting mechanism of derivative warrants and the extension of regulatory oversight to credit rating agencies. This bimonthly e-newsletter further reminded investors not to cut corners to obtain shares in hot initial public offerings. A banner ad placed on a popular search site and a quiz to reach out to readers generated 26,000 page views, up 16% from the inaugural issue.

To let investors better understand investment products and some investing issues, we produced or updated materials that explained the Hong Kong Depositary Receipts, renminbi products and ETFs, as well as what to note in rights issues and allotment of excess rights shares.

In addition, we launched more flash videos on the InvestEd site covering topics ranging from risk management to corporate actions and features of structured products. Additional online articles also alerted the public to new scams.

During the quarter, 2,550 participants attended 18 seminars we held for community groups, civil servants, students and police on the topics of financial planning, investment products and investment risks. We hosted a booth at the pre-retirement preparation event organised by the Elderly Commission and the Labour and Welfare Bureau to promote prudent retirement planning.

After consulting the public on its proposal to establish the Investor Education Council (IEC) in early 2010, the Financial Services and the Treasury Bureau (FSTB) published the consultation conclusions in December, confirming its decision to proceed with the plan. The IEC will be set up as a company wholly owned and fully funded by the SFC. The FSTB will introduce legislative amendments to the Securities and Futures Ordinance in this legislative year to broaden the SFC's investor education remit to cover the entire financial services sector and authorize the SFC to form the IEC.

organisational matters

We had 539 staff members as at 31 December, up from 501 a year ago.

In December, our Chief Executive Officer, Mr Martin Wheatley, announced that he will be leaving the Commission in the summer of 2011 after six full years with the Commission. A global executive search is ongoing to recruit a successor of comparable experience and international standing.

In January, we welcomed the appointment of Mr Anderson Chow Ka-ming, SC and Professor Leonard Cheng Kwok-hon as non-executive directors for a term of two years to 31 December 2012.

Total revenue for the quarter was \$456 million, compared with \$448 million a year ago and \$429 million in the previous quarter. Expenditure was \$197 million, 12% below our approved budget. This resulted in a surplus of \$259 million for the quarter, compared with \$262 million in the same quarter last year and \$237 million in the previous quarter. Our reserves stood at \$6.7 billion as of 31 December.

Meanwhile, our Information Technology Department launched the Document Management System (DMS), a software to improve overall document filing and storage efficiency. The use of DMS goes hand in hand with our stated corporate policy of environmental protection.

Securities and Futures Commission

Consolidated statement of comprehensive income

For the nine months ended 31 December 2010

(Expressed in Hong Kong dollars)

	Unaudited nine months ended		Unaudited three months ended	
	Note 31 December 2010 \$'000	31 December 2009 \$'000	31 December 2010 \$'000	31 December 2009 \$'000
Income				
Levies	1,064,513	1,146,599	376,502	376,986
Fees and charges	119,227	125,616	44,258	34,583
Investment income	98,268	104,833	32,691	33,982
Less: custody and advisory expenses	(1,921)	(1,648)	(683)	(564)
Investment income net of third party expenses	96,347	103,185	32,008	33,418
Recoveries from the Investor Compensation Fund	3,082	3,081	1,021	1,032
Other income	5,038	3,856	2,073	1,737
	1,288,207	1,382,337	455,862	447,756
Expenses				
Staff costs and directors' emoluments	7 423,542	402,940	144,065	134,221
Premises				
rent	47,732	43,517	15,911	14,506
other	19,064	17,495	6,556	5,925
Other expenses	48,708	54,489	20,247	22,082
Depreciation	27,816	21,836	10,243	9,089
	566,862	540,277	197,022	185,823
Surplus and total comprehensive income for the period	721,345	842,060	258,840	261,933

The notes on pages 17 and 18 form part of the condensed consolidated financial statements.

Consolidated statement of financial position

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2010	At 31 March 2010
		\$'000	\$'000
Non-current assets			
Fixed assets		47,234	49,423
Held-to-maturity debt securities	2	4,066,446	3,769,238
		4,113,680	3,818,661
Current assets			
Held-to-maturity debt securities	2	2,057,475	1,536,402
Debtors, deposits and prepayments		185,476	208,198
Bank deposits		606,597	566,709
Cash at bank and in hand		3,706	2,617
		2,853,254	2,313,926
Current liabilities			
Fees received in advance		73,330	9,260
Creditors and accrued charges		125,484	71,298
		198,814	80,558
Net current assets		2,654,440	2,233,368
Total assets less current liabilities		6,768,120	6,052,029
Non-current liabilities	3	24,535	29,789
Net assets		6,743,585	6,022,240
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		6,700,745	5,979,400
		6,743,585	6,022,240

The notes on pages 17 and 18 form part of the condensed consolidated financial statements.

