




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



# QUARTERLY REPORT

APRIL-JUNE 2011



This first Quarterly Report of the Securities and Futures Commission for financial year 2011-12 covers the period from 1 April to 30 June. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

## Contents

---

1	Chief Executive Officer's Statement
2	Regulation
5	Development
7	Education
9	Organisational Matters
10	Activity Data
	<b>Financial Statements</b>
14	Securities and Futures Commission
21	Investor Compensation Fund
27	Unified Exchange Compensation Fund

---

# Chief Executive Officer's Statement

This quarter, we continued to work towards enhancing the regulatory regime in various areas to raise market standards while facilitating market development.

As the relevant law change took effect in May, the regulation of the public offers of structured products in the form of shares or debentures was transferred from the prospectus regime of the Companies Ordinance to the regime for public offers of investments under the Securities and Futures Ordinance (SFO). Under the new regime, advertisements and offer documents for all structured products that are publicly offered must be authorized by the SFC, unless otherwise exempted by the SFO.

Alongside the Government's issuance of the bill to codify requirements on listed corporations to disclose price-sensitive information and its introduction to the Legislative Council in June, we published a revised draft of the guidelines on disclosure of inside information reflecting public comments received and the relevant text of the bill.

Starting June, the SFC has been regulating credit rating agencies (CRAs) and their rating analysts operating in Hong Kong by requiring them to be licensed for the Type 10 regulated activity and to comply with the relevant code of conduct as well as other requirements.

We also proceeded with the proposals to extend the conflict of interest requirements governing research analysts to research reports on real estate investment trusts (REITs) and listing applicants after releasing the consultation conclusions on the proposals.

Separately, we consulted the public on the proposed subsidiary legislation giving effect to the short-position reporting regime that will enhance the market transparency of short positions.

This quarter saw a number of prosecutions for various types of misconduct, including market manipulation and insider dealing, as well as disciplinary actions against licensees for internal control deficiencies, particularly with respect to the sale of structured products.

Furthering Hong Kong's development as an offshore renminbi centre remains an important task. During the quarter, we authorized the first renminbi-denominated and traded REIT for listing on The Stock Exchange of Hong Kong Ltd. This is also the first listed renminbi-denominated equity product traded outside the Mainland. We also authorized a renminbi-denominated fund for public offer in Hong Kong.

In April, we authorized the Hong Kong Mercantile Exchange as an automated trading service provider to operate a commodity futures market locally. Trading on it started officially in May.

Our investor education work this quarter focused on reminding the public of two enhanced investor protection measures implemented as of June: the Product Key Facts Statements for SFC-authorized investment products and the mandatory disclosure of sales related information by product distributors. Numerous investor education materials were made available through various channels to help investors understand renminbi REITs.

In addition to providing an account of our work in three main areas, we are introducing a new quarterly overview of key activity data. This will take the form of a statistical summary, featured between the narratives and financial statements.

**Alexa Lam**

Acting Chief Executive Officer

# Regulation

## Enforcement actions

We acted to penalise violators and to send clear messages to the markets that we do not tolerate activities that undermine investor interests or market integrity.

During the quarter, we succeeded in prosecuting 12 individuals and corporations for various types of misconduct, including one being convicted of four counts of market manipulation. A number of civil and criminal actions we filed are pending court proceedings.

## Actions processed through courts

Highlights of our enforcement actions:

- We prosecuted Lam Lok Yin for creating an artificial price in four callable bull bear contracts (CBBCs) during the pre-opening session, obtaining the second conviction against manipulation of CBBCs. Lam was sentenced to serve 120 hours of community service and fined \$89,100.
- We obtained orders in the High Court to disqualify Li Xinggui, Zheng Yingsheng and Zhou Li Yang, three executive directors of Pearl Oriental Innovation Ltd, for failing to disclose material information to the company's shareholders.
- The court issued an arrest warrant for Pan Caihong, a Mainland lawyer, who did not appear at the Eastern Magistracy to face nine counts of insider dealing charges. The investigation found that Pan had sold 1,652,000 shares of Great World Co Holdings Ltd, a company listed on the Growth Enterprise Market, a few days prior to the announcement of a proposed placement, thus avoiding a potential loss of about \$87,000.
- We successfully sought order from the Court of First Instance to reverse the decision to acquit Tsoi Bun, a futures trader charged with five summonses alleging manipulation of the calculated opening prices in the futures market. A re-trial will be heard in November 2011.
- We prosecuted Lam Kwong Yu, a former independent non-executive director of Hong Kong Aircraft Engineering Company Ltd, for alleged insider dealing in the company's shares.

## Internal control failings

We also disciplined six licensees, including five companies and a responsible officer, and fined them a total of \$11.8 million for a number of internal control deficiencies.

- Sun Hung Kai Investment Services Ltd was reprimanded and fined \$4.5 million for its failure to perform adequate due diligence on a series of Lehman Brothers (LB)-related equity-linked notes (ELNs) before selling them to clients. We noted further that the company did not disclose to clients material information and the risks associated with ELNs.
- We reprimanded Core Pacific-Yamaichi International (H.K.) Ltd regarding its internal systems and controls relating to sale of LB-related structured products. The company agreed to offer to repurchase from and compensate all its eligible clients in terms of the LB-related structured products they invested.
- Quam Securities Co Ltd and its responsible officer were reprimanded and fined \$1,000,000 and \$300,000 respectively for internal control deficiencies in handling Mainland client accounts. The company failed to comply with the "know your client" procedures and did not implement appropriate measures to safeguard client assets.
- We reprimanded and fined Merrill Lynch (Asia Pacific) Ltd \$3 million for inadequate systems to properly assess the financial situation and investment objectives of customers investing in index-linked notes. Its systems also did not keep adequate documentation to explain the rationale behind the advice given to customers.
- HSBC Trinkaus Investment Management Ltd was reprimanded and fined \$3 million and its licence was partially suspended for two years. We found the company did not have adequate procedures to ensure suitable and reasonable recommendations given to ELN customers; nor did it conduct adequate product due diligence and provide enough documentation of its investment advice.

