



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

# quarterly report

July - September 2010

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

## contents

### 1 **Chief Executive Officer's Statement**

#### **Operational Review**

- 2 Regulation
- 6 Development
- 9 Education

### 10 **Organisational Matters**

#### **Financial Reviews**

- 11 Securities and Futures Commission Financial Statements
- 20 Investor Compensation Fund Financial Statements
- 29 Unified Exchange Compensation Fund Financial Statements

#### **Securities and Futures Commission**

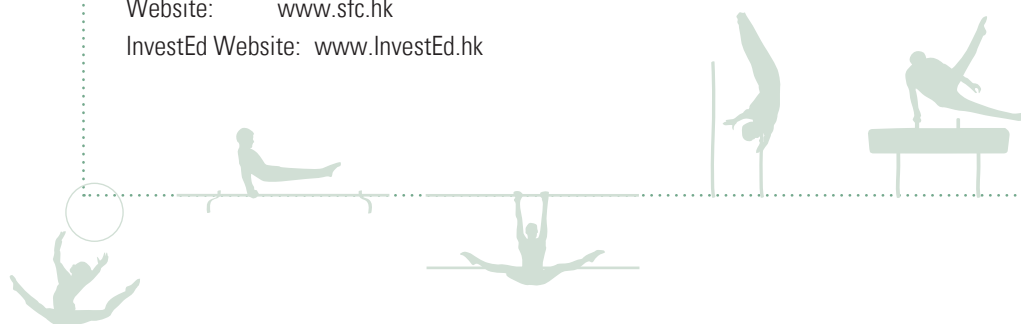
8th Floor, Chater House  
8 Connaught Road Central  
Hong Kong

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)





# chief executive officer's statement

We continued to penalise those who violate the rules and made further progress in resolving Lehman Brothers-related (LB) issues. Early in the quarter, we reached an agreement with a bank regarding its distribution of LB-related Constellation Notes so that customers of over 2,000 accounts were offered a refund on their investment, plus interest. The total compensation amounts to approximately \$651 million.

As part of our bigger plan to refine Hong Kong's financial regulatory system, we consulted the public on establishing a regulatory regime for credit rating agencies that conduct business in Hong Kong. Our proposals, which won overall support from respondents, mainly involved creating a Type 10 licence for credit rating activities. We expect to implement this measure in mid 2011, upon completion of the relevant code and legislative amendments.

To enhance the integrity and objectivity of pre-deal research reports, we also conducted a consultation on proposals to extend the present requirements governing pre-deal research reports to initial public offerings and real estate investment trusts.

We have been communicating with licensed corporations to ensure compliance with the Code of Conduct when marketing derivative products, in particular, regarding suitability and investor characterisation requirements that will come into effect in mid-2011. Meanwhile, we met with market practitioners to give them practical guidance on the application of the principles embodied in the products codes of the SFC Handbook, which came into effect in June.

Utilising Hong Kong's unique position, we have put much effort in developing the city into an offshore renminbi centre to help internationalise the Mainland's currency. During the quarter, we authorized for retail sales in Hong Kong the first renminbi-denominated fund. To ensure industry's readiness for handling listed renminbi-denominated products, we urged industry participants to prepare themselves for the business, including testing their system with HKEx, opening renminbi accounts and setting up renminbi credit lines.

A bimonthly e-newsletter, InvestEd Intelligence, made its debut as an expanded platform for the SFC to convey messages of interest to investors. We believe that the publication, which features articles in current market issues, popular investment products and recent regulatory development, will deliver to investors more comprehensive information about investing. Meanwhile, we continued our mass-media, outreach and online programmes, focusing on the new protective measures in relation to sale of investment products, renminbi products and synthetic exchange traded funds.

## **Martin Wheatley**

Chief Executive Officer

# operational review

## Regulation

### Enforcement actions

Our determination in combating crime and misconduct yielded more positive results. Through taking firm enforcement actions, we continued to send strong and clear messages that we would not tolerate activities that undermined market integrity and investor interests. During the quarter, for instance, we successfully prosecuted a retail investor for false trading and a licensed representative for illegal short selling.

### Bank agrees to compensate clients for LB-related Constellation Notes

In July, the SFC and the Hong Kong Monetary Authority (HKMA) reached an agreement with DBS Bank (Hong Kong) Ltd regarding its distribution of Lehman Brothers (LB)-related Constellation Notes. DBS agreed to offer to pay an amount equal to the total value of investment in the notes, plus interest, to those customers it had classified as having a low to medium risk profile at the point of purchase.

This agreement means that customers of over 2,000 accounts who chose to accept the offer would get back their investment. Besides agreeing to a total compensation of approximately \$651 million, the bank also promised to review complaints from customers of higher risk tolerance who bought the Notes, as well as complaints related to the distribution of other unlisted structured products, under the enhanced complaint handling procedures agreed with the regulators. The procedures were meant to ensure that complaints would be reviewed and resolved in a fair and reasonable manner.

### Criminal prosecutions

During the quarter, we successfully prosecuted in the Eastern Magistracy two individuals and commenced criminal proceedings against a senior executive of a listed company as follows:

- Tsui Hon Wai, a retail investor, was prosecuted for and convicted of 22 charges of false trading and was sentenced to 120 hours of community service. Tsui created a large number of matched trades and some wash trades, giving a false appearance of active trading in these stocks to attract buyers so that he could sell at better prices.

- Mok Kee Tong, a licensed representative of Lehin Securities Ltd, was prosecuted for 18 charges of illegal short selling of 14 stocks.
- Criminal proceedings were commenced against Li Jialin, chairman and executive director of VST Holdings Ltd, on allegations that he unlawfully manipulated trading in the shares of VST on 11 occasions between September 2007 and January 2008 and that he breached the disclosure of interests requirements on 16 occasions. The proceedings have been transferred to the District Court where Li will appear for plea on 14 December 2010.

