



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

QUARTERLY REPORT

JULY-SEPTEMBER 2011





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

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Chief Executive Officer's Statement

My term as CEO began only in October, but it became rapidly apparent to me that the SFC has been making great strides to continue to enhance market efficiency and investor protection, while ensuring Hong Kong maintains high industry standards and stays abreast of international developments.

In view of recent market volatility, we have stepped up monitoring the financial positions of licensed corporations. We also introduced additional investor protection measures requiring synthetic exchange-traded funds regulated primarily by the SFC to achieve adequate collateralisation.

Meanwhile, to allow market participants to trade or hedge against market volatility, we approved HKEx's proposal to launch a futures contract based on the Hang Seng Index (HSI) Volatility Index. This is scheduled to be launched around the end of 2011 or early 2012.

In August, Vice Premier Li Keqiang announced a series of securities-related key initiatives during his visit to Hong Kong. We have been working with the Government to facilitate the implementation of these initiatives while continuing discussion with Mainland financial regulators and local fund managers to ensure a smooth roll-out of products that utilise the Renminbi Qualified Foreign Institutional Investors (RQFII) quota.

Mainland-based intermediaries have been expanding their presence in anticipation of the RQFII scheme. The number of licence applications by these intermediaries to launch Hong Kong subsidiaries accounted for 20% of total corporate licence applications received during the quarter.

Separately, we conducted a public consultation on proposals for a new set of guidelines on anti-money laundering and counter-terrorist financing to bring Hong Kong in line with the latest international standards on customer due diligence and record keeping.

We also refined the evidential requirements for establishing professional investor status. Our proposal aims to enable firms to use methods that are tailor made to the circumstances to establish that an investor meets the requirements. Subject to the completion of the related legislative process, the proposal may come into effect at year-end.

On the enforcement front, we prosecuted and sought a court order for compensation from three former directors of a company who failed to act in good faith and in the best interests of shareholders. We also reprimanded and fined a licensee for running a trading strategy that was deemed manipulative on the Tokyo Stock Exchange.

This quarter marked a number of firsts for investor education, including our first photo-comic booklet that explains the sales process and our first promotion through a real-time interactive TV quiz show.

I hope you find our report informative and the key activity data useful.

Ashley Ian Alder
Chief Executive Officer

Regulation

We brought prosecutions and disciplinary actions against violators to send a clear message to the markets that we do not tolerate activities that undermine investor interests or market integrity.

This quarter, we successfully prosecuted nine individuals and corporations for various types of misconduct. We also filed a number of civil and criminal actions that are pending court proceedings. For the breakdown of data on enforcement actions, please refer to Table 5 in the Activity Data section on page 12.

Highlights of court-prosecuted enforcement actions

- We commenced proceedings in the Court of First Instance to seek an order to disqualify three former directors of EganaGoldpfeil (Holdings) Ltd (EHL), namely David Wong Wai Kwong, Peter Lee Ka Yue, and Chik Ho Yin for breaches of their fiduciary duties to act in good faith and in the best interests of the group. We also asked for orders that the three former directors compensate the EHL group for its losses estimated at \$2.13 billion.
- The Court of First Instance dismissed a judicial review application from Real Gold Mining Ltd (RDML), which sought an order to stop the SFC from reviewing any information that RDML were claiming to be the subject of legal professional privilege, determined to be irrelevant or until RDML had finished reviewing the information. The court dismissed RDML's application and agreed that a company under investigation cannot determine the relevance of evidence gathered by the SFC, nor supervise the SFC's investigation by seeking such orders.
- We prosecuted Woo Sai Cheung, a licensed representative of Winsome Stock Co, Ltd, for two counts of illegal short selling in two stocks in his girlfriend's account. Woo was fined \$7,000.
- Billion Global Asset Management Ltd and its director, Chan Chun Wai were fined a total of \$20,000 for carrying on a business in asset management and issuing a related advertisement without being licensed by the SFC.
- Law Look Tend and Leung Bing Yiu were found guilty of carrying on a business of advising on securities without a licence between January and June 2010 and fined a total of \$47,000. Law was also convicted of issuing advertisements relating to his unlicensed business of advising on securities.