## Appeals

### Court of Final Appeal

- The Court of Final Appeal granted an application by Patrick Fu Kor Kuen and Francis Lee Shu Yuen for leave to appeal their convictions for manipulating derivative

warrants, following a Court of Appeal (CA) decision to uphold their convictions but to reduce their sentences.

- We intended to appeal the ruling of the High Court after it ruled that the SFC cannot seek final orders under the Securities and Futures Ordinance (SFO) without determining whether Tiger Asia Management LLC (Tiger Asia), a New York-based asset management company, and three of its officers have contravened Hong Kong's insider dealing and market manipulation laws. The ruling followed our proceedings against these parties to freeze a total of \$38.5 million of Tiger Asia's assets and to prohibit it from dealing in all listed securities and derivatives in Hong Kong.

#### Court of Appeal

- The CA reaffirmed the decision of the Securities and Futures Appeals Tribunal to ban David Tsien Pak Cheong (Tsien), a former equity salesman of JP Morgan Securities (Asia Pacific) Ltd, from re-entering the industry for 10 years. The disciplinary action followed a finding by the Market Misconduct Tribunal that Tsien, together with two other parties, engaged in insider dealing in the shares of China Overseas Land and Investment Ltd.

### New regulatory regime on credit rating agencies

Starting 1 June, credit rating agencies (CRAs) and their rating analysts providing credit rating services in Hong Kong have come under the SFC's regulation. The new regulatory regime requires CRAs and their rating analysts to be licensed for Type 10 regulated activity and to comply with the relevant code of conduct, as well as other legal and regulatory requirements that are generally applicable to all SFC licensees. On 1 June, we issued Type 10 licences to five CRAs and 156 of their rating analysts providing credit rating services locally.

This quarter, we worked to ensure that all CRA-related licence applications submitted to the SFC were processed in time to permit the applicants to become licensed in June. To help the industry in making the transition, we published a circular highlighting certain licensing requirements for CRAs and their analysts, revised application forms and new frequently asked questions.

## Regulatory enhancements

### Measures to enhance investor protection

Commencing 25 June, all SFC-authorized funds and investment-linked assurance schemes that will continue to be marketed to the Hong Kong public (about 2,000) have been required to provide investors with a product key facts statement (KFS) and an offering document that satisfy a number of additional disclosure requirements as set out in the SFC Handbook<sup>1</sup>, which came into effect a year ago.

To facilitate the smooth transition into the new regime, we held briefings, provided new forms and checklists, frequently asked questions, and issued circulars or letters to provide the fund and insurance industries with guidance and clarification on matters relating to the new regime. In addition, we gave directional comments on more than 150 draft KFS submissions. After the transition, we will embark a surveillance programme on the KFS and revised offering documents.

### Other regulatory changes

On 13 May, the Securities and Futures and Companies Legislation (Structured Products Amendment) Ordinance 2011 took effect after being gazetted on the same day. Under the amended legislation, the regulation of public offers of structured products in the form of shares or debentures was transferred from the prospectus regime of the Companies Ordinance to the regime for public offers of investments under the SFO. Under the new regime, the issue of advertisements and offer documents for all structured products to the public must be authorized by the SFC, unless otherwise exempted by the SFO.

Separately, we launched a consultation in May on the proposed subsidiary legislation that will give effect to the short position reporting regime to enhance the market transparency of reporting of such positions. The consultation ended in June. We are reviewing the comments received and will publish the conclusions as soon as possible.

<sup>1</sup> The SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products

In June, the Government introduced to the Legislative Council the bill to statutorily codify certain requirements on listed corporations to disclose price-sensitive information. Concurrently, we published a revised draft of the guidelines on disclosure of inside information, reflecting public comments received during our consultation and the relevant text of the bill. We will continue to work with the Government on the legislative process and will finalise the guidelines when the legislation is in place.

Also in June, we published the conclusions on proposals to extend the conflict of interest requirements governing research analysts to research reports on real estate investment trusts (REITs), other entities that are not established in corporate form and listing applicants. We will proceed with the proposals, which aim to enhance the integrity and objectivity of pre-deal research reports and prevent them from being used by listing applicants to disseminate information without formal prospectus liability.

One of the requirements specifies that sponsors of listing applicants should take reasonable steps to ensure that all material information disclosed to analysts, including material forward-looking information, is contained in prospectuses or listing documents. The requirements are also extended to analysts conducting research for business operations that are constituted in a form other than a corporation or a REIT. The changes will take effect on 1 September, except for the requirements regarding new listings<sup>2</sup>.

