



SECURITIES AND
FUTURES COMMISSION

證券及期貨事務監察委員會

quarterly report

April - June 2010

This first Quarterly Report of the Securities and Futures Commission for financial year 2010-11 covers the period from 1 April to 30 June 2010. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

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Securities and Futures Commission

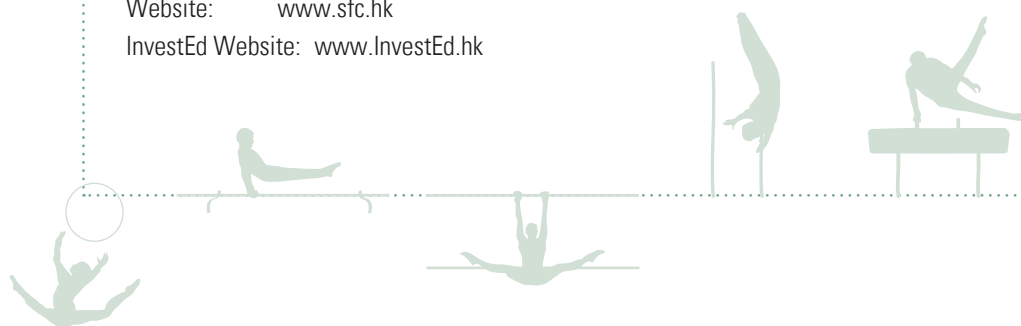
8th Floor, Chater House
8 Connaught Road Central
Hong Kong

Telephone: (852) 2840 9222

Facsimile: (852) 2521 7836

Website: www.sfc.hk

InvestEd Website: www.InvestEd.hk





chief executive officer's statement

The quarter saw a number of firm enforcement actions against people who acted against the integrity of the markets and the interests of investors. On the one hand, we continued with efforts to deter misconduct of intermediaries; on the other, we prosecuted investors who manipulated the market, thus sending a clear message that our combat against wrongdoings covers all market participants.

Acting decisively is important to our enforcement work. Early in the quarter, we sought and obtained court orders to freeze an additional amount of up to \$ 8.6 million in assets of an overseas asset management company in light of further insider dealing allegations.

Our regulatory proposals to enhance investor protection broke some significant ground in May. We issued conclusions to introduce a set of measures that included a consolidated product handbook comprising revised product codes for unit trusts, mutual funds and investment-linked assurance schemes as well as a new product code for unlisted structured investment products. Also introduced were measures to enhance intermediary conduct and selling practices relating to the sale of investment products.

We provided industry participants with practical guidance and various types of training to help them understand and comply with the new measures and requirements. More training will be given to industry associations in the coming months.

To give investors more choices, we authorised the first exchange-traded fund (ETF) managed by the Hong Kong asset management subsidiary of a Mainland insurance group. This ETF brought the total number of ETFs listed in Hong Kong to 62 as at quarter-end and reaffirmed Hong Kong's position as the second-largest ETF market in Asia.

As an enhancement to the SFC Online Portal launched last year, an online payment function for licensing-related fees was added to the system to further streamline interaction with intermediaries.

In June, we published the findings of a survey in which a random sample of industry participants was invited to rate their satisfaction with the SFC in terms of efficiency, staff quality and clarity of communication. The survey showed that 76% of respondents were either "satisfied" or "very satisfied" with our overall work. While encouraged by the high approval rate, we shall use the findings as helpful indicators on how we can further improve on our operations.

A television drama, the first-ever about the SFC, was produced to promote public understanding of our regulatory work. Delivered through realistic portraits of market misconduct, the miniseries depicts how the SFC cracks an intricate plot perpetrated by someone trading on insider information. The SFC was presented as a regulator keen to maintain a fair marketplace.

Our investor education efforts for the quarter focused on enhancing investors' understanding of the new investor protection measures and how these rules can protect them. New investor education materials were launched through various channels to explain the product Key Facts Statements and the post-sale cooling off arrangement for unlisted structured investment products.

Martin Wheatley

Chief Executive Officer

operational review

Regulation

Enforcement Actions

The SFC continued to take decisive and firm action against people who violated the Securities and Futures Ordinance (SFO), and those who undermined the integrity of our markets or harmed the interests of investors. During the past quarter, our enforcement action resulted in eight people being prosecuted successfully for market manipulation, false trading, providing false and misleading representation in an SFC licence application and naked short selling.

Market manipulation prosecuted

During the reporting period, we continued to crack down on market participants – both intermediaries and investors – who manipulated the market.