### Disciplinary actions

We disciplined 16 intermediaries for various breaches, which resulted in reprimands, life banning order, suspensions of licences and fines of approximately \$5.7 million.

### Reprimands and/or fines

- Hantec International Ltd (currently known as Cinda International FX Ltd) was reprimanded and fined \$4 million for a number of non-compliance associated with facilitating unlicensed activities of Cosmos Hantec Investment (NZ) Ltd, failure to comply with margin requirements for forex trading, and failure to adequately supervise its staff and prevent cold calling in 2004 and 2005.
- We reprimanded and fined Chung Nam Securities Ltd and its two responsible officers, Cheng Wai Chung and Ng Kwai Cho, \$1.3 million in total for non-compliance in the handling of PCCW trades. Chung Nam received 132 single-board-lot buy orders for PCCW shares and instead of promptly executing them in the proper sequence, it aggregated them into bigger orders for execution. Cheng and Ng oversaw the dealing operation of Chung Nam and therefore bore direct responsibility for the failures.
- Cypress International Investment Advisors Ltd was reprimanded for failing to maintain the required liquid capital on various dates between July 2008 and May 2009, in breach of the Securities and Futures (Financial Resources) Rules.
- Ko's Brother Securities Company Ltd was reprimanded and fined \$250,000 for failing to implement adequate control procedures to detect and prevent intra-day short selling by its clients.



### Life banning order

- Jugurtha Harchaoui, formerly a managing director and senior trader at Merrill Lynch (Asia Pacific) Ltd and Merrill Lynch Futures (Hong Kong) Ltd, was banned from re-entering the industry for life. Harchaoui was found mis-marking the trading book in exotics options, resulting in the value of the book being inflated by approximately US\$25 million and a wrong reporting of the actual loss in the book.

### Suspensions and/or fines

- We prohibited Chan Hon Man from re-entering the industry for 18 months and fined him \$134,580 for designing trades to increase the final indicative equilibrium price of two callable bull/bear contracts in the pre-opening session on two days in July and August in 2008.

We also imposed suspension of licences from a few months (for less serious breaches) to 10 years (for serious offences such as insider dealing).

- David Tsien Pak Chong, a former equity salesman of JP Morgan Securities (Asia Pacific) Ltd, was banned from entering the industry for 10 years following the Market Misconduct Tribunal's finding that he had engaged in insider dealing in respect of the shares of China Overseas Land and Investment Ltd. Our original decision to ban Tsien for life was amended to 10 years by the Securities and Futures Appeal Tribunal (SFAT).
- Ip Chun Chun, a former employee of China Construction Bank (Asia) Corporation Ltd, was banned from re-entering the industry for five years following a determination of the SFAT, which affirmed the SFC's findings that Ip had forged the signatures on banking documents of four clients on four occasions to cover up her own mistakes.
- Ricky Kwan Po Kit, a former responsible officer of ICEA Securities Ltd (ICEAS), was banned from re-entering the industry for five years. Kwan traded on a secret account in his brother-in-law's name while acting also as a proprietary trader for ICEAS without proper disclosure to his employer.
- Godwin Chu Kwok Shing, a former licensed representative accredited to SBI E2-Capital Securities Ltd, SBI E2-Capital Commodities Ltd and SBI E2-Financial Services Ltd, was banned for 18 months after the SFAT affirmed the SFC's finding that Chu had engaged in creating a false and misleading impression about the supply of and demand for the stocks.
- Peter Tam Man Chuen, an account executive of Taifair Securities Ltd, had his licence suspended for 18 months for failing to obtain proper written authorization from clients and instead, traded for them on the instructions of Taifair's settlement supervisor, thus facilitating in the latter's misappropriation.
- The licence of Tony Fung King Tong, an account executive of Sincere Securities Ltd, was suspended for six months for conducting personal trades in his parents' accounts without their written authorization and without his employer's knowledge, and that he failed to prevent illegal short dealing in his father's account.
- Sik Siu Kwan, a former responsible officer of ICEA Capital Ltd, was banned from re-entering the industry for four months for recommending an improper price stabilisation action in relation to a listing of a company in 2004 when ICEA Capital was acting as a sponsor and lead underwriter for the listing.
- Kou Sao Peng, a former investment consultant, had her licence suspended for three months for introducing a non-SFC authorized fund to clients.

### Regulatory enhancements

#### Measures to enhance investor protection

Following the introduction of the SFC Handbook featuring the revised product codes for unit trusts and mutual funds and investment-linked assurance schemes and the new product code for unlisted structured investment products, we held various briefing sessions for market practitioners to help them better understand the requirements under the SFC Handbook, and to provide them with practical guidance on the application of the principles embodied therein to ensure smooth transition into the new regulatory regime.

As one of the conclusions in the consultation on Proposals to Enhance Protection for the Investing Public published in May 2010, the Product Advisory Committee (PAC) was established in August under section 8 of the Securities and Futures Ordinance to consult and advise on matters that may relate to the SFC Handbook. The PAC comprises representation from the industry, professionals, academics and other stakeholders with market knowledge and expertise.

#### Other regulatory enhancements

On 19 July, we released a consultation paper proposing to extend the regulatory regime to license and supervise the activities of credit rating agencies (CRAs) in Hong Kong. The proposals include creation of a new Type 10 regulated activity, consequential legislative amendments, a new code of conduct for CRAs, amendments to the Guidelines on Competence, and “grandfathering” arrangements for existing rating analysts. We received a total of 21 written submissions, which in general welcomed and supported the proposals. The conclusions paper was issued on 29 October.