### Market supervision and standards

The Takeovers Panel ruled on two cases in April. In one case, the Panel ruled that evidence was insufficient to establish that Rengo Co, Ltd (Rengo) was acting in concert with the family of the late Mr Yam Cheong Hung in relation to an acquisition of 29.9% of the voting rights in Hung Hing Printing Group Ltd from Asia Packaging Co, Ltd (Asia Packaging). Accordingly, the acquisition would not trigger a general offer obligation under the Takeovers Code. The Panel also found no evidence suggesting Rengo had any control or influence over the residual stake to be held by Asia Packaging following the acquisition. The Panel's decision was published in May.

In another case, the Panel found that Husky Energy Inc should not, at the time of its possible secondary listing on The Stock Exchange of Hong Kong Ltd (SEHK), be treated as a public company in Hong Kong under the Codes on Takeovers and Mergers and Share Repurchases (the Codes). It follows that the Codes will not apply to the company in the event that the proposed secondary listing takes place. The decision of the Panel was released in June. With the recent increase in overseas listings in Hong Kong, we issued a number of confirmations to companies seeking a secondary listing to confirm that the Codes would not apply (including SouthGobi Resources Ltd, Midas Holdings Ltd, Vale S.A., SBI Holdings, Inc, Glencore International plc and Kazakhmys PLC). We referred the Husky case to the Panel on the basis that it was distinguishable from the others in that the company had controlling shareholders based in Hong Kong, despite its overseas domicile.

In May, we published the findings and issued a circular to intermediaries after concluding a mystery shopping programme jointly with the Hong Kong Monetary Authority to look into the selling practices of intermediaries regarding unlisted securities and futures products. For the securities sector, 150 samples were taken of 10 licensed investment advisory firms and brokerages focusing on the "know-your-client" procedures, explanation of product features and disclosure of risks, and suitability assessment. The exercise identified certain deficiencies in terms of the selling practices.

To help intermediaries implement the new investor characterisation requirement that will take effect in September, we published frequently asked questions in June setting out, among others, how the requirement applies to joint accounts and corporate accounts and the need to assess client's prior trading experience on a continuous basis.

### Noting investor concerns

The volume of non-LB-related complaints increased slightly from 447 in the last quarter to 457 this quarter. As of 30 June, the accumulated number of LB-related complaints totalled 9,201, 74 of which were received this quarter and mainly related to the alleged breach of section 107<sup>3</sup> of the SFO. (For a breakdown on complaints, please refer to the "Activity Data" section on page 13.)

<sup>2</sup> In end-July, we deferred the implementation date of the changes to 31 October 2011. The changes will apply to any new listings where the listing application (ie, the A1 Form) is submitted to SEHK on or after that date.

<sup>3</sup> Section 107 of the SFO relates to the "Offence to fraudulently or recklessly induce others to invest money."



# Development

## Developing Hong Kong into an offshore renminbi and international asset management centre

During the quarter, we authorized the first renminbi-denominated real estate investment trust (REIT). Listed on The Stock Exchange of Hong Kong Ltd in April, the REIT was also the first renminbi-denominated equity product traded outside the Mainland and marked a significant milestone in Hong Kong's development into an offshore renminbi centre. The launch underscored the capability of Hong Kong's market infrastructure to support renminbi investment products for retail investors. We also authorized a renminbi-denominated fund during the review period, bringing to five the total number of renminbi-denominated funds for public offer in Hong Kong.

To facilitate the further development of renminbi business in Hong Kong, we met with senior officials from the People's Bank of China, the State Administration of Foreign Exchange and the China Securities Regulatory Commission (CSRC) to exchange views on key policy issues regarding the development of offshore renminbi businesses and the role that the SFC should play.

Backed by the Central Government's strong support to develop Hong Kong into an off-shore renminbi and international asset management centre as set out in the Mainland's 12th Five-year Plan, we will continue to capitalise on our robust regulatory framework and local asset management expertise to attract international investors to select Hong Kong as an investment platform.

## Furthering ties with the Mainland

To promote Mainland-related initiatives that would benefit Hong Kong's financial markets, we maintained high-level dialogues with relevant regulatory authorities across the border. In May, we attended the 43rd Memorandum of Regulatory Co-operation meeting to exchange views on various issues concerning financial cooperation between the Mainland and Hong Kong with the CSRC, the China



SFC representatives exchange views with Mainland regulatory and exchange officials at the 43rd Memorandum of Regulatory Co-operation meeting.

Securities Depository and Clearing Corporation as well as the various stock exchanges concerned. We also provided support to the Government to promote initiatives for collaboration in the securities sector of both Hong Kong and the Mainland.

## Authorizing new automated trading service providers

In April, the SFC authorized Hong Kong Mercantile Exchange (HKMEX) and LCH.Clearnet Ltd (LCH) as automated trading service providers. HKMEX was authorized to operate a commodity futures market locally and LCH to provide the related clearing and settlement services. Trading on HKMEX started officially with a physically-settled gold futures contract in May. This market has been operating smoothly and traded about 2,300 contracts per day as of end-June 2011.

## Liaising with international counterparts

In June, we received a delegation from the Capital Market Authority of Saudi Arabia and presented to them an overview of Hong Kong's licensing framework for regulated activities and the development of competence standards for our licensees.

At a memorandum of understanding meeting in June, we exchanged views and information with the Monetary Authority of Macau concerning various regulatory areas, including regulated firms that have operations in the two cities. We also gave the delegation an overview of our regulatory regime governing credit rating agencies.

### **Licensing of intermediaries**

During the quarter, we received 3,358 applications from individuals and corporations, up 3.9% from the previous quarter and up 3.7% from a year ago. The total number of licensees and registrants rose 5.2% to about 39,200 from the same period last year.