Statement of financial position

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2010	At 31 March 2010
		\$'000	\$'000
Non-current assets			
Fixed assets		47,219	49,398
Held-to-maturity debt securities	2	4,066,446	3,769,238
		4,113,665	3,818,636
Current assets			
Held-to-maturity debt securities	2	2,057,475	1,536,402
Debtors, deposits and prepayments		185,254	208,048
Bank deposits		606,597	566,709
Cash at bank and in hand		3,148	2,318
		2,852,474	2,313,477
Current liabilities			
Fees received in advance		73,330	9,260
Creditors and accrued charges		124,689	70,824
		198,019	80,084
Net current assets		2,654,455	2,233,393
Total assets less current liabilities		6,768,120	6,052,029
Non-current liabilities	3	24,535	29,789
Net assets		6,743,585	6,022,240
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		6,700,745	5,979,400
		6,743,585	6,022,240

The notes on pages 17 and 18 form part of the condensed consolidated financial statements.

Consolidated statement of changes in equity

For the nine months ended 31 December 2010

(Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2009	42,840	4,910,643	4,953,483
Total comprehensive income for the period	-	842,060	842,060
Balance at 31 December 2009	42,840	5,752,703	5,795,543
Balance at 1 April 2010	42,840	5,979,400	6,022,240
Total comprehensive income for the period	-	721,345	721,345
Balance at 31 December 2010	42,840	6,700,745	6,743,585

The notes on pages 17 and 18 form part of the condensed consolidated financial statements.

Consolidated statement of cash flows

For the nine months ended 31 December 2010
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2010 \$'000	31 December 2009 \$'000
Cash flows from operating activities		
Surplus for the period	721,345	842,060
Adjustments for:		
Depreciation	27,816	21,836
Investment income	(98,268)	(104,833)
(Gain)/loss on disposal of fixed assets	(24)	43
	650,869	759,106
Decrease/(increase) in debtors, deposits and prepayments	6,885	(35,467)
Increase in creditors and accrued charges	54,186	49,392
Increase/(decrease) in fees received in advance	64,070	(53,689)
Decrease in non-current liabilities	(5,254)	(6,525)
Net cash generated from operating activities	770,756	712,817
Cash flows from investing activities		
Interest received	155,774	149,624
Held-to-maturity debt securities bought	(2,009,077)	(1,197,994)
Held-to-maturity debt securities redeemed	1,149,127	640,537
Fixed assets bought	(25,603)	(28,445)
Net cash used in investing activities	(729,779)	(436,278)
Net increase in cash and cash equivalents	40,977	276,539
Cash and cash equivalents at beginning of the nine-month period	569,326	456,404
Cash and cash equivalents at end of the nine-month period	610,303	732,943

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2010 \$'000	At 31 December 2009 \$'000
Bank deposits	606,597	730,316
Cash at bank and in hand	3,706	2,627
	610,303	732,943

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2010
(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 2010 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) in the SFC's condensed financial statements made up to 31 December 2010. 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 2010 to the interim financial report.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2010.

2. Held-to-maturity debt securities

As of 31 December 2010, the total market value of held-to-maturity debt securities amounted to \$6,191,650,000 (31 March 2010: \$5,397,994,000), which was above the total carrying value of \$6,123,921,000 (31 March 2010: \$5,305,640,000).

3. 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.

4. 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 2010. Therefore we do not provide an ageing analysis of debtors and creditors.

5. Exchange fluctuation

All 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.

6. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorized share capital of \$10,000 and issued share capital of \$2 and ICC on 11 September 2002 with an authorized 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 2010, 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 31 December 2010 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

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

7. 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 \$3,082,000 (2009: \$3,081,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all non-executive directors) comprised :

	Unaudited nine months ended	
	31 December 2010	31 December 2009
	\$'000	\$'000
Short-term employee benefits	19,920	23,220
Post employment benefits	1,784	2,012
	21,704	25,232

The total remuneration is included in "staff costs and directors' emoluments" on page 12. 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 \$206,000 (At 31 March 2010: \$260,000).

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 2010.