Disciplinary actions

We disciplined 15 licensees, including three corporations and 12 responsible officers or licensed representatives, fining them a total of \$15.6 million for a variety of misconduct and internal control deficiencies.

- Without admitting liability, Citibank Hong Kong has agreed to make a repurchase offer to eligible customers holding outstanding Lehman Brothers (LB) Notes it distributed. The offer was made at a price equal to 80% of the total value of each eligible customer's investment in the LB-issued notes (both market-linked and equity-linked) between March 2007 and June 2008.
- On a no-admission basis, Oasis Management (Hong Kong) LLC and its Chief Investment Officer Seth Hillel Fischer each accepted a reprimand and a respective fine of \$7.5 million for executing a trading strategy deemed to be designed to drive down the closing price of Japan Airlines Corporation (JAL) shares on the Tokyo Stock Exchange. On 19 July 2006, Fischer had entered a series of orders on JAL on behalf of Oasis in the last 15 minutes before the market closed.
- Tang Siu Fong, a former licensed representative of Fair Eagle Securities Co, Ltd, was banned from re-entering the industry for life for failing to execute trades according to clients' instructions and for conducting unauthorised trades in their accounts between January 2009 and January 2011. Tang misappropriated approximately \$6.4 million.
- Wong Sai Lai and Man Bun Mo, former licensed representatives of CITIC Securities Brokerage (HK) Ltd, were suspended for four months and prohibited from re-entering the industry for five months respectively. They had paid an unlicensed person, Lee Chi Ying, to perform regulated activities between 2005 and 2009. Lee was accredited to another brokerage subsequently but her licence was suspended for eight months following the conviction of unlicensed dealing.
- Taifair Securities Ltd and its responsible officer Kwok Fai were reprimanded and fined \$400,000 and \$100,000 respectively for failing to ensure that effective compliance procedures were in place and properly implemented.

- Ma King Lun, Tong Pok Wai and Sit Chi Hang, former licensed representatives of Philip Securities (Hong Kong) Ltd, were suspended for a period from four to six months for conducting trades without the client's proper authorization between November 2009 and February 2010.
- We banned Steve Luk Ka Cheung, a former vice-president and fund manager of JF Asset Management Ltd from re-entering the industry for 10 years after the Market Misconduct Tribunal found that he, together with other parties, had engaged in insider dealing in shares of China Overseas Land and Investment Ltd.
- We reprimanded Karl Wu Kin Chung, an account executive of Celestial Securities Ltd (Celestial), and fined him \$40,000 for not complying with requirements relating to receiving client order instructions on the mobile phone under the code of conduct for intermediaries¹.
- Another Celestial staff member To Kei Ming, a responsible officer, was fined \$90,000 for neglecting to lodge with the brokerage an authorization form completed by a client within a reasonable period of time, and for not complying with order recording requirements.

Appeals

- The Court of First Instance dismissed the appeal of Thomas Chan Ping Keung, a director of Able Alliance International Ltd, against his convictions for making false or misleading representations in applications for an extension of the deadline to submit records and required documents to the SFC.
- We filed an appeal against the order of the Court of First Instance striking out our proceedings under section 213 of the SFO against Tiger Asia Management LLC and three of its officers. The appeal will be heard on 7 February 2012.
- On 6 October 2011, we sought leave from the Court of Appeal to appeal against the decision by the Hon Mr Justice Harris made on 22 July 2011 not to determine a point of law in respect of our proceedings against Hontex International Holdings Co, Ltd under section 213 of the SFO.

¹ This refers specifically to the "Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission."

- The Court of First Instance dismissed Pablo Chan Pak Hoe's appeal against his conviction for insider dealing in the shares of Universe International Holdings Ltd between 2 May and 19 June 2008 but reinstated the original sentence of a 240-hour community service order on technical grounds. The court, however, gave sentencing guidance that insider dealing was a serious crime and usually would merit an immediate prison sentence.

Implementing full collateralisation for domestic synthetic ETFs

In an on-going effort to strengthen protection for investors, the SFC announced on 29 August 2011 additional measures to enhance the level of the collateral and transparency of domestic synthetic exchange-traded funds (ETFs).