In parallel with the above consultation, we initiated dialogues with the Committee of European Securities Regulators and discussed with the Hong Kong Securities Institute the creation of regulatory examination papers for Type 10 individual licensees.

Pursuant to the release of the conclusions paper on initiatives to bring the regulation of structured products, irrespective of their legal form, under the Securities and Futures Ordinance, the

Securities and Futures and Companies Legislation (Structured Products Amendment) Bill 2010 was gazetted in July. We have provided input on the legislative amendments to implement related fees. The Legislative Council’s Bills Committee had begun scrutiny of the bill in October. We are helping the Government to respond to questions raised by the Bills Committee.

To enhance the integrity and objectivity of pre-deal research reports, on 30 September, we published a consultation paper on proposals to expand the scope of the present requirements governing conflicts of interest for analysts so that not only research reports on listed securities but also those on initial public offerings are covered. We also proposed to apply these requirements to analysts preparing research reports on real estate investment trusts applying for listing and those that are listed.

To prepare for the implementation of the new short position reporting requirements announced earlier this year, we are developing an information and communication system to enable intermediaries to report their short positions to the SFC for consolidation and subsequent release to the public. Drafting of the relevant subsidiary legislation is also in progress.

### Market supervision and standards

In August, we organised a meeting with six broker associations to discuss operational issues of trading and settlement of listed renminbi-denominated products. The HKMA and Hong Kong Exchanges and Clearing Ltd (HKEx) were invited to brief the group on relevant issues on listed renminbi business in Hong Kong and HKEx’s readiness for handling listed renminbi-denominated products respectively. At the meeting, we noted the huge potential of renminbi business and urged industry participants to prepare themselves immediately for the listed renminbi business, including testing their systems with HKEx, opening renminbi accounts, establishing renminbi credit lines, etc. We also reminded the industry to comply with the Personal Data (Privacy) Ordinance (PDPO).



On the same subject, we issued circulars to:

- remind brokers to review their readiness for trading and settlement of listed renminbi-denominated products, and take note of the restrictions on renminbi lending by banks when dealing with listed renminbi-denominated products; and
- remind licensed corporations to be vigilant in ensuring compliance with the PDPO.

We also issued a circular reminding licensed corporations to ensure compliance with the obligations under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) when providing services to clients with respect to derivative products, including exchange-traded funds, in particular to the requirements relating to suitability under the Code of Conduct and the new investor characterisation requirement that will come into effect in mid-2011. Separately, we issued to intermediaries a set of frequently asked questions to assist them in understanding the new Code of Conduct requirements on investor characterisation and use of gift.

Jointly with the Financial Services and the Treasury Bureau and the Joint Financial Intelligence Unit, we conducted two half-day training on anti-money laundering to provide the securities sector with an overview of the latest international and domestic development on the subject. Attended by around 500 market participants, the training focused on ongoing scrutiny of transactions or activities of a client account, an important element of customer due diligence.

In July, the Takeover Executive issued a public notice of criticism against Glamour House Ltd and its sole director Xie Xuan for failure to make an announcement immediately after completing the acquisition of voting rights that gave rise to a general offer obligation for the shares in Asian Capital Resources (Holdings) Ltd.

### Public concerns

During the quarter, the number of non-LB-related complaints decreased slightly from the last quarter. As of 30 September, we received 8,981 LB-related complaints, 28 of which were received during the quarter.

### Analysis of complaints of market malpractices

Nature of complaints	For the quarter ended 30/09/2010	For the quarter ended 30/06/2010	For the quarter ended 30/09/2009
Conduct of licensed intermediaries and registered institutions	110	105	191
Listing-related matters and disclosure of interests	125	135	105
Market misconduct	81	97	86
Products	2	3	9
Other financial activities	89	87	89
Miscellaneous	3	0	4
Subtotal	410	427	484
Complaints related to Lehman Brothers	28	29	329
Total	438	456	813

Note: The figures reflect the number of complainants.

## Development

### Enhancing regulatory ties with the Mainland

During the period, we held a number of high-level meetings with Mainland parties, to formulate and push forward Mainland-related policy initiatives that would benefit the Hong Kong market and to secure the support and buy-in from the State. For example, we received representatives from the Hong Kong and Macau Affairs Office of the State Council and the Finance Affairs Office of People's Government of Guangdong Province. We also met with officials from other government agencies, regulators, members of policy think tanks and influential academicians. In our meetings, we made the point that Hong Kong is ready and able to assist the Mainland as it plays a greater role on the international stage.

Our executives participated and spoke at several meetings including the First Hong Kong-Shanghai Financial Expert Group Meeting, the Shanghai Expo Finance Forum and the 42nd Meeting of the Memorandum of Regulatory Cooperation (MORC) in Hailer, Inner Mongolia this quarter. At the MORC meeting, we exchanged views with the China Securities and Regulatory Commission, China Securities Depository and Clearing Corporations as well as stock exchanges on both sides of the border on key market issues and development of cross-border products. On such occasions, we also discussed key initiatives to develop closer regulatory co-operation between Hong Kong and Mainland financial markets.

Meanwhile, we provided further support to the Government and worked closely with Mainland regulatory authorities to facilitate the implementation of various regional co-operation agreements under the Closer Economic Partnership Arrangement (CEPA).

### Promoting development of markets and products Utilising Hong Kong's strength as an offshore renminbi centre

Supporting the Government's initiative to develop Hong Kong into an offshore renminbi centre became a new focus of our work. Towards that end, we worked closely with industry participants to enable the introduction of renminbi-denominated investment products.