1. Establishment of the Fund

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

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 20 to 25.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2010 and up to the date of this report were:

Mr Keith Lui (Chairman)

Mr Kenneth H W Kwok, BBS, SC (retired on 1 January 2011)

Mrs Alexa Lam

Mr Eric Yip (appointed on 1 April 2010)

Mr Gerald Greiner (retired on 1 April 2010)

4. Interests in contracts

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

On behalf of the Committee

Keith Lui

Chairman

11 February 2011

Statement of comprehensive income

For the nine months ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2010 \$'000	31 December 2009 \$'000	31 December 2010 \$'000	31 December 2009 \$'000
Income					
Net investment income		78,714	128,257	8,490	24,663
Exchange gain		1,061	472	1,425	511
Recovery income		4,108	1,307	-	1,307
		83,883	130,036	9,915	26,481
Expenses					
Investor Compensation Company expenses	2	3,082	3,081	1,021	1,032
Compensation (written back) / expenses	3	(218)	162	-	-
Auditor's remuneration		71	64	24	21
Bank charges		578	581	205	189
Professional fees		2,426	2,225	821	757
		5,939	6,113	2,071	1,999
Surplus and total comprehensive income for the period					
		77,944	123,923	7,844	24,482

The notes on pages 24 and 25 form part of the condensed financial statements.

Statement of financial position

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2010 \$'000	Audited At 31 March 2010 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
Debt securities		1,717,926	1,517,803
Equity securities		223,806	184,523
Interest receivable		18,902	16,371
Due from Investor Compensation Company		206	261
Fixed deposits with banks		52,189	150,452
Cash at bank		31,312	102,283
		2,044,341	1,971,693
Current liabilities			
Provision for compensation	3	300	5,656
Creditors and accrued charges		962	895
Fair value adjustment on unsettled trades		-	7
		1,262	6,558
Net current assets		2,043,079	1,965,135
Net assets		2,043,079	1,965,135
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		939,438	861,494
		2,043,079	1,965,135

The notes on pages 24 and 25 form part of the condensed financial statements.

Statement of changes in equity

For the nine months ended 31 December 2010

(Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2009	994,718	108,923	711,964	1,815,605
Total comprehensive income for the period	-	-	123,923	123,923
Balance at 31 December 2009	994,718	108,923	835,887	1,939,528
Balance at 1 April 2010	994,718	108,923	861,494	1,965,135
Total comprehensive income for the period	-	-	77,944	77,944
Balance at 31 December 2010	994,718	108,923	939,438	2,043,079

The notes on pages 24 and 25 form part of the condensed financial statements.

Statement of cash flows

For the nine months ended 31 December 2010
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2010 \$'000	31 December 2009 \$'000
Cash flows from operating activities		
Surplus for the period	77,944	123,923
Net investment income	(78,714)	(128,257)
Exchange gain	(1,061)	(472)
Decrease in amount due from Investor Compensation Company	55	149
Decrease in provision for compensation	(5,356)	(2,577)
Increase in creditors and accrued charges	67	85
Net cash used in operating activities	(7,065)	(7,149)
Cash flows from investing activities		
Purchase of debt securities	(489,650)	(1,158,241)
Sale or maturity of debt securities	285,202	1,160,937
Sale of equity securities	694	513
Interest received	41,585	45,190
Net cash (used in) / generated from investing activities	(162,169)	48,399
Net (decrease) / increase in cash and cash equivalents	(169,234)	41,250
Cash and cash equivalents at beginning of the nine-month period	252,735	136,111
Cash and cash equivalents at end of the nine-month period	83,501	177,361

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2010 \$'000	At 31 December 2009 \$'000
Cash at bank	31,312	32,407
Fixed deposits with banks	52,189	144,954
	83,501	177,361

Notes to the condensed financial statements

For the nine months ended 31 December 2010
(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 2010 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 2010 to the interim financial report.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2010.

2. Investor Compensation Company Limited (ICC) expenses

The Securities and Futures Commission (SFC) formed 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 2010, ICC incurred \$3,082,000 for its operation (For the nine months ended 31 December 2009 : \$3,081,000).

3. Provision for compensation

	\$'000
Balance as at 1 April 2009	8,032
Add: provision made during the year ended 31 March 2010	363
Less: compensation paid during the year ended 31 March 2010	(2,739)
Balance as at 31 March 2010	5,656
Add: provision reversed during the nine months ended 31 December 2010	(218)
Less: compensation paid during the nine months ended 31 December 2010	(5,138)
Balance as at 31 December 2010	300

We maintained provision for liabilities arising from claims received resulting from a default case 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 this case is set at the lower of \$150,000 per claimant or the amount claimed. As at 31 December 2010, all provisions were expected to be paid within one year.