Relevant ETF managers were required to top up the collateral levels for all of their synthetic ETFs primarily regulated by the SFC so as to achieve at least 100% collateralisation by 31 October 2011 and to maintain that level at all times. Where equity securities are used as collateral, their market value must be equivalent to at least 120% of the related gross counterparty risk exposure. These enhancements are meant to minimize uncollateralised counterparty risk exposure that could arise from the use of financial derivatives in replicating index performance. Such synthetic ETFs are also required to publish their collateral management policy on their websites.

Regulatory enhancements

Refining evidential requirements for establishing professional investor status

The Securities and Futures (Professional Investor) (Amendment) Rules 2011 were gazetted on 9 September 2011. The House Committee of the Legislative Council appointed a subcommittee on 21 October 2011 to consider the amendment rules. The amendment rules implement proposals to enable firms to use methods tailor-made to the circumstances to establish that a person qualifies as a professional investor. Subject to the legislative process, the amendment rules are expected to come into effect by mid-December 2011.

Consulting on regulatory changes

On 30 June, we published the consultation conclusions paper to our proposals to extend the conflicts of interest requirements governing research analysts to research reports on REITs and listing applicants, in addition to reports on listed companies. We then issued a circular on 29 July announcing that at the request of the market, we will delay the implementation of the new requirements² to 31 October 2011. The new requirements will apply to any new listing applicant that submits its listing application (ie, the A1 Form) to The Stock Exchange of Hong Kong Limited on or after 31 October 2011.

In August, we released a public consultation paper on amendments to the Codes on Takeovers and Mergers and Share Repurchases relating to property valuation requirements, confirmation of independence of placees and timing for payment of acceptances. The proposals aim to allow disclosure of more focused and relevant information as well as to clarify the responsibilities of market practitioners. A conclusion paper will be issued in due course.

On 30 September, we conducted a public consultation on proposals for a new set of guidelines on anti-money laundering and counter-terrorist financing. One key objective of the proposed guidelines seeks to provide guidance to the industry regarding the implementation of the provisions of Schedule 2 of the recently enacted Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO), which will come into effect on 1 April 2012. The schedule aims to bring customer due diligence and record keeping requirements in line with the latest international standards. Under the guideline for “associated entities,” companies holding client assets in a controlling relationship with SFC-licensed corporations are also required to implement anti-money laundering/counter-terrorist financing policies, procedures and controls similar to those in the anti-money laundering guidelines.

² The new requirements are under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission as well as the Corporate Finance Adviser Code of Conduct.

Conducting surveillance exercise on product key fact statements, offering documents

We conducted a surveillance exercise on a number of product key fact statements (KFS) and offering documents of SFC-authorized investment-linked assurance schemes, following the full implementation of additional disclosure requirements first introduced on 25 June 2010³. Depending on the level of the deficiencies and issues, we took action, including requiring the relevant product issuers to take immediate remedial action (such as ceasing to market and to accept subscriptions, rectifying the issues urgently and preparing remedial plans). In addition, we asked the product issuers to include the necessary refinements in the next published version of the KFS and/or offering documents.

Ensuring market meet standards

In view of recent market volatility, we have stepped up monitoring the financial position of licensed corporations, performing stress tests and following up with cases that required extra attention. We also issued a circular in September reminding all licensed corporations to implement effective internal controls and risk management, and to ensure that they have adequate capital and liquidity to operate and to meet obligations to clients and counterparties.

Noting public concerns

Non-LB-related complaints increased moderately in the past six months to 988 from 838 a year ago. As of 30 September, the accumulated number of LB-related complaints totalled 9,251, of which 50 complaints were received this quarter. For a breakdown on the nature of complaint cases, please refer to Table 9 in the Activity Data section on page 13.

³ Products that were already on offer to the public on 25 June 2010 when the “Handbook for Unit Trusts and Mutual Funds, Investment-linked Assurance Schemes and Unlisted Structured Investment Products” came into effect were given a grace period of one year to comply with the new disclosure requirements.