### **Communicating with the public, market participants**

We participated in a round-table meeting with a law firm to exchange views on various licensing issues, including a pragmatic approach to handle hedge fund managers' licence applications and issues surrounding the licensing of fund distributors in Hong Kong. The firm also took the opportunity to discuss with us issues encountered by market participants for whom they act.

To enhance transparency of the SFC's regulatory and supervisory work, we published two papers to explain in precise yet simple language our existing regulatory and supervisory framework for intermediaries. "Regulatory Framework for Intermediaries" outlined the broad role and approach the SFC takes as well as the underlying philosophy that guides the SFC in regulating intermediaries. "Approach to Supervision of Intermediaries" focused on the detailed processes underpinning the SFC's approach to supervision of intermediaries. The papers reflect the SFC's continual effort to enhance its communication with external stakeholders regarding its work, priorities, views on topical and important regulatory issues and other development.

Also issued during the period was the SFC Annual Report 2010-11, which gives a full and transparent account of the SFC's work for the reporting year. Besides adding two chapters ("Corporate Outlook" and "Organisational Matters,") we introduced a dynamic, online version for easy browsing on the SFC's website.



# Education

Through various investor education (IE) initiatives, we continued to remind the public that two of the last of enhanced investor protection measures, namely, the Product Key Facts Statements for SFC-authorized products and the mandatory disclosure of sales related information by product distributors, had been implemented as of June 2011. We explained the finer points of the new safeguards via a series of articles in *InvestEd Intelligence*, our bi-monthly e-newsletter, and a weekly column in *Headline Daily* and reminded investors to make use of the additional disclosure so that they can find out more about the features and risks of various investment products in the sales process.

In the May issue of *InvestEd Intelligence*, we also explained how investors could get the most out of their investment advisors, possible tax issues when investing in overseas products and common misunderstanding as to why trading of derivative warrants ends before they expire. Recognising that intermediaries are in a good position to communicate with investors, we reinforced our educational message on possible overseas taxes by issuing a circular to licensed corporations in June, urging them to share with their clients the message in the article. The Hong Kong Monetary Authority also sent out a similar circular to registered institutions or banks that carry on securities and futures business.



Bus seat stickers remind investors of the risks of RMB REITs.

The Hong Kong market saw the listing of the first renminbi real estate investment trust (REIT) in April. (That also was the first listed renminbi equity product launched in Hong Kong.) In view of the different clearing and settlement process involved, we provided investors with some guidelines to help them understand this new product class. In addition to running frequently ask questions and a new article on the InvestEd website on the features and risks of renminbi REITs, we also published articles in various print media, including *Choice* magazine, *Headline Daily* and *Hong Kong Economic Journal* to pinpoint key issues in a renminbi initial public offering (IPO) and when trading renminbi securities on The Stock Exchange of Hong Kong Ltd. Besides, a series of TV

interviews and radio segments also was aired on various channels, including now TV, RTHK and Commercial Radio One. From April to June, stickers were posted on the seat backs of buses to highlight key risks of REIT investing.

“Understanding IPO Prospectus,” the one-minute video segments hosted by a famous stock commentator, continued to be aired on buses and various TV channels to remind investors to read offering documents before investing in an IPO. The videos highlighted some key points to note including where to find key financial information on a listing candidate, and what to look for when reading the prospectus of a company operating outside Hong Kong.

Also aired on buses and TV channels was “Investor Education Advice,” a series of 20-second short videos that promoted a responsible investment attitude. The one-minute TV drama “Ace it!” that underscores key points to note in the sales process of investment products was podcast on myTV.com after premiering on TVB Jade.

We continued to raise the public’s awareness on bond investing. “Smart on Bonds,” the interview series that *Ming Pao Daily* carries in print and podcast, continued to invite industry professionals and academics to discuss popular bond instruments and associated risks. Topics covered include how to trade in the secondary bond market, various risks of bond investing such as liquidity risk, interest rate risk and credit risk, how bonds may fit in an investment portfolio, and the differences between bonds and bond funds.



Investors can now view articles or videos on-the-go using the InvestEd iPhone App.

In April, the last episode of the interview series on fund investing was aired on now TV . Articles adapted from all seven episodes of the series were published in the Hong Kong Economic Journal. During the interviews, representatives from the Hong Kong Investment Funds Association discussed the features and risks of prevalent fund products, including renminbi funds, exchange-traded funds (ETF), specifically synthetic ETFs. The series also covered the impact of inflation on different asset classes and fund investing strategies to counter high inflation.

This year’s “Investor Education Series,” our annual investor seminar jointly organised with the Hong Kong Society of Financial Analysts (HKSFSA), attracted over 300 attendees. During the full-day event, a number of representatives from the industry and HKSFSA shared insights on reading an IPO prospectus and formulating investment strategies to combat inflation. They also discussed the outlook of renminbi and other popular investment instruments such as REIT.

While most IE video segments and articles have been made available on the InvestEd website, we continued to promote the use of the website via online games and Yahoo’s online promotion tools, which drew more than 10,000 visits during the quarter. With the launch of the updated version of our InvestEd iPhone Application in May, iPhone users now enjoy the benefit of portability to access *InvestEd Intelligence* and follow our IE activities.



The 300-plus audience pays rapt attention to a speaker at an annual investor seminar we organise jointly with the Hong Kong Society of Financial Analysts.