- In the first indictable prosecution for manipulating derivative warrants, the District Court jailed Patrick Fu Kor Kuen for 33 months and Francis Lee Shu Yuen for 36 months. Fu and Lee traded in a predetermined and repetitive manner between themselves to falsely inflate the turnover of the warrants traded. Their high volume of trading translated in a way so that the commission rebate they earned from Macquarie Equities (Asia) Ltd exceeded the transaction costs they incurred in trading, enabling them to earn a net profit of about \$1 million.
- Credit Szeto Kwok Kwan, a retail investor, was prosecuted and sentenced by the Eastern Magistracy to four weeks' imprisonment suspended for 12 months on charges of market manipulation. Szeto raised the indicative equilibrium price and the closing price of a derivative warrant during the closing auction session by placing buy and sell orders at escalating prices, which caused the closing price of the warrant to rise to 18.5% over the previous closing price.
- Another retail investor, Johnson Wong Chung Shun was fined \$27,000 by the Eastern Magistracy on nine counts for manipulating the share price of Bauhaus International (Holdings) Ltd.
- Leung Kin Bon, a securities broker, was sentenced by the Eastern Magistracy to four weeks' imprisonment suspended for 12 months on 15 charges of false trading. On various days between January and April 2009, shortly before market close, Leung placed buy orders for single board lots of Takson Holdings Ltd's shares with no real intention of buying the shares. The price of

the best sell orders were significantly above the then nominal prices, thereby raising Takson's nominal prices and the closing prices. Leung only bought Takson shares on days when it would have significant impact on the nominal prices and the closing prices of Takson shares. In addition to the court's sentence, Leung's licence was revoked and he was prohibited from entering the industry for 12 months.

- A former account executive of Sun Hung Kai Investment Services Ltd was sentenced by the Eastern Magistracy to 240 hours of community service for one charge of market manipulation. Ng Kwok Leung agreed to carry out an instruction from a client to fix a higher closing price for shares of IRICO Group Electronics Co, Ltd. IRICO's share price closed 10% higher in the last three minutes of trading on 3 April 2008 after Ng placed 15 buy orders in a progressively higher pricing sequence. A warrant has been issued for the arrest of Ng's client, who had left Hong Kong after the summons was issued.

Disciplinary actions taken and fines imposed

During the quarter, we took disciplinary actions against 14 licensees for various securities breaches and imposed sanctions ranging from a banning order to public reprimand and/or fining. The disciplinary fines imposed totalled \$10.8 million.

Internal control failings

- We fined Merrill Lynch (Asia Pacific) Ltd and Merrill Lynch Futures (Hong Kong) Ltd \$3.5 million for systems and internal control failings associated with mis-marking activities in a trading book.
- Also on the grounds of inadequate internal control procedures, specifically in the account opening and handling of accounts for Mainland Chinese investors, we reprimanded Christfund Securities Ltd, Christfund Futures Ltd and their respective responsible officers, Ng Kam Shing and Chow Yuen Tung, and fined them a total of \$2.5 million.
- We reprimanded Frank Hu, Peony Ng and Jenny Chang Pui Chun of UBS AG Hong Kong for negligence in handling a client's order, resulting in wash sales that might have misled the market. Instead of transferring a client's portfolio through a simple delivery versus payment arrangement (such as using the Central Clearing and Settlement System), Hu, Ng and Chang coordinated a series of on-exchange matched sales and purchases with the client's account executive at Morgan Stanley.



We fined Hu, Ng and Chang \$800,000, \$600,000 and \$400,000 respectively and took disciplinary action against the account executive at Morgan Stanley as well.

- We reprimanded and fined Julius Baer (Hong Kong) Ltd \$3 million for failing to comply with its licence conditions, which restricted the company to providing services only to professional investors.

Insider dealing

- We banned Steve Luk Ka Cheung, a former vice president and fund manager of JF Asset Management Ltd, from re-entering the industry for life following a Market Misconduct Tribunal determination that Luk had engaged in insider dealing. Luk received relevant information that JP Morgan Securities (Asia Pacific) Ltd was negotiating with China Overseas Land and Investment Ltd (COLI) regarding a top-up placement of the latter's shares. Luk then sold the COLI shares held by the funds he managed to avoid losses to those funds.

Irregular trading activities

- Hu Junbo was banned from re-entering the industry for 12 months for concealing from his employer, and falsely representing, the true identity of the owner of two securities trading accounts and instructing his assistant to conduct transactions placed by a third party for those accounts without obtaining prior written authorisation.
- Chan Chung Yuen's licence was suspended for six months for allowing his friend, Dennis Chung Yan, a SFC licensee accredited to another brokerage, to conduct personal trading through a client's account without obtaining the client's written authorisation and Chung's employer's consent. The actions thereby facilitated Chung's concealment of securities trading from his employer.
- The licence of Mak Kan Long was suspended for four months for failing to disclose his wife's trading account to his employer as a staff-related account and for conducting discretionary trading for his wife in the account without his wife's authorisation or disclosure of the discretionary authority to his employer.