In August, we authorized for retail sales in Hong Kong the first renminbi-denominated fund. Aiming to invest primarily in renminbi-denominated debt instruments issued outside the Mainland, the fund required that retail investors subscribe in renminbi and allowed them to redeem it in the same currency. The launch of this fund underscores that Hong Kong's market infrastructure was capable of supporting publicly offered renminbi investment products, thus reinforcing Hong Kong's unique role in the internationalisation of Mainland China's currency.

Recognising that Hong Kong is uniquely positioned to become the premier offshore centre for renminbi, our executives discussed the topic this quarter at a number of industry forums attended by asset managers or investors, including the 19th Annual Global Investment Funds Forum in Luxembourg and the Goldman Sachs Renminbi Liberalization Investor Forum in Hong Kong.

### Products offered to the public

#### Number of authorised collective investment schemes

	As at 30/09/2010	As at 30/09/2009
Unit trusts and mutual funds	1,981	2,006
Investment-linked assurance schemes	244	235
Pooled retirement funds	34	35
MPF master trust schemes	38	37
MPF pooled investment funds <sup>1</sup>	308	311
Others <sup>2</sup>	22	20
<b>Total</b>	<b>2,627</b>	<b>2,644</b>

<sup>1</sup> In this category, 120 of the funds were offered both as retail unit trusts and pooled investment funds for MPF purposes.

<sup>2</sup> Other schemes comprises 14 paper gold schemes and eight real estate investment trusts.

#### Unlisted structured products<sup>1</sup> offered to the public

	For the quarter ended 30/09/2010
Offering documents authorised	14
Advertisements authorised	0

<sup>1</sup> This category comprises the commonly available structured investment products such as structured notes, equity-linked investments and equity-linked deposits.

### Attracting listings from overseas

We support the Government's initiative in attracting companies overseas to list in Hong Kong. Out of the 20 newly listed companies in the quarter ended September, four were companies incorporated in newly accepted overseas jurisdictions, including two domiciled in Singapore, one in Jersey and another in the British Virgin Islands (BVI), marking the first instance of a BVI company to list in Hong Kong, raising funds of about \$6.5 billion.

As at September-end, apart from Bermuda, Cayman Islands and the People's Republic of China, we have recognised 10 other overseas jurisdictions for listing in Hong Kong. As of the end of September, our exchange has 13 listed companies incorporated in these newly recognised overseas jurisdictions, representing a combined market capitalisation of approximately \$2,510 billion.

### Reduction of levies

We had proposed in our budget for the year 2010 - 2011 to reduce the levies in accordance with the Securities and Futures Ordinance, given that the organisation has accumulated a sizable amount of reserves on the substantial increase in turnover. On four other occasions, the SFC had reduced its levies. This round of reduction pertains to shaving 25% off levies that investors pay for trading in securities, futures or options contracts. As a result, the transaction levy for securities is now 0.003%.

The Securities and Futures (Levy) (Amendment) Order 2010, which provides for the levy reduction was gazetted on 20 May 2010, and tabled at the Legislative Council for negative vetting on 26 May 2010. Following an announcement in September, the reduction went into effect on 1 October 2010.

### Licensing of intermediaries

During the second quarter, we received 3,601 applications, up about 11% from the previous quarter and about 18% from a year ago. Licensees and registrants totalled 38,304, a 6% increase from the same period last year.

As we announced in a press release in August, the number of new licence applications received in the first seven months this calendar year increased 50%. Moreover, the number of SFC licensees reached an all time high in July, surpassing the previous record set in November 2008. In September, this record was once again broken with the number of SFC licensees rising to 38,304.

### Launching the List of Sponsors

In September, we published the List of Sponsors on our website to make it easier for the public and other regulators to look up the names and licensing details of firms authorized to act as sponsors. At present, there are over 70 sponsors in Hong Kong.

### Number of licensees and registrants

	<b>As at 30/09/2010</b>	As at 30/06/2010	Change in %	As at 30/09/2009	Change in %
Licensed Corporations	<b>1,701</b>	1,658	2.6	1,589	7.0
Registered Institutions	<b>108</b>	108	0.0	105	2.9
Individuals	<b>36,495</b>	35,498	2.8	34,515	5.7
<b>Total</b>	<b>38,304</b>	37,264	2.8	36,209	5.8

---

## Communicating with market participants

This quarter, we concluded the joint-consultation with the Hong Kong Exchanges and Clearing Ltd on the proposed operational model for implementing a scripless securities market in Hong Kong. The majority of respondents supported the scripless initiative, although many also had comments, suggestions and questions on some aspects of the proposed model. In view of the overall positive feedback from the market, the working group decided to proceed with the operational model proposed in the joint-consultation paper but with a few adjustments to address some of the concerns raised during the consultation. The final model is summarised in the joint-consultation conclusions paper issued in September. We will work on the related legislative changes to facilitate the implementation of the scripless securities market in Hong Kong and plan to issue a consultation paper on changes to the related subsidiary legislation in early 2011.

In July, we released the Fund Management Activities Survey 2009, an annual survey conducted by the SFC to collect information and data on the general state of affairs of the fund management industry in Hong Kong. The findings showed that Hong Kong's combined fund management business grew by 45.4% year on year to \$8,607 billion at the end of 2009. The findings reflect Hong Kong's importance as a platform for international investors to invest in the region, and as a springboard for Mainland-related firms to gain exposure to global investment practices.

Using periodical publications, we communicate regularly with industry participants to help them better understand regulatory requirements. In July, we issued the Dual Filing Update setting out our observations on listing documents and sponsors' due diligence work. The Dual Filing Update highlighted a number of risk areas where sponsors should raise their due diligence standards to ensure accurate and complete disclosures. Areas requiring more attention included the interlocking relationships between significant shareholders and listing applicants, material non-compliance with rules and regulations and review of financial performance of listing applicants.