Development

Supporting Hong Kong's development as an offshore renminbi centre

We worked with the Government to facilitate the implementation of securities-related initiatives announced by Vice Premier Li Keqiang, which aim to strengthen Mainland-Hong Kong financial co-operation and promote the city's development as an offshore renminbi centre. We met with senior officials from the China Securities Regulatory Commission (CSRC), the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) to discuss the status of the Renminbi Qualified Foreign Institutional Investors (RQFII) regime. We also discussed with fund managers planning to utilise RQFII quotas to issue retail funds.

To help develop renminbi into an internationally-accepted and widely-used currency, our senior executives spoke at a number of local and overseas events and shared our views on topics such as using renminbi as an investment currency and renminbi products being developed in Hong Kong.

We worked with Hong Kong Exchanges and Clearing Ltd (HKEx) on the implementation and contingency planning of its Renminbi Equity Trading Support Facility, which provides a back-up facility to enable investors to buy renminbi-denominated shares in the secondary market, using HK dollars. We also monitored its simulation tests on system integrity and operational readiness of exchange participants. The facility was launched in October 2011.

Separately, we approved HKEx's proposed amendments to relevant trading and clearing rules to prepare for the launch of renminbi-denominated stock options contracts.

Furthering ties with the Mainland

We continued the dialogue with the Mainland at a high level on initiatives that would reinforce Hong Kong's status as an international financial centre. During the quarter, we met with senior officials from a number of Mainland authorities to discuss various cross-border co-operation initiatives. Among the authorities were: the Hong Kong and Macao Affairs Office, the CSRC, the China Insurance Regulatory Commission, the PBOC, the China Banking Regulatory Commission, SAFE, the State-owned Assets Supervision and Administration Commission and the China Financial Futures Exchange.

Our effort in furthering Hong Kong's co-operation with Mainland administrative regions and cities continued. Among other efforts, we helped the Government prepare for its participation in the Guangdong-Hong Kong Plenary Meeting and the First Ministerial Meeting on developing financial services in Qianhai.

Advancing CEPA initiatives

To implement Closer Economic Partnership Arrangement (CEPA) VI and VII, we participated in the policy discussion with Mainland authorities regarding the set up of a joint-venture securities investment advisory company in Guangdong and the forthcoming launch of Hong Kong stocks exchange-traded funds on the Mainland. We also collaborated with the Government and Mainland regulatory bodies to explore potential co-operation arrangements for inclusion in CEPA VIII.

Facilitating product development

During the quarter, we approved HKEx's proposal to launch a futures contract based on the Hang Seng Index (HSI) Volatility Index, which will allow market participants to trade or hedge against market volatility. The HSI Volatility Index, which measures the expected movement of the Hang Seng Index, is owned and disseminated by Hang Seng Indexes Co, Ltd. The launch of the futures contract is scheduled tentatively towards the end of 2011 or early 2012.

Licensing of intermediaries

We received 3,818 applications from individuals and corporations during the quarter, up 13.7% from the previous quarter and up 6% from a year ago. The total number of licensees and registrants rose 3.5% to 40,039 during the past six months. For data on the number of licensees and registrants, please refer to Table 8 in the Activity Data section on page 13.

Intermediaries regulated by the CSRC have been expanding actively their presence in Hong Kong in anticipation of the launch of the RQFII scheme and more business opportunities in Hong Kong. During the quarter, the number of licence applications from subsidiaries of CSRC-regulated intermediaries accounted for 20% of the total number of corporate licence applications received.

Supporting international work

We continued to contribute actively to international initiatives. During the quarter, we attended the meeting of the Financial Stability Board's (FSB) Standing Committee on Standards Implementation (SCSI) in Paris and took part in various discussions with the SCSI. We continued to contribute and monitor the progress of international financial reform initiatives and assess the implications for the SFC. We closely monitor and participate in the standard setting work of the International Organization of Securities Commission (IOSCO) through participating in its standing committees and task forces. In September, we attended IOSCO's Joint Executive Committee and Technical Committee in Madrid.