On a related note, xxxxxxxxxx, a former SFC licensee was fined \$9,000 by the Eastern Magistracy for making a false or misleading representation in his licence application. xxxxxx, in his application to become a licensed representative accredited to ING Financial Planning Ltd, concealed his previous overseas criminal conviction in contravention of the SFO.

Civil actions taken

In April, we sought court orders to prohibit a New York-based asset management company, Tiger Asia Management LLC, from dealing in all listed securities and derivatives in Hong Kong in light of further insider dealing allegations. This was the first time we sought orders from the court to exclude an entity from trading in the Hong Kong market. We also sought court orders to freeze an additional \$8.6 million of Tiger Asia's assets. The sum, which was in addition to \$29.9 million we applied to freeze earlier, represents the notional profit they made from their new insider dealing allegations.

We had previously obtained orders to freeze assets of up to \$997 million in relation to Hontex International Holdings Co, Ltd and four of its wholly owned subsidiaries. The amount represented the net proceeds it raised through an initial public offering in December 2009. We succeeded in obtaining an extension to the freeze order alleging that its prospectus dated 14 December 2009 contained materially false or misleading information, which probably induced investors to subscribe for the company's shares. The action to freeze assets is to prevent the dissipation of assets pending the conclusion of our investigation, and to ensure sufficient assets to satisfy any restoration or compensation orders, if such orders are made against Hontex.

Regulatory Enhancements

Measures to enhance investor protection

In May, we issued the conclusions paper on proposals to enhance protection for the investing public. One of the new measures introduced under the conclusions was a consolidated product handbook – the SFC Handbook that was gazetted and became effective on 25 June 2010. The SFC Handbook is a consolidated product handbook comprised of revised product codes for unit trusts and mutual funds, and investment-linked assurance schemes. It also includes a new product code for unlisted structured investment products.

To provide additional guidance to the industry, we made available on our website answers to frequently asked questions relating to application procedures, and forms and checklists applicable to the respective investment products covered by the SFC Handbook. We also held a number of workshops to provide practical guidance to the industry on the implementation of the product codes of the SFC Handbook.

Also introduced in the conclusions were measures to enhance intermediary conduct and selling practices relating to the sale of investment products. In this regard, we issued circulars to the industry to provide guidance on implementing investor characterisation, clarify professional investor requirements and remind the industry of their obligations in the selling of investment products. We also provided training to members of the Hong Kong Securities Association on the subject matter. More training will be provided to other industry associations in the coming quarter.

In parallel with the move to enhance investor protection, we had launched a consultation in October 2009 to reform the regulatory regime governing offers of structured products, such that all structured products, irrespective of their legal form, will be regulated under the SFO. The consultation conclusions were published in April 2010. We have been working with the relevant government departments on the relevant draft bill to implement the initiatives.

Other regulatory enhancements

On 25 June, we issued the conclusions paper to the proposals to extend the application of the Codes on Takeovers and Mergers and Share Repurchases (Codes) to real estate investment trusts (REITs) and to apply to all listed collective investment schemes the market misconduct and disclosure of interest provisions in the SFO.

Given the overall support of respondents, a majority of the proposals set out in the consultation paper were adopted, subject to some modifications and amendments to take into account the respondents' views. All amendments to the Codes and the REIT Code were gazetted and became effective immediately upon release of the conclusions paper.

Also on 25 June, we concluded the consultation on the proposal to stop commenting on certain takeovers-related routine announcements under the Codes and to make other miscellaneous amendments to the Codes. All the amendments, subject to minor modifications, became effective on the same day.

On the consultation regarding giving statutory backing to the requirement of listed corporations to make timely disclosure of price-sensitive information, we received a number of responses from the market concerning the draft SFC guidelines that explain

the type of information covered and how the exemptions and safe harbours would be applied. We are reviewing the responses.

Our work on the subsidiary legislation to implement the short-position reporting requirements to enhance short-position transparency is underway. We aim to issue the draft legislation for public comments later in the year.

Market supervision and standards

In May, the Takeovers Panel upheld the Executive's ruling not to permit Rich Legend International Ltd to invoke certain conditions so that it would not have to proceed with the general offers for Zhongyu Gas Holdings Ltd. The Panel agreed with the Executive that the invoking of conditions to cause the offers to lapse would require Rich Legend to demonstrate that the circumstances which give rise to its right to invoke are of material significance in the context of the offers. The decision reinforced the importance of creating conditions of the greatest practicable certainty and minimising risks to offeree company's shareholders.