In September, the 14th issue of the Takeovers Bulletin, among other things, carried a revised Practice Note with additional guidance on what constituted exempt dealing activities under the definition of "exempt principal trader."

---

## Education

We addressed investor interest in popular investment products and raised awareness for product risks and investor rights for the benefit of a better-informed market.

InvestEd Intelligence made its debut on line on the InvestEd website and in print this September. Designed to be a more in-depth version of the former monthly digest – the Monthly Focus – the new bi-monthly newsletter takes a comprehensive and thorough approach to investor education. The inaugural issue explains risks intrinsic to products denominated in renminbi, cautions investors against falling for online “investment tips” from possibly unlicensed advisors and describes how excess rights are allocated. The “Jargon Buster” section aims to improve readers’ financial vocabulary, while the “Readers’ Corner” opens up a new channel for readers to submit questions relating to investing know-how.

The year-round campaign, “Know How the New Rules Protect You as an Investor” went into full swing this quarter with a burst of mass-media programmes and an online quiz. The campaign kicked off in September with the “Know the Protective Measures” short videos and 10 20-second infomercials on Cable TV and NOW TV. The TV blitz will continue through next March.

Along with the TV push, “Hard Facts about Investing,” a 11-part Cantonese radio interview segment produced jointly with RTHK Radio 1, went live. The five minute segments covered a gamut of topics ranging from the ban on offering gifts for promoting investment products to the risks of investing in renminbi products. At the end of each broadcast, listeners were invited to participate in a short online quiz. The first contestant submitting the correct answer won a watch as a prize.

Rounding out the programs, “Info-wise by Dr Wise” on Metro Radio featured our in-house fictitious columnist Dr Wise explaining investor rights enhanced under the new rules, such as product key facts statements and performance fee calculations. The punchy 45-second episodes will continue into October.

As investor appetite for renminbi products and exchange traded-funds (ETFs) increased, we went to great lengths to bolster our education work in these areas. We added a section to the InvestEd site to cover the basics of renminbi products and answer commonly raised questions concerning renminbi bonds and renminbi funds.

We also posted on the InvestEd site the article, “Analysing ETFs,” which was featured in a presentation at the Investor Education Seminar Series organised jointly with the Hong Kong Society of Financial Analysts.

Using banner ads and sponsored search to advertise materials on renminbi investment products and ETFs, we attracted a much larger number of visitors to the InvestEd site in September.

In line with efforts to bolster education in certain investment products, we produced an updated leaflet on synthetic ETFs and distributed close to 30,000 copies to banks and public libraries. In his July column, Dr Wise had reminded readers that not all ETFs track market performance directly and that they should bear in mind counterparty risks.

During the quarter, 17 seminars were held for over 1,200 attendees. The seminars tie in with the key investor education initiatives this quarter highlighting product key fact statements and post-sale cooling-off period. Through the seminars, we continued to educate investors on financial planning, market misconduct and investment risks.

On the proposed establishment of the Investor Education Council, we discussed with the Financial Services and the Treasury Bureau (FSTB) comments received from the consultation and the approach to preparing the conclusion paper. The FSTB plans to issue the conclusions paper before the end of the year.

---

# organisational matters

We had 524 staff members as at 30 September, up from 501 a year ago.

Our total revenue for the quarter was \$429 million, compared with \$462 million a year ago and \$404 million in the previous quarter. Expenditure was \$192 million, 14% below our approved budget. This resulted in a surplus of \$237 million for the quarter, compared with \$285 million in the same quarter last year and \$226 million in the previous quarter. Our reserves stood at \$6.5 billion at 30 September.

We welcomed the re-appointment of Mrs Angelina Lee Pui Ling as Non-Executive Director for a term of two years from 1 August 2010 to 31 July 2012.

# Securities and Futures Commission

## Consolidated statement of comprehensive income

For the three months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended	
	30 September 2010 \$'000	30 September 2009 \$'000
<b>Income</b>		
Levies	354,692	382,473
Fees and charges	39,851	43,660
Investment income	32,888	35,313
Less: custody and advisory expenses	(652)	(555)
Investment income net of third party expenses	32,236	34,758
Recoveries from the Investor Compensation Fund	1,020	1,040
Other income	763	196
	<b>428,562</b>	462,127
<b>Expenses</b>		
Staff costs and directors' emoluments	140,751	133,474
Premises		
rent	15,911	14,506
other	6,312	5,920
Other expenses	18,939	16,577
Depreciation	9,563	6,668
	<b>191,476</b>	177,145
<b>Surplus and total comprehensive income for the quarter</b>	<b>237,086</b>	284,982

## Consolidated statement of comprehensive income

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2010 \$'000	30 September 2009 \$'000
<b>Income</b>			
Levies		688,011	769,613
Fees and charges		74,969	91,033
Investment income		65,577	70,850
Less: custody and advisory expenses		(1,239)	(1,083)
Investment income net of third party expenses		64,338	69,767
Recoveries from the Investor Compensation Fund		2,061	2,048
Other income		2,891	2,119
		<b>832,270</b>	934,580
<b>Expenses</b>			
Staff costs and directors' emoluments	7	279,478	268,719
Premises			
rent		31,821	29,011
other		12,508	11,569
Other expenses		28,386	32,408
Depreciation		17,573	12,745
		<b>369,766</b>	354,452
<b>Surplus and total comprehensive income for the period</b>		<b>462,504</b>	580,128

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

## Consolidated statement of financial position

At 30 September 2010

(Expressed in Hong Kong dollars)