# Organisational Matters

Our Chief Executive Officer (CEO), Mr Martin Wheatley, left the SFC on 8 June after a six-year tenure. As the process of appointing the next CEO was still in progress at the time, Mrs Alexa Lam, Deputy CEO and Executive Director (or in her absence another executive director) also is acting as CEO.

We welcomed the Government's re-appointment of Mr Wong Kai-man as Non-Executive Director for a term of two years from 26 May 2011, and its new appointments and re-appointments of the SFC Advisory Committee for two years from 1 June 2011.

We announced the new appointments and re-appointments to the following committees:

Effective on 1 April:

Academic and Accreditation Advisory Committee	Securities Compensation Fund Committee
Committee on Real Estate Investment Trusts	SFC (HKEC Listing <sup>2</sup> ) Committee
Investor Compensation Fund Committee	Share Registrars' Disciplinary Committee
Investor Education Advisory Committee	Takeovers and Mergers Panel
Nominations Committee <sup>1</sup>	Takeovers Appeal Committee
Public Shareholders Group	

Effective on 29 April:

Products Advisory Committee

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

As at 30 June, our staff count totalled 549, up from 503 a year ago.

For 2011 we recruited 16 graduates from local and overseas universities, our third batch under the Graduate Trainee Programme. The three-year programme aims to build up our talent pool to support the SFC's future development.

Our total revenue for the quarter was \$370 million, compared with \$404 million a year ago and \$396 million in the previous quarter. Expenditure was \$210 million, 17% below our approved budget. This resulted in a surplus of \$160 million for the quarter, compared with \$225 million in the same quarter last year and \$182 million in the previous quarter. As at 30 June, our reserves stood at \$7.1 billion.

In June, we revised our information security policy to offer additional coverage on personal data privacy, information sharing principles and information security classification. The revised policy clearly aligns information protection with document security under the Document Management System, a software implemented in late 2010 to improve overall document filing and storage efficiency. It helps guide staff to integrate essential information security practices into daily operations. This was followed by a campaign to raise information security awareness among staff commencing in June.

---

<sup>1</sup> The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

<sup>2</sup> HKEC refers to Hong Kong Exchanges and Clearing Ltd.

# Activity Data

**Table 1 Authorized collective investment schemes**

	As at 30/6/2011	As at 31/3/2011	Change (%)	As at 30/6/2010	Change (%)
Unit trusts and mutual funds	1,911	1,944	-1.7	1,967	-2.8
Investment-linked assurance schemes	248	248	-	241	2.9
Pooled retirement funds	35	35	-	35	-
Mandatory Provident Fund (MPF) master trust schemes	40	40	-	38	5.3
MPF pooled investment funds	303 <sup>1</sup>	305	-0.7	287	5.6
Others	24 <sup>2</sup>	22	9.1	22	9.1
<b>Total</b>	<b>2,561</b>	<b>2,594</b>	<b>-1.3</b>	<b>2,590</b>	<b>-1.1</b>

<sup>1</sup> In this category, 122 of the funds were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

<sup>2</sup> Other schemes comprised 15 paper gold schemes and nine real estate investment trusts.

**Table 2 Authorized unit trusts and mutual funds – by type**

	As at 30/6/2011	As at 31/3/2011	Change (%)
Bond	324	327	-0.9
Equity	1,074	1,089	-1.4
Diversified	77	78	-1.3
Money market	43	44	-2.3
Fund of funds	79	80	-1.3
Index	102	99	3
Guaranteed	25	36	-30.6
Hedge	8	11	-27.3
Other specialised <sup>1</sup>	8	8	-
<b>Subtotal</b>	<b>1,740</b>	<b>1,772</b>	<b>-1.8</b>
Umbrella structures	171	172	-0.6
<b>Total</b>	<b>1,911</b>	<b>1,944</b>	<b>-1.7</b>

Figures as at 30/6/2010 are not provided because a different product classification method has been adopted.

<sup>1</sup> Comprises Futures and Options Funds and Leverage Funds.

**Table 3 Authorized unit trusts and mutual funds – by origin**

	As at 30/6/2011	As at 31/3/2011	Change (%)
Hong Kong	203	200	1.5
Luxembourg	1,149	1,161	-1
Ireland	285	289	-1.4
Guernsey	3	3	-
United Kingdom	53	58	-8.6
Other Europe	15	15	-
Bermuda	22	22	-
British Virgin Islands	6	6	-
Cayman Islands	168	183	-8.2
Others	7	7	-
<b>Total</b>	<b>1,911</b>	<b>1,944</b>	<b>-1.7</b>

Figures at 30/6/2010 are not provided because a different product classification method has been adopted.

**Table 4 Unlisted structured products<sup>1</sup> offered to the public**

	Quarter ended 30/6/2011	Quarter ended 31/3/2011	Change (%)	Quarter ended 30/6/2010	Change (%)
Structured products <sup>2</sup> authorized	16	N/A	N/A	N/A	N/A
Offering documents authorized	64	16	300	36	77.8
Advertisements authorized	0	0	-	0	-

<sup>1</sup> Comprises the common structured products such as equity linked investments and equity linked deposits.

<sup>2</sup> The power for the SFC to authorize structured products under the Securities and Futures Ordinance came into effect on 13 May 2011. The number is on a "one product per key facts statement" basis.