We issued a circular to intermediaries to clarify that the SFC does not license individuals who conduct business activities in another jurisdiction, even if those activities are conducted for, on behalf of, or in conjunction with an SFC-licensed corporation. The circular also reminded the industry that licensed corporations will be responsible for the conduct of their employees or agents doing business on their behalf in other jurisdictions.

As part of our efforts to maintaining high standards in the markets, we gave a presentation to more than 300 industry participants at a seminar hosted by the Hong Kong Securities Professionals Association. At the seminar, we explained commonly found internal control deficiencies and information technology management.

In a meeting in June, we discussed daily operational and compliance issues concerning stockbrokers with six brokerage industry bodies, briefing the representatives on the key features of the SFC Online Portal as well as various recent fraud cases.

Public concerns

During the quarter, the number of non-Lehman Brothers-related complaints increased moderately from the last quarter. The accumulated number of Lehman Brothers-related complaints totalled 8,952 as of 30 June.



Analysis of complaints of market malpractices

	For the quarter ended 30/06/2010	For the quarter ended 31/03/2010	For the quarter ended 30/06/2009
Nature of complaints			
Conduct of licensed intermediaries and registered institutions	105	86	242
Listing-related matters and disclosure of interests	135	95	89
Market misconduct	97	92	81
Products	3	3	5
Other financial activities	87	89	88
Miscellaneous	0	3	5
Subtotal	427	368	510
Complaints related to Lehman Brothers	29	14	282
Total	456	382	792

Note: The figures reflect the number of complainants.

Development

Working closely with the Mainland on market development

We supported the Government's cross-border cooperation initiatives by participating in a number of high-level meetings with the Government and relevant Mainland authorities. We also attended the second meeting held by the Expert Group on Hong Kong/Guangdong Financial Co-operation to collaborate with the Government and Mainland authorities on co-operation initiatives pursuant to the Framework Agreement on Hong Kong-Guangdong Cooperation. Signed on 7 April 2010, the Framework Agreement is expected to bring the co-operation between Hong Kong and Guangdong to new heights. On a broader level, we shared our views with the Government to further Hong Kong's collaboration with Shanghai and Shenzhen. We also provided input to the Government on general initiatives to develop Hong Kong into a renminbi offshore centre.

To keep abreast of latest regulatory developments on the Mainland, we continued to maintain close contact with Mainland authorities and other regulatory counterparts. During the quarter, we conducted meetings with various Mainland regulatory authorities and key Mainland financial institutions to garner information on market changes and views from the industry.

Capitalising on new CEPA initiatives

On 27 May, the Mainland and Hong Kong entered into Supplement VII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA VII). We provided extensive support to the Government in formulating specific co-operation measures under the securities sector and took part in various discussions with our Mainland counterparts to finalise relevant proposals. Under CEPA VII, it is agreed that exchange-traded funds (ETFs) tracking Hong Kong-listed stocks will be launched on the Mainland at an appropriate time. CEPA VII also supports subsidiaries set up in Hong Kong by qualified Mainland futures companies to develop business in Hong Kong accordance with the relevant laws.

Number of authorised collective investment schemes

	As at 30/06/2010	As at 30/06/2009
Unit trusts and mutual funds	1,967	2,007
Investment-linked assurance schemes	241	236
Pooled retirement funds	35	35
Mandatory Provident Fund (MPF) master trust schemes	38	37
MPF pooled investment funds ¹	287	306
Others ²	22	20
Total	2,590	2,641

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

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

Unlisted structured products¹ offered to the public

	For the quarter ended 30/06/2010
Offering documents authorised	36
Advertisements authorised	0

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

Promoting development of markets and products

We authorised the first ETF managed by the Hong Kong asset management subsidiary of a Mainland insurance group. This ETF brought the total number of ETFs listed in Hong Kong to 62. As at the end of June 2010, Hong Kong remained the second-largest ETF market in Asia. Mainland China was largest in terms of turnover while Japan ranked first in terms of aggregate market capitalisation.

Licensing of intermediaries

During the quarter, we received 3,237 applications, up about 12% from the previous quarter and 59% more than the same period last year. The total number of licensees and registrants was 37,264, up about 2% from a year ago.

In April, the SFC Online Portal for intermediaries was enhanced by adding an online payment function for licensing-related fees to further streamline interaction with industry participants. Besides accepting payments electronically, the enhanced portal allows intermediaries to view and manage invoices and receipts and to receive reminders on any outstanding fees on line.