	Note	<b>Unaudited</b>	Audited
		<b>At 30 September 2010</b>	At 31 March 2010
		<b>\$'000</b>	\$'000
<b>Non-current assets</b>			
Fixed assets		<b>51,114</b>	49,423
Held-to-maturity debt securities	2	<b>4,232,805</b>	3,769,238
		<b>4,283,919</b>	3,818,661
<b>Current assets</b>			
Held-to-maturity debt securities	2	<b>1,608,587</b>	1,536,402
Debtors, deposits and prepayments		<b>225,324</b>	208,198
Bank deposits		<b>547,870</b>	566,709
Cash at bank and in hand		<b>6,209</b>	2,617
		<b>2,387,990</b>	2,313,926
<b>Current liabilities</b>			
Fees received in advance		<b>58,225</b>	9,260
Creditors and accrued charges		<b>102,172</b>	71,298
		<b>160,397</b>	80,558
<b>Net current assets</b>		<b>2,227,593</b>	2,233,368
<b>Total assets less current liabilities</b>		<b>6,511,512</b>	6,052,029
<b>Non-current liabilities</b>	3	<b>26,768</b>	29,789
<b>Net assets</b>		<b>6,484,744</b>	6,022,240
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>		<b>42,840</b>	42,840
<b>Accumulated surplus</b>		<b>6,441,904</b>	5,979,400
		<b>6,484,744</b>	6,022,240

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

## Statement of financial position

At 30 September 2010

(Expressed in Hong Kong dollars)

	Note	<b>Unaudited</b>	Audited
		<b>At 30 September 2010</b>	At 31 March 2010
		<b>\$'000</b>	\$'000
<b>Non-current assets</b>			
Fixed assets		<b>51,095</b>	49,398
Held-to-maturity debt securities	2	<b>4,232,805</b>	3,769,238
		<b>4,283,900</b>	3,818,636
<b>Current assets</b>			
Held-to-maturity debt securities	2	<b>1,608,587</b>	1,536,402
Debtors, deposits and prepayments		<b>225,136</b>	208,048
Bank deposits		<b>547,870</b>	566,709
Cash at bank and in hand		<b>5,489</b>	2,318
		<b>2,387,082</b>	2,313,477
<b>Current liabilities</b>			
Fees received in advance		<b>58,225</b>	9,260
Creditors and accrued charges		<b>101,245</b>	70,824
		<b>159,470</b>	80,084
<b>Net current assets</b>		<b>2,227,612</b>	2,233,393
<b>Total assets less current liabilities</b>		<b>6,511,512</b>	6,052,029
<b>Non-current liabilities</b>	3	<b>26,768</b>	29,789
<b>Net assets</b>		<b>6,484,744</b>	6,022,240
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>		<b>42,840</b>	42,840
<b>Accumulated surplus</b>		<b>6,441,904</b>	5,979,400
		<b>6,484,744</b>	6,022,240

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

## Consolidated statement of changes in equity

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2009	42,840	4,910,643	4,953,483
Total comprehensive income for the period	-	580,128	580,128
Balance at 30 September 2009	42,840	5,490,771	5,533,611
Balance at 1 April 2010	42,840	5,979,400	6,022,240
Total comprehensive income for the period	-	462,504	462,504
Balance at 30 September 2010	42,840	6,441,904	6,484,744

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

## Consolidated statement of cash flows

For the six months ended 30 September 2010  
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2010 \$'000	30 September 2009 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	462,504	580,128
Adjustments for:		
Depreciation	17,573	12,745
Investment income	(65,577)	(70,850)
(Gain)/loss on disposal of fixed assets	(20)	43
	414,480	522,066
Increase in debtors, deposits and prepayments	(34,815)	(33,227)
Increase in creditors and accrued charges	30,874	26,546
Increase/(decrease) in fees received in advance	48,965	(41,561)
Decrease in non-current liabilities	(3,021)	(4,350)
Net cash generated from operating activities	456,483	469,474
<b>Cash flows from investing activities</b>		
Interest received	110,545	104,902
Held-to-maturity debt securities bought	(1,452,659)	(688,766)
Held-to-maturity debt securities redeemed	889,627	331,266
Fixed assets bought	(19,243)	(19,040)
Net cash used in investing activities	(471,730)	(271,638)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(15,247)</b>	197,836
<b>Cash and cash equivalents at beginning of the six months period</b>	<b>569,326</b>	456,404
<b>Cash and cash equivalents at end of the six months period</b>	<b>554,079</b>	654,240

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

	Unaudited	
	At 30 September 2010 \$'000	At 30 September 2009 \$'000
Bank deposits	547,870	650,989
Cash at bank and in hand	6,209	3,251
	554,079	654,240

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2010  
(Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2010 included in this report does not constitute the SFC’s statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) in the SFC’s condensed financial statements made up to 30 September 2010. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2010 to the interim financial report.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2010.

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

As of 30 September 2010, the total market value of held-to-maturity debt securities amounted to \$5,963,628,000 (31 March 2010: \$5,397,994,000), which was above the total carrying value of \$5,841,392,000 (31 March 2010: \$5,305,640,000).

### 3. Non-current liabilities

#### The Group and the SFC

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

### 4. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in “debtors, deposits and prepayments” and “creditors and accrued charges” respectively as at 30 September 2010. Therefore we do not provide an ageing analysis of debtors and creditors.

### 5. Exchange fluctuation

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

## 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 ICC on 11 September 2002 with an authorised share capital of \$1,000 and issued share capital of \$0.2. Both FinNet and ICC are incorporated in Hong Kong.

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

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

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

The statement of financial position of FinNet as at 30 September 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

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

- (a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$2,061,000 (2009: \$2,048,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all directors) comprised :

	Unaudited six months ended	
	30 September 2010 \$'000	30 September 2009 \$'000
Short-term employee benefits	13,305	15,480
Post employment benefits	1,181	1,341
	<b>14,486</b>	16,821

The total remuneration is included in "staff costs and directors' emoluments" on page 12. Discretionary pay is not included above as the decision to pay is not determinable at this point in time.