**Table 5 Enforcement**

	Quarter ended 30/6/2011	Quarter ended 31/3/2011	Change (%)	Quarter ended 30/6/2010	Change (%)
Cases completed	62	66	-6.1	69	-10.1
Successful prosecutions	12	12	-	13	-7.7
Disciplinary inquiries conducted	7	18	-61.1	25	-72
Actions taken against licensees	6	9	-33.3	17	-64.7
Trading inquiries issued	850	1,034	-17.8	1220	-30.3
Investigations started	60	56	7.1	77	-22.1
Investigations completed	56	59	-5.1	49	14.3
Investigations completed within seven months (%)	66%	61%	8.2	80%	-17.5
Persons charged in criminal proceedings	10	19	-47.4	19	-47.4
Criminal charges laid	56 <sup>1</sup>	100	-44	111	-49.5
Notices of Proposed Disciplinary Actions issued	20	6	233.3	7	185.7
Notices of Final Decision issued	6	7	-14.3	20	-70
Persons subject to civil proceedings	6	3	100	14	-57.1
Compliance advice letters issued	51	35	45.7	30	70

<sup>1</sup> We brought a total of 56 criminal charges against 12 persons, with 18 charges laid against three persons for insider dealing or market manipulation.

**Table 6 Intermediaries supervision**

	Quarter ended 30/6/2011	Quarter ended 31/3/2011	Change (%)	Quarter ended 30/6/2010	Change (%)
Risk-based, on-site inspections conducted	70	55	27	49	43

**Table 7 Listing applications and takeovers activities**

	Quarter ended 30/6/2011	Quarter ended 31/3/2011	Change (%)	Quarter ended 30/6/2010	Change (%)
Listing applications filed under the dual filing regime	68	61	11.5	52	30.8
Takeovers and share repurchases transactions handled	84	85	-1.2	79	6.3



**Table 8 Licensees and registrants**

	As at 30/6/2011	As at 31/3/2011	Change (%)	As at 30/6/2010	Change (%)
Licensed corporations	1,763	1,752	0.6	1,658	6.3
Registered institutions	110	109	0.9	108	1.9
Individuals	37,327	36,827	1.4	35,498	5.2
<b>Total</b>	<b>39,200</b>	<b>38,688</b>	<b>1.3</b>	<b>37,264</b>	<b>5.2</b>

**Table 9 Public enquiries and complaints**

	Quarter ended 30/6/2011	Quarter ended 31/3/2011	Change (%)	Quarter ended 30/6/2010	Change (%)
Public enquiries received <sup>1</sup>	2,470	2,273	8.7	2,264	9.1
Nature of complaints received <sup>2</sup>					
Conduct of licensed intermediaries and registered institutions	100	117	14.5	105	-4.8
Listing-related matters and disclosure of interests	108	109	-0.9	135	-20
Market misconduct	137	127	7.9	97	41.2
Products	0	2	-100	3	-100
Other financial activities	111	92	20.7	87	27.6
Miscellaneous	1	0	N/A	0	N/A
<b>Subtotal</b>	<b>457</b>	<b>447</b>	<b>2.2</b>	<b>427</b>	<b>7</b>
Complaints related to Lehman Brothers received	74	56	32.1	29	155.2
<b>Total</b>	<b>531</b>	<b>503</b>	<b>5.6</b>	<b>456</b>	<b>16.4</b>

<sup>1</sup> Comprises written and phone enquiries.

<sup>2</sup> The complaint figures reflect the number of complainants.

# Financial Statements: Securities and Futures Commission

## Consolidated statement of comprehensive income

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Income</b>		
Levies	279,492	333,319
Fees and charges	57,528	35,119
Investment income	31,902	32,689
Less: custody and advisory expenses	(707)	(586)
Investment income net of third party expenses	31,195	32,103
Recoveries from Investor Compensation Fund	1,068	1,041
Other income	834	2,127
	370,117	403,709
<b>Expenses</b>		
Staff costs and directors' emoluments	160,414	138,728
Premises		
rent	15,911	15,911
other	6,642	6,196
Other expenses	19,502	9,447
Depreciation	7,128	8,010
	209,597	178,292
<b>Surplus and total comprehensive income for the quarter</b>	<b>160,520</b>	<b>225,417</b>

The notes on pages 19 to 20 form part of the condensed consolidated financial statements.

## Consolidated statement of financial position

At 30 June 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2011 \$'000	At 31 March 2011 \$'000
<b>Non-current assets</b>			
Fixed assets		45,811	46,689
Held-to-maturity debt securities	2	4,041,987	3,827,632
		4,087,798	3,874,321
<b>Current assets</b>			
Held-to-maturity debt securities	2	2,320,494	2,401,449
Debtors, deposits and prepayments		184,598	207,000
Bank deposits		643,657	602,190
Cash at bank and in hand		4,178	3,226
		3,152,927	3,213,865
<b>Current liabilities</b>			
Fees received in advance		56,678	68,657
Creditors and accrued charges		77,350	71,504
		134,028	140,161
<b>Net current assets</b>		3,018,899	3,073,704
<b>Total assets less current liabilities</b>		7,106,697	6,948,025
<b>Non-current liabilities</b>	3	20,549	22,397
<b>Net assets</b>		<b>7,086,148</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>		42,840	42,840
<b>Accumulated surplus</b>		7,043,308	6,882,788
		<b>7,086,148</b>	6,925,628

The notes on pages 19 to 20 form part of the condensed consolidated financial statements.