Number of licensees and registrants

	As at 30/06/2010	As at 31/03/2010	Change (%)	As at 30/06/2009	Change (%)
Licensed Corporations	1,658	1,631	1.7	1,569	5.7
Registered Institutions	108	108	0	102	5.9
Individuals	35,498	34,950	1.6	34,952	1.6
Total	37,264	36,689	1.6	36,623	1.8

Communicating with market participants

To better understand the needs of industry participants and industry-related parties and to gain insights for corporate planning, we commissioned a leading market research consultancy to conduct a survey in which a random sample of industry participants was invited to rate their satisfaction with the SFC in terms of efficiency, staff quality and clarity of communication. The report, published in June, showed that 76% of respondents were either "satisfied" or "very satisfied" with the regulator's overall work. In addition, 73% expressed satisfaction with both the SFC's efficiency and staff quality, which were deemed respectively to be the primary and secondary driver of satisfaction.

Using periodical publications, we communicate regularly with industry participants to help them better understand regulatory requirements. In April, we published an edition of the Enforcement Reporter to discuss some of the SFC's more significant and recent enforcement actions. In June, an issue of the Takeovers Bulletin highlighted proposed regulatory enhancements for takeovers-related matters. Also issued during the period was the SFC Annual Report 2009-10, which gave a full and transparent account of the SFC's work.

Collaborating for Hong Kong's financial stability

In May, we participated in the market-wide contingency rehearsal for the financial services sector co-ordinated by the Government. The rehearsal aimed to ensure effective communication among financial market regulators, and regulators respond appropriately to issues that may have major cross-market implications and perhaps undermine the financial stability of Hong Kong.

Education

During the quarter, we made inroads through new programmes and campaigns in educating the Hong Kong public on the role of the SFC and the many aspects of investing.

“SFC in Action,” a television drama produced by Radio Television Hong Kong was aired on TVB Jade in May. This six-episode miniseries, our first-ever television drama, gives the public some insight into how the SFC cracks down on market misconduct to maintain a fair marketplace, what constitutes insider dealing and market manipulation and the importance of a proper investing attitude on the part of retail investors. We marked this milestone with a launch ceremony jointly officiated by our Chairman Dr Eddy Fong and Director of Broadcasting Mr Franklin Wong.

The miniseries attracted about 1,000,000 viewers on average. A movie version is being produced and the public can revisit the drama online at the SFC and InvestEd websites in the meantime.

A series of investor education initiatives under the theme of “Know How the New Rules Protect You as an Investor” was launched in June. The campaign focuses on enhancing investors’ understanding of a series of new investor protection measures, starting with those that came into effect in June. In his June column, Dr Wise explained the product Key Facts Statements (KFS) and the post-sale cooling off arrangement for unlisted structured investment products, thus setting in motion the rest of the campaign comprising publications, radio segments, and articles on the InvestEd portal.

To familiarise investors with the new measures, we also launched a user-friendly booklet, “How to Read Product Key Facts Statements,” distributing more than 115,000 copies by inserting them in two free Chinese newspapers as well as through banks, intermediaries and public libraries. We also launched a leaflet to explain the mechanics of the post-sale cooling off arrangement, dispatching more than 20,000 copies. Additional initiatives including, infomercials, short video segments and radio interview programmes, are scheduled for the second half of 2010.

Our “Invest Wisely” radio programme launched earlier in the year aired its 15th and last episode in May. The 30-minute segments in Cantonese featured industry professional and market practitioners discussing topical issues that include securities trading, fund investment and risk management.

During the quarter, we addressed misconceptions about warrants, such as, liquidity providers’ duties and factors that affect warrant pricing through our weekly column in Headline Daily and the Monthly Focus e-newsletter of our InvestEd portal. In his monthly column, Dr Wise also wrote about checking out the licensing information of intermediaries, and explained what investors should consider in a rights issue.

We continued to encourage investors to learn about investing via our InvestEd portal. New materials on KFS for various product categories and obligation of shareholders were posted onto the website. The online game launched on the InvestEd portal in April attracted more than 200 contestants with Yahoo! banner ads and ads on certain KMB bus routes helping direct traffic to the website.

This quarter, a total of 14 investor education seminars were conducted for over 4,000 attendees. We further broadened the scope of our outreach by delivering inaugural seminars for various organisations such as the Trade Development Council.

We co-organised the fourth investor seminar series with the Hong Kong Society of Financial Analysts in June, drawing more than 330 participants. The seminars covered market sector analysis, clean energy stocks and ETFs. Summaries were published in two major newspapers and video clips from the seminar were uploaded to InvestEd website.