- (c) Included in creditors and accrued charges is an amount due to the Investor Compensation Fund amounting to \$416,000 (At 31 March 2010: \$509,000).

## 8. Non-adjusting event after the end of the reporting period

The Securities and Futures (Levy) (Amendment) Order 2010 has come into operation on 1 October 2010. The levy payable by a seller or a purchaser in respect of the sale and purchase of securities and futures and options contracts will be reduced by 25% thereafter.

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

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

### Introduction

We have been instructed to review the interim financial report set out on pages 12 to 18 which comprises the consolidated and the SFC's statements of financial position as of 30 September 2010 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

7 December 2010

---

# Investor Compensation Fund (the Fund)

## Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 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 21 to 27.

### 3. Members of the Committee

The members of the Committee during the six months ended 30 September 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 six months.

On behalf of the Committee

**Keith Lui**

Chairman

7 December 2010

## Statement of comprehensive income

For the three months ended 30 September 2010  
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed quarter ended	
	<b>30 September 2010</b> \$'000	30 September 2009 \$'000
<b>Income</b>		
Net investment income	<b>55,917</b>	51,996
Exchange gain	-	9
Recoveries	<b>4,108</b>	-
	<b>60,025</b>	52,005
<b>Expenses</b>		
Exchange loss	<b>3,049</b>	-
Investor Compensation Company expenses	<b>1,020</b>	1,040
Auditor's remuneration	<b>26</b>	22
Bank charges	<b>193</b>	191
Professional fees	<b>799</b>	743
	<b>5,087</b>	1,996
<b>Surplus and total comprehensive income for the quarter</b>	<b>54,938</b>	50,009

## Statement of comprehensive income

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2010 \$'000	30 September 2009 \$'000
<b>Income</b>			
Net investment income		70,224	103,594
Recoveries		4,108	-
		<b>74,332</b>	103,594
<b>Expenses</b>			
Exchange loss		364	39
Investor Compensation Company expenses	2	2,061	2,049
Compensation (written back)/expense	3	(218)	162
Auditor's remuneration		47	43
Bank charges		373	392
Professional fees		1,605	1,468
		<b>4,232</b>	4,153
<b>Surplus and total comprehensive income for the period</b>		<b>70,100</b>	99,441

The notes on pages 26 and 27 form part of the condensed financial statements.

## Statement of financial position

At 30 September 2010

(Expressed in Hong Kong dollars)

	Note	<b>Unaudited</b> <b>At 30 September 2010</b> <b>\$'000</b>	Audited At 31 March 2010 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
Debt securities		<b>1,585,217</b>	1,517,803
Equity securities		<b>208,593</b>	184,523
Interest receivable		<b>16,953</b>	16,371
Due from Investor Compensation Company		<b>416</b>	261
Fixed and call deposits with banks		<b>219,690</b>	150,452
Cash at bank		<b>5,633</b>	102,283
		<b>2,036,502</b>	1,971,693
<b>Current liabilities</b>			
Provision for compensation	3	<b>300</b>	5,656
Creditors and accrued charges		<b>919</b>	895
Fair value adjustment on unsettled trades		<b>48</b>	7
		<b>1,267</b>	6,558
<b>Net current assets</b>		<b>2,035,235</b>	1,965,135
<b>Net assets</b>		<b>2,035,235</b>	1,965,135
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		<b>994,718</b>	994,718
Contributions from Commodity Exchange Compensation Fund		<b>108,923</b>	108,923
Accumulated surplus		<b>931,594</b>	861,494
		<b>2,035,235</b>	1,965,135

The notes on pages 26 and 27 form part of the condensed financial statements.

## Statement of changes in equity

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2009	994,718	108,923	711,964	1,815,605
Total comprehensive income for the period	-	-	99,441	99,441
Balance at 30 September 2009	994,718	108,923	811,405	1,915,046
Balance at 1 April 2010	994,718	108,923	861,494	1,965,135
Total comprehensive income for the period	-	-	70,100	70,100
Balance at 30 September 2010	994,718	108,923	931,594	2,035,235

The notes on pages 26 and 27 form part of the condensed financial statements.

## Statement of cash flows

For the six months ended 30 September 2010  
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2010 \$'000	30 September 2009 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	70,100	99,441
Net investment income	(70,224)	(103,594)
Exchange loss	364	39
Increase in amount due from Investor Compensation Company	(155)	(32)
Decrease in provision for compensation	(5,356)	(1,912)
Increase in creditors and accrued charges	24	87
Net cash used in operating activities	(5,247)	(5,971)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(286,157)	(924,024)
Sale or maturity of debt securities	235,395	862,039
Sale of equity securities	445	311
Interest received	28,152	32,905
Net cash used in investing activities	(22,165)	(28,769)
<b>Net decrease in cash and cash equivalents</b>	<b>(27,412)</b>	<b>(34,740)</b>
<b>Cash and cash equivalents at beginning of the six-month period</b>	<b>252,735</b>	<b>136,111</b>
<b>Cash and cash equivalents at end of the six-month period</b>	<b>225,323</b>	<b>101,371</b>

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

	Unaudited	
	At 30 September 2010 \$'000	At 30 September 2009 \$'000
Cash at bank	5,633	70,808
Fixed and call deposits with banks	219,690	30,563
	<b>225,323</b>	<b>101,371</b>

## Notes to the condensed financial statements

For the six months ended 30 September 2010  
(Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2010 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2010 to the interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2010.

### 2. Investor Compensation Company Limited (ICC) expenses

The Securities and Futures Commission (SFC) formed ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the six months ended 30 September 2010, ICC incurred \$2,061,000 for its operation (For the six months ended 30 September 2009 : \$2,049,000).