4. Related party transactions

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

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 2010: \$450,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

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 2010.

1. Establishment of the Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Fund. However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect 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 32.

3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2010 and up to the date of this report were :

Mr Keith Lui (Chairman)

Mr Gerald Greiner

Mrs Alexa Lam

Mr Kenneth H W Kwok, BBS, SC (retired on 1 January 2011)

Mr Eric Yip

4. Interests in contracts

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

On behalf of the Committee

Keith Lui

Chairman

28 January 2011

Statement of comprehensive income

For the nine months ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2010 \$'000	31 December 2009 \$'000	31 December 2010 \$'000	31 December 2009 \$'000
Income					
Interest income		125	133	55	17
Recoveries	2	1,666	328	1,666	192
		1,791	461	1,721	209
Expenses					
Auditor's remuneration		30	27	10	8
Professional fees		14	13	1	-
		44	40	11	8
Surplus and total comprehensive income for the period					
		1,747	421	1,710	201

The notes on pages 31 and 32 form part of the condensed financial statements.

Statement of financial position

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2010	At 31 March 2010
		\$'000	\$'000
Current assets			
Equity securities received under subrogation	2	1	2
Interest receivable		25	4
Fixed and call deposits with banks		71,111	68,958
Cash at bank		174	22
		71,311	68,986
Current liabilities			
Creditors and accrued charges	6	10,283	10,305
Net current assets		61,028	58,681
Net assets		61,028	58,681
Representing:			
Compensation fund			
Contributions from the SEHK	3	48,200	47,600
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		17,257	15,510
		1,055,746	1,053,399
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		61,028	58,681

The notes on pages 31 and 32 form part of the condensed financial statements.

Statement of changes in equity

For the nine months ended 31 December 2010

(Expressed in Hong Kong dollars)

	Unaudited	
	2010 \$'000	2009 \$'000
Compensation fund balance as at 1 April	58,681	57,674
Net contributions from the SEHK	600	450
Total comprehensive income for the period	1,747	421
Compensation fund balance as at 31 December	61,028	58,545

The notes on pages 31 and 32 form part of the condensed financial statements.

Statement of cash flows

For the nine months ended 31 December 2010
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2010 \$'000	31 December 2009 \$'000
Cash flows from operating activities		
Surplus for the period	1,747	421
Interest income	(125)	(133)
Decrease/(increase) in equity securities received under subrogation	1	(309)
(Decrease)/increase in creditors and accrued charges	(22)	13
Net cash generated from / (used in) operating activities	1,601	(8)
Cash flows from investing activities		
Interest received	104	171
Net cash generated from investing activities	104	171
Cash flows from financing activities		
Net contributions from the SEHK	600	450
Net cash generated from financing activities	600	450
Net increase in cash and cash equivalents	2,305	613
Cash and cash equivalents at beginning of the nine-month period	68,980	67,604
Cash and cash equivalents at end of the nine-month period	71,285	68,217

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2010 \$'000	At 31 December 2009 \$'000
Cash at bank	174	265
Fixed and call deposits with banks	71,111	67,952
	71,285	68,217

Notes to the condensed financial statements

For the nine months ended 31 December 2010
(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 2010 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 2010 to the interim financial report.

There were no significant changes in the operation of the Fund for the nine months ended 31 December 2010.

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 2010 after deducting relevant processing fees and charges for collecting and selling the securities received.

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

3. Contributions from the SEHK

During the nine months, deposits of \$1,200,000 in respect of twenty four new trading rights were received from the SEHK.

The SEHK also advised the SFC of any relinquished trading rights. Unless the trading right deposit is required to satisfy any claims or liabilities arising before such relinquishment, the SFC will refund to the SEHK the deposit of \$50,000 in respect of each trading right at or about the end of a six-month period after the relinquishment took effect. During the nine months ended 31 December 2010, the SFC had refunded to the SEHK of \$600,000 in respect of the deposit of twelve relinquished trading rights. As at 31 December 2010, there were six trading rights in total that have been relinquished but not yet refunded.

4. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund, the SFC and the SEHK. 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, there is no outstanding claim against the Fund.

In relation to the C.A. Pacific case, any excess of recovered amounts (refer to note 2), if any, 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.

6. Creditors and accrued charges

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

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