The three-month consultation on the establishment of the Investor Education Council (IEC) concluded in May. We will continue to work closely with the Financial Services and Treasury Bureau to help lay the groundwork for the IEC.

organisational matters

We had 503 staff members as at 30 June, up from 489 a year ago.

Total revenue for the quarter was \$404 million, down from \$472 million a year ago and \$416 million in the previous quarter.

Expenditure was \$178 million, 17% below our approved budget.

This resulted in a surplus of \$226 million for the quarter, compared with \$295 million in the same quarter last year and \$227 million in the previous quarter. Our reserves stood at \$6.2 billion at 30 June.

The SFC welcomed the new appointments and re-appointments to the following committees with effect from 1 April 2010:

- Academic and Accreditation Advisory Committee
- Committee on Unit Trusts
- Committee on Investment-Linked Assurance and Pooled Retirement Funds
- Disciplinary Chair Committee
- Investor Compensation Fund Committee
- Investor Education Advisory Committee
- Nominations Committee
- Securities Compensation Fund Committee
- SFC Dual Filing Advisory Group
- SFC (HKEC Listing) Committee
- Takeovers Appeal Committee
- Takeovers and Mergers Panel

Membership changes and full membership lists are available on the SFC website.

Securities and Futures Commission

Consolidated statement of comprehensive income

For the quarter ended 30 June 2010

(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Income		
Levies	333,319	387,139
Fees and charges	35,119	47,373
Investment income	32,689	35,537
Less: custody and advisory expenses	(586)	(529)
Investment income net of third party expenses	32,103	35,008
Recoveries from Investor Compensation Fund	1,041	1,009
Other income	2,127	1,923
	403,709	472,452
Expenses		
Staff costs and directors' emoluments	138,728	135,245
Premises		
rent	15,911	14,506
other	6,196	5,648
Other expenses	9,447	15,832
Depreciation	8,010	6,077
	178,292	177,308
Surplus and total comprehensive income for the quarter	225,417	295,144

The notes on pages 14 and 15 form part of the condensed financial statements.

Consolidated statement of financial position

At 30 June 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2010	At 31 March 2010
		\$'000	\$'000
Non-current assets			
Fixed assets		51,983	49,423
Held-to-maturity debt securities	2	3,507,720	3,769,238
		3,559,703	3,818,661
Current assets			
Held-to-maturity debt securities	2	1,730,397	1,536,402
Debtors, deposits and prepayments		173,389	208,198
Bank deposits		919,602	566,709
Cash at bank and in hand		4,525	2,617
		2,827,913	2,313,926
Current liabilities			
Fees received in advance		26,430	9,260
Creditors and accrued charges		84,528	71,298
		110,958	80,558
Net current assets		2,716,955	2,233,368
Total assets less current liabilities		6,276,658	6,052,029
Non-current liabilities	3	29,001	29,789
Net assets		6,247,657	6,022,240
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		6,204,817	5,979,400
		6,247,657	6,022,240

The notes on pages 14 and 15 form part of the condensed financial statements.

Statement of financial position

At 30 June 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2010	At 31 March 2010
		\$'000	\$'000
Non-current assets			
Fixed assets		51,961	49,398
Held-to-maturity debt securities	2	3,507,720	3,769,238
		3,559,681	3,818,636
Current assets			
Held-to-maturity debt securities	2	1,730,397	1,536,402
Debtors, deposits and prepayments		173,139	208,048
Bank deposits		919,602	566,709
Cash at bank and in hand		3,765	2,318
		2,826,903	2,313,477
Current liabilities			
Fees received in advance		26,430	9,260
Creditors and accrued charges		83,496	70,824
		109,926	80,084
Net current assets		2,716,977	2,233,393
Total assets less current liabilities		6,276,658	6,052,029
Non-current liabilities	3	29,001	29,789
Net assets		6,247,657	6,022,240
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		6,204,817	5,979,400
		6,247,657	6,022,240

The notes on pages 14 to 15 form part of the condensed financial statements.

Consolidated statement of changes in equity

For the quarter ended 30 June 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 quarter	-	295,144	295,144
Balance at 30 June 2009	42,840	5,205,787	5,248,627
Balance at 1 April 2010	42,840	5,979,400	6,022,240
Total comprehensive income for the quarter	-	225,417	225,417
Balance at 30 June 2010	42,840	6,204,817	6,247,657

The notes on pages 14 and 15 form part of the condensed financial statements.