### 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 six months ended 30 September 2010	(218)
Less: compensation paid during the six months ended 30 September 2010	(5,138)
Balance as at 30 September 2010	300

We maintained provision for liabilities arising from claims received resulting from a default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for these cases is set at the lower of \$150,000 per claimant or the amount claimed. As at 30 September 2010, all provisions were expected to be paid within one year.

#### **4. Related party transactions**

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

#### **5. Contingent liabilities**

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$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.

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

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

## Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 22 to 27 which comprises the statement of financial position of the Investor Compensation Fund (the Fund) as of 30 September 2010 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

7 December 2010

---

# Unified Exchange Compensation Fund (the Fund)

## Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 2010.

### 1. Establishment of the Fund

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

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

### 2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 30 to 36.

### 3. Members of the Committee

The members of the Committee during the six months ended 30 September 2010 and up to the date of this report were :

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

### 4. Interests in contracts

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

On behalf of the Committee

**Keith Lui**  
Chairman

15 November 2010

## Statement of comprehensive income

For the quarter ended 30 September 2010

(Expressed in Hong Kong dollars)

	Unaudited and unreviewd quarter ended	
	30 September 2010 \$'000	30 September 2009 \$'000
<b>Income</b>		
Interest income	49	29
Recoveries	–	(10)
	49	19
<b>Expenses</b>		
Auditor's remuneration	11	10
Professional fees	6	13
	17	23
<b>Surplus/(deficit) and total comprehensive income for the quarter</b>	<b>32</b>	<b>(4)</b>

## Statement of comprehensive income

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2010 \$'000	30 September 2009 \$'000
<b>Income</b>			
Interest income		70	116
Recoveries	2	–	136
		<b>70</b>	<b>252</b>
<b>Expenses</b>			
Auditor's remuneration		20	19
Professional fees		13	13
		<b>33</b>	<b>32</b>
<b>Surplus and total comprehensive income for the period</b>		<b>37</b>	<b>220</b>

The notes on pages 35 and 36 form part of the condensed financial statements.

## Statement of financial position

At 30 September 2010

(Expressed in Hong Kong dollars)

	Note	<b>Unaudited</b>	Audited
		<b>At 30 September 2010</b>	At 31 March 2010
		<b>\$'000</b>	\$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	1	2
Interest receivable		27	4
Fixed and call deposits with banks		69,105	68,958
Cash at bank		122	22
		<b>69,255</b>	68,986
<b>Current liabilities</b>			
Creditors and accrued charges	6	10,287	10,305
<b>Net current assets</b>		<b>58,968</b>	58,681
<b>Net assets</b>		<b>58,968</b>	58,681
Representing:			
<b>Compensation fund</b>			
Contributions from the SEHK	3	47,850	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		15,547	15,510
		<b>1,053,686</b>	1,053,399
Contributions to Investor Compensation Fund		<b>(994,718)</b>	(994,718)
		<b>58,968</b>	58,681

The notes on pages 35 and 36 form part of the condensed financial statements.

## Statement of changes in equity

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Unaudited	
	2010 \$'000	2009 \$'000
Compensation fund balance as at 1 April	<b>58,681</b>	57,674
Net contributions received from the SEHK	<b>250</b>	550
Total comprehensive income for the period	<b>37</b>	220
Compensation fund balance as at 30 September	<b>58,968</b>	58,444

The notes on pages 35 and 36 form part of the condensed financial statements.

## Statement of cash flows

For the six months ended 30 September 2010  
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2010 \$'000	30 September 2009 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	37	220
Interest income	(70)	(116)
Decrease/(increase) in equity securities received under subrogation	1	(123)
(Decrease)/increase in creditors and accrued charges	(18)	3
Net cash used in operating activities	(50)	(16)
<b>Cash flows from investing activities</b>		
Interest received	47	154
Net cash generated from investing activities	47	154
<b>Cash flows from financing activities</b>		
Contributions from the SEHK	250	550
Net cash generated from financing activities	250	550
<b>Net increase in cash and cash equivalents</b>	<b>247</b>	<b>688</b>
<b>Cash and cash equivalents at beginning of the six-month period</b>	<b>68,980</b>	<b>67,604</b>
<b>Cash and cash equivalents at end of the six-month period</b>	<b>69,227</b>	<b>68,292</b>

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

	Unaudited	
	At 30 September 2010 \$'000	At 30 September 2009 \$'000
Cash at bank	122	368
Fixed and call deposits with banks	69,105	67,924
	<b>69,227</b>	<b>68,292</b>

## Notes to the condensed financial statements

For the six months ended 30 September 2010  
(Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2010 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2010 to the interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2010.

### 2. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 September 2010 after deducting relevant processing fees and charges for collecting and selling the securities received.

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

### 3. Contributions from the SEHK

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

Since September 2008, the SEHK advised the SFC of fifteen trading rights in total having been relinquished but not yet settled at 31 March 2010. The SFC had refunded to the SEHK the deposit of \$550,000 in respect of eleven of these fifteen trading rights during the six months ended 30 September 2010. The SFC shall refund to the SEHK the deposit of \$200,000 in respect of the remaining four trading rights at the end of a six-month period after the relinquishment took effect.

### 4. Related party transactions

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

## 5. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the C.A. Pacific case, any excess of recovered amounts (refer to note 2), if any, will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

## 6. Creditors and accrued charges

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

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

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

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

### Introduction

We have been instructed by the SFC to review the interim financial report set out on pages 31 to 36 which comprises the statement of financial position of the Unified Exchange Compensation Fund (the Fund) as of 30 September 2010 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended and explanatory notes. The SFC is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

15 November 2010