## Statement of financial position

At 30 June 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2011 \$'000	At 31 March 2011 \$'000
<b>Non-current assets</b>			
Fixed assets		45,800	46,677
Held-to-maturity debt securities	2	4,041,987	3,827,632
		4,087,787	3,874,309
<b>Current assets</b>			
Held-to-maturity debt securities	2	2,320,494	2,401,449
Debtors, deposits and prepayments		184,338	206,862
Bank deposits		643,657	602,190
Cash at bank and in hand		3,470	2,909
		3,151,959	3,213,410
<b>Current liabilities</b>			
Fees received in advance		56,678	68,657
Creditors and accrued charges		76,371	71,037
		133,049	139,694
<b>Net current assets</b>		3,018,910	3,073,716
<b>Total assets less current liabilities</b>		7,106,697	6,948,025
<b>Non-current liabilities</b>	3	20,549	22,397
<b>Net assets</b>		<b>7,086,148</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>		42,840	42,840
<b>Accumulated surplus</b>		7,043,308	6,882,788
		<b>7,086,148</b>	6,925,628

The notes on pages 19 to 20 form part of the condensed consolidated financial statements.

## Consolidated statement of changes in equity

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
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
Balance at 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the quarter	–	160,520	160,520
Balance at 30 June 2011	42,840	7,043,308	<b>7,086,148</b>

The notes on pages 19 to 20 form part of the condensed consolidated financial statements.

## Consolidated statement of cash flows

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the quarter	160,520	225,417
Adjustments for:		
Depreciation	7,128	8,010
Investment income	(31,902)	(32,689)
Profit on disposal of fixed assets	(4)	-
	135,742	200,738
Decrease in debtors, deposits and prepayments	10,773	14,129
Increase in creditors and accrued charges	5,846	13,230
(Decrease) / increase in fees received in advance	(11,979)	17,170
Decrease in non-current liabilities	(1,848)	(788)
Net cash generated from operating activities	138,534	244,479
<b>Cash flows from investing activities</b>		
Interest received	57,678	66,669
Held-to-maturity debt securities bought	(855,627)	(485,537)
Held-to-maturity debt securities redeemed at maturity	708,080	539,760
Fixed assets bought	(6,246)	(10,570)
Net cash (used in) / generated from investing activities	(96,115)	110,322
<b>Net increase in cash and cash equivalents</b>	42,419	354,801
<b>Cash and cash equivalents at beginning of the quarter</b>	605,416	569,326
<b>Cash and cash equivalents at end of the quarter</b>	<b>647,835</b>	924,127

### Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 June 2011 \$'000	At 30 June 2010 \$'000
Bank deposits	643,657	919,602
Cash at bank and in hand	4,178	4,525
	<b>647,835</b>	924,127



## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2011  
(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 2011 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 2011. 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 2011 to the interim financial report.

There were no significant changes in the operation of the SFC for the quarter ended 30 June 2011.

### 2. Held-to-maturity debt securities

#### The Group and the SFC

As of 30 June 2011, the total market value of held-to-maturity debt securities amounted to \$6,437,862,000 (31 March 2011: \$6,284,319,000), which was above the total carrying cost of \$6,362,481,000 (31 March 2011: \$6,229,081,000).

### 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 2011. 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 2011, 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 2011 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 \$1,068,000 (2010 : \$1,041,000), 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 2011 \$'000	30 June 2010 \$'000
Short-term employee benefits	7,011	6,762
Post employment benefits	581	576
	<b>7,592</b>	<b>7,338</b>

The total remuneration is included in "staff costs and directors' emoluments" on page14. 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 \$575,000 (At 31 March 2011 : \$128,000).

- (d) Legal services provided by a non-executive director

During the period, a non-executive director continued to provide legal services in respect of matters commenced prior to his appointment. Fees payable to him for such services during the period amounted to \$160,000 under normal commercial terms and conditions.

# 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 2011.

### 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 22 to 26.

### 3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2011 and up to the date of this report were :

Mr Keith Lui (Chairman)

Mrs Alexa Lam

Mr Chow Ka Ming, Anderson, SC

Mr Tai Chi Kin (appointed on 1 April 2011)

### 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

12 August 2011

## Statement of comprehensive income

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 June 2011 \$'000	30 June 2010 \$'000
<b>Income</b>			
Net investment income		28,055	14,307
Exchange difference		443	2,685
		28,498	16,992
<b>Expenses</b>			
Investor Compensation Company expenses	2	1,068	1,041
Compensation write-backs		-	(218)
Auditor's remuneration		26	21
Bank charges		198	180
Professional fees		882	806
		2,174	1,830
<b>Surplus and total comprehensive income for the quarter</b>		<b>26,324</b>	<b>15,162</b>

The notes on page 26 form part of the condensed financial statements.

## Statement of financial position

At 30 June 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2011 \$'000	At 31 March 2011 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
– Debt securities		1,633,378	1,608,583
– Pooled Fund		236,132	224,824
Fair value adjustment on unsettled trades		-	15
Interest receivable		14,366	17,823
Due from Investor Compensation Company		575	128
Fixed and call deposits with banks		127,930	189,486
Cash at bank		67,269	12,467
		<b>2,079,650</b>	<b>2,053,326</b>
<b>Current liabilities</b>			
Provision for compensation	3	150	150
Creditors and accrued charges		983	983
		<b>1,133</b>	<b>1,133</b>
<b>Net current assets</b>		<b>2,078,517</b>	<b>2,052,193</b>
<b>Net assets</b>		<b>2,078,517</b>	<b>2,052,193</b>
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		974,876	948,552
		<b>2,078,517</b>	<b>2,052,193</b>

The notes on page 26 form part of the condensed financial statements.