Consolidated statement of cash flows

For the quarter ended 30 June 2010
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Cash flows from operating activities		
Surplus for the quarter	225,417	295,144
Adjustments for:		
Depreciation	8,010	6,077
Investment income	(32,689)	(35,537)
	200,738	265,684
Decrease/(increase) in debtors, deposits and prepayments	14,129	(59,444)
Increase in creditors and accrued charges	13,230	8,698
Increase/(decrease) in fees received in advance	17,170	(20,997)
Decrease in non-current liabilities	(788)	(2,175)
Net cash generated from operating activities	244,479	191,766
Cash flows from investing activities		
Interest received	66,669	63,025
Held-to-maturity debt securities bought	(485,537)	(475,424)
Held-to-maturity debt securities redeemed at maturity	539,760	165,049
Fixed assets bought	(10,570)	(10,337)
Net cash used from/(used in) investing activities	110,322	(257,687)
Net increase/(decrease) in cash and cash equivalents	354,801	(65,921)
Cash and cash equivalents at beginning of the quarter	569,326	456,404
Cash and cash equivalents at end of the quarter	924,127	390,483

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 June 2010 \$'000	At 30 June 2009 \$'000
Bank deposits	919,602	387,342
Cash at bank and in hand	4,525	3,141
	924,127	390,483

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2010
(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 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 Investor Compensation Company Limited in the SFC’s condensed financial statements made up to 30 June 2010. We eliminate 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 quarter ended 30 June 2010.

2. Held-to-maturity debt securities

The Group and the SFC

As of 30 June 2010, the total market value of held-to-maturity debt securities amounted to \$5,330,166,000 (31 March 2010 : \$5,397,994,000), which was above the total carrying cost of \$5,238,117,000 (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 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 30 June 2010. Therefore we do not provide an ageing analysis of debtors and creditors.

5. Exchange fluctuation

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

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 30 June 2010, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 30 June 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 \$1,041,000 (2009 : \$1,009,000), in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all directors) comprised :

	Unaudited quarter ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Short-term employee benefits	6,177	7,155
Post employment benefits	576	671
	6,753	7,826

The total remuneration is included in "staff costs and directors' emoluments" on page 9. 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 Investor Compensation Fund amounting to \$638,000 (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 quarter ended 30 June 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 17 to 22.

3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2010 and up to the date of this report were:

Mr Keith Lui (Chairman)

Mr Kenneth H W Kwok, BBS, SC

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 quarter.

On behalf of the Committee

Keith Lui

Chairman

26 August 2010

Statement of comprehensive income

For the quarter ended 30 June 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 June 2010 \$'000	30 June 2009 \$'000
Income			
Net investment income		14,307	51,598
Exchange difference		2,685	(48)
		16,992	51,550
Expenses			
Investor Compensation Company expenses	2	1,041	1,009
Compensation (written back)/expenses		(218)	162
Auditor's remuneration		21	21
Bank charges		180	201
Professional fees		806	725
		1,830	2,118
Surplus and total comprehensive income for the quarter		15,162	49,432

The notes on pages 21 and 22 form part of the condensed financial statements.

Statement of financial position

At 30 June 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2010	At 31 March 2010
		\$'000	\$'000
Current assets			
Financial assets designated at fair value through profit or loss			
Debt securities		1,598,268	1,517,803
Pooled Fund		177,449	184,523
Interest receivable		15,977	16,371
Due from Investor Compensation Company		638	261
Fixed and call deposits with banks		176,673	150,452
Cash at bank		12,480	102,283
		1,981,485	1,971,693
Current liabilities			
Provision for compensation	3	300	5,656
Creditors and accrued charges		888	895
Fair value adjustment on unsettled trades		–	7
		1,188	6,558
Net current assets		1,980,297	1,965,135
Net assets		1,980,297	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		876,656	861,494
		1,980,297	1,965,135

The notes on pages 21 and 22 form part of the condensed financial statements.

Statement of changes in equity

For the quarter ended 30 June 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 quarter	-	-	49,432	49,432
Balance at 30 June 2009	994,718	108,923	761,396	1,865,037
Balance at 1 April 2010	994,718	108,923	861,494	1,965,135
Total comprehensive income for the quarter	-	-	15,162	15,162
Balance at 30 June 2010	994,718	108,923	876,656	1,980,297

The notes on pages 21 and 22 form part of the condensed financial statements.