## Statement of changes in equity

For the quarter ended 30 June 2011  
(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 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
Balance at 1 April 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the quarter	-	-	26,324	26,324
Balance at 30 June 2011	994,718	108,923	974,876	<b>2,078,517</b>

The notes on page 26 form part of the condensed financial statements.



## Statement of cash flows

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the quarter	26,324	15,162
Net investment income	(28,055)	(14,307)
Exchange difference	(443)	(2,685)
Increase in amount due from Investor Compensation Company	(447)	(377)
Decrease in provision for compensation	-	(5,356)
Decrease in creditors and accrued charges	-	(7)
Net cash used in operating activities	(2,621)	(7,570)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(109,863)	(110,790)
Sale or maturity of debt securities	87,705	40,000
Sale of equity securities	276	218
Interest received	17,749	14,560
Net cash used in investing activities	(4,133)	(56,012)
<b>Net decrease in cash and cash equivalents</b>	<b>(6,754)</b>	<b>(63,582)</b>
<b>Cash and cash equivalents at beginning of the quarter</b>	<b>201,953</b>	<b>252,735</b>
<b>Cash and cash equivalents at end of the quarter</b>	<b>195,199</b>	<b>189,153</b>

### Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 June 2011 \$'000	At 30 June 2010 \$'000
Fixed and call deposits with banks	127,930	176,673
Cash at bank	67,269	12,480
	<b>195,199</b>	<b>189,153</b>

## Notes to the condensed financial statements

For the quarter ended 30 June 2011  
(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 2011 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 2011 to the interim financial report.

### 2. Investor Compensation Company expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the quarter ended 30 June 2011, ICC incurred \$1,068,000 for its operation (For the quarter ended 30 June 2010 : \$1,041,000).

### 3. Provision for compensation

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 & 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. The provision for compensation at 30 June 2011 was \$150,000 (31 March 2011: \$150,000). As at 30 June 2011 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 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 \$600,000 (31 March 2011: \$600,000). 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 2011.

### 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 28 to 32.

### 3. Members of the Committee

The members of the Committee during the quarter ended 30 June 2011 and up to the date of this report were:

Mr Keith Lui (Chairman)

Mrs Alexa Lam

Mr Chow Ka Ming, Anderson, SC

Mr Lo Wai Keung, David (appointed on 1 April 2011)

Mr Tai Chi Kin (appointed on 1 April 2011)

### 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

29 July 2011

## Statement of comprehensive income

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Income</b>		
Interest income	53	21
	53	21
<b>Expenses</b>		
Auditor's remuneration	11	9
Professional fees	7	7
	18	16
<b>Surplus and total comprehensive income for the quarter</b>	<b>35</b>	<b>5</b>

The notes on page 32 form part of the condensed financial statements.

## Statement of financial position

At 30 June 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 June 2011 \$'000	At 31 March 2011 \$'000
<b>Current assets</b>			
Equity securities received under subrogation		1	1
Interest receivable		25	20
Fixed and call deposits with banks		71,764	71,565
Cash at bank		283	274
		72,073	71,860
<b>Current liabilities</b>			
Creditors and accrued charges		10,272	10,294
<b>Net current assets</b>		61,801	61,566
<b>Net assets</b>		<b>61,801</b>	61,566
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK	3	48,900	48,700
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		17,330	17,295
		1,056,519	1,056,284
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		<b>61,801</b>	61,566

The notes on page 32 form part of the condensed financial statements.

## Statement of changes in equity

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Compensation fund balance as at 1 April	61,566	58,681
Net contributions received from SEHK	200	300
Total comprehensive income for the quarter	35	5
<b>Compensation fund balance as at 30 June</b>	<b>61,801</b>	<b>58,986</b>

The notes on page 32 form part of the condensed financial statements.



## Statement of cash flows

For the quarter ended 30 June 2011  
(Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the quarter	35	5
Interest income	(53)	(21)
Decrease in equity securities received under subrogation	-	1
Decrease in creditors and accrued charges	(22)	(36)
Net cash used in operating activities	(40)	(51)
<b>Cash flows from investing activities</b>		
Interest received	48	16
Net cash generated from investing activities	48	16
<b>Cash flows from financing activities</b>		
Net Contributions from SEHK	200	300
Net cash generated from financing activities	200	300
<b>Net increase in cash and cash equivalents</b>	208	265
<b>Cash and cash equivalents at beginning of the quarter</b>	71,839	68,980
<b>Cash and cash equivalents at end of the quarter</b>	<b>72,047</b>	69,245

### Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 June 2011 \$'000	At 30 June 2010 \$'000
Fixed and call deposits with banks	71,764	69,174
Cash at bank	283	71
	<b>72,047</b>	69,245

## Notes to the condensed financial statements

For the quarter ended 30 June 2011  
(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. 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 2011 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 2011 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 2011 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, *Financial Instruments: Recognition and Measurement*. According to International Financial Reporting Standards (IFRSs) 7, *Financial Instruments: Disclosures*, 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 SEHK

During the quarter, deposits of \$400,000 in respect of 8 new trading rights were received from SEHK and deposits of \$200,000 in respect of 4 relinquished trading rights were refunded to SEHK. As at 30 June 2011, there are 8 trading rights in total that have been relinquished but not yet refunded.

### 4. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. 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.

In relation to the default cases, any excess of recovered amounts (refer to note 2) 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.

## **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](http://www.sfc.hk)

InvestEd website: [www.InvestEd.hk](http://www.InvestEd.hk)