Statement of cash flows

For the quarter ended 30 June 2010
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Cash flows from operating activities		
Surplus for the quarter	15,162	49,432
Net investment income	(14,307)	(51,598)
Exchange difference	(2,685)	48
Increase in amount due from Investor Compensation Company	(377)	(191)
Increase in unsettled regular purchase of financial assets	–	(15,469)
Decrease in provision for compensation	(5,356)	(1,762)
(Decrease)/Increase in creditors and accrued charges	(7)	5
Net cash used in operating activities	(7,570)	(19,535)
Cash flows from investing activities		
Purchase of debt securities	(110,790)	(493,149)
Sale or maturity of debt securities	40,000	504,183
Sale of equity securities	218	137
Interest received	14,560	17,938
Net cash (used in)/generated from investing activities	(56,012)	29,109
Net (decrease)/increase in cash and cash equivalents	(63,582)	9,574
Cash and cash equivalents at beginning of the quarter	252,735	136,111
Cash and cash equivalents at end of the quarter	189,153	145,685

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 June 2010 \$'000	At 30 June 2009 \$'000
Fixed and call deposits with banks	176,673	145,419
Cash at bank	12,480	266
	189,153	145,685

Notes to the condensed financial statements

For the quarter ended 30 June 2010
(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 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.

2. ICC expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the quarter ended 30 June 2010, ICC incurred \$1,041,000 for its operation (For the quarter ended 30 June 2009 : \$1,009,000).

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 quarter ended 30 June 2010	(218)
Less: compensation paid during the quarter ended 30 June 2010	(5,138)
Balance as at 30 June 2010	300

We maintained provision for liabilities arising from claims received resulting from one default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities and 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 30 June 2010 all provisions were expected to be paid within one year.

4. Related party transactions

The Fund has related party relationships with the Securities and Futures Commission, the ICC, the SEHK, the HKFE and the Unified Exchange Compensation Fund. During the quarter, 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 \$900,000 (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 quarter ended 30 June 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 Securities and Futures Commission 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 24 to 28.

3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2010 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
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 quarter.

On behalf of the Committee

Keith Lui
Chairman

17 August 2010

Statement of comprehensive income

For the quarter ended 30 June 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 June 2010 \$'000	30 June 2009 \$'000
Income			
Interest income		21	87
Recoveries	2	–	146
		21	233
Expenses			
Auditor's remuneration		9	9
Professional fees		7	–
		16	9
Surplus and total comprehensive income for the quarter		5	224

The notes on page 28 form part of the condensed financial statements.

Statement of financial position

At 30 June 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2010	At 31 March 2010
		\$'000	\$'000
Current assets			
Equity securities received under subrogation		1	2
Interest receivable		9	4
Fixed and call deposits with banks		69,174	68,958
Cash at bank		71	22
		69,255	68,986
Current liabilities			
Creditors and accrued charges		10,269	10,305
		58,986	58,681
Net current assets			
		58,986	58,681
Net assets			
		58,986	58,681
Representing:			
Compensation fund			
Contributions from the SEHK	3	47,900	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		15,515	15,510
		1,053,704	1,053,399
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		58,986	58,681

The notes on page 28 form part of the condensed financial statements.

Statement of changes in equity

For the quarter ended 30 June 2010

(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Compensation fund balance as at 1 April	58,681	57,674
Net contributions received from the SEHK	300	400
Total comprehensive income for the quarter	5	224
Compensation fund balance as at 30 June	58,986	58,298

The notes on page 28 form part of the condensed financial statements.

Statement of cash flows

For the quarter ended 30 June 2010
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Cash flows from operating activities		
Surplus for the quarter	5	224
Interest income	(21)	(87)
Decrease/(increase) in equity securities received under subrogation	1	(135)
Decrease in creditors and accrued charges	(36)	(40)
Net cash used in operating activities	(51)	(38)
Cash flows from investing activities		
Interest received	16	100
Net cash from investing activities	16	100
Cash flows from financing activities		
Net Contributions from the SEHK	300	400
Net cash from financing activities	300	400
Net increase in cash and cash equivalents	265	462
Cash and cash equivalents at beginning of the quarter	68,980	67,604
Cash and cash equivalents at end of the quarter	69,245	68,066

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 June 2010 \$'000	At 30 June 2009 \$'000
Fixed and call deposits with banks	69,174	67,770
Cash at bank	71	296
	69,245	68,066

Notes to the condensed financial statements

For the quarter ended 30 June 2010
(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. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance (SFO) which came into effect on 1 April 2003, the Fund has prepared 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.

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 sale proceeds and the remaining shares at market value as of 30 June 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. According to IFRS 7, these subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries." Dividend income, if any, is also recognised in "Recoveries."

3. Contributions from the SEHK

During the quarter, deposits of \$400,000 in respect of 8 new trading rights were received from the SEHK and deposits of \$100,000 in respect of two relinquished trading rights were refunded to the SEHK.

4. Related party transactions

The Fund has related party relationships with the ICF, the SFC and the SEHK. During the quarter, 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.

Shares were allocated to the Fund under its subrogation rights in relation to the C.A. Pacific case (refer to note 2). As at 30 June 2010, shares with a market value \$659, 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.