In September, our Deputy Chief Executive Officer and Executive Director of the Policy, China and Investment Products Division was appointed to co-chair (along with a representative of the US Federal Reserve Board) a newly created working group on margining requirements for non-centrally cleared derivatives. Given that a significant fraction of over-the-counter (OTC) derivatives is not standardised and thus will remain uncleared, consistently applied margin requirements for uncleared trades on an international level are an effective tool for achieving the Group of Twenty's objective of mitigating systemic risk in the derivatives markets. The working group will develop a proposal for margining requirements on uncleared OTC derivatives by June 2012. The working group is a collaborative initiative of the Basel Committee on Banking Supervision, IOSCO, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System.

During the quarter, we received delegations from India, Korea and Norway and presented to them a broad range of our work, including our takeovers regime, regulatory landscape for investment and reporting requirement for foreign ownership, and investor protection work.

Releasing findings of fund management survey

In July, we released the *Fund Management Activities Survey 2010*, an annual survey we conduct to collect information and data on the general state of affairs of the local fund management industry. The findings showed that Hong Kong's combined fund management business reached \$10,091 billion in 2010 (up 18.6% from 2009), which outperformed the previous record level of \$9,631 billion achieved in 2007. The increase suggests continuing inflows of investment capital into the Asia Pacific region.

Communicating with market participants

The *Dual Filing Update* issued in August 2011 updated the industry on listing application concerns, including insufficient due diligence by sponsors and deficiencies in disclosure.

We published the 18th issue of the *Takeovers Bulletin*, which, among other things, carried a clarification on the timing on disclosing dealings in the time zones of the United States and provided an update on overseas companies with secondary listings in Hong Kong, to which the Codes on Takeovers and Mergers and Share Repurchases do not apply.

Education

This quarter marks the implementation of the last of the investor protection measures rolled out in June 2010. To help investors get a better handle on the new measures, which aim to enhance standards of the selling practices of intermediaries, we produced a booklet for distribution to the public. Entitled “*Know your Rights in the Sales Process*,” the booklet explains, through six photo comics, the finer points of the different stages of a sales process from the angle of investor protection.

Product KFS further explained

In July, we distributed an updated booklet on product key facts statements (KFS) that include additional information on requirements for more comprehensive disclosure that product issuers needed to comply with.

An article in our bi-monthly *InvestEd Intelligence* newsletter followed-up with advice on how to make good use of the KFS. The article and our weekly column in *Headline Daily* also explained the new disclosure requirements in the offering documents of SFC-authorized funds and investment-linked assurance schemes (ILAS) and pointed out that investors will be assessed by the intermediary on derivatives knowledge when investors seek to purchase a derivative product.



The updated KFS booklet informs readers of new disclosure requirements for product issuers.

In addition, we aired “Know the Protective Measures” short videos on now 101 and now Hong Kong channels from July to September to promote the KFS and the post-sale cooling-off arrangement for unlisted structured products.

Investors reminded of market volatility, complexity

To make a point on market volatility, the September issue of *InvestEd Intelligence* gave the case study of investors having their leveraged foreign exchange positions closed without prior notice when they failed to top up their margin. Our articles in *Headline Daily* followed up to discuss risks associated with callable bull/bear contracts (CBCBs) and equity-linked notes (ELNs), reminding investors of the need to closely monitor their portfolios. On a related note about risks, we explained in detail counterparty risks of synthetic exchange-traded funds (ETFs) in separate *Headline Daily* articles.

With Internet trading becoming more popular, we reminded investors also of how they should prepare themselves for trading securities on line and shared pointers on how to pick an online brokerage to suit one’s needs.

As the market for new listings gets increasingly complex, we touched upon some new formats of listings in *InvestEd Intelligence* as well as *Headline Daily*, and urged investors to be aware of a different set of risks if they take up the Hong Kong initial public offerings of companies domiciled overseas.

We continued to air on television 20-second “Investor Education Advice” videos covering renminbi products, warrants and unlicensed online investment advice.

TV quiz show aims to improve investor knowledge

This quarter, we took an innovative approach to reaching the investing public by getting our messages across on a popular nowTV quiz show. The show “ATM” encourages



The “ATM” interactive quiz show on nowTV helps send investor education messages across through audience participation.

viewers to submit their answers to multiple-choice questions by remote control. Those who answered all questions correctly for each show win prize money. The show, which incorporated our investor education questions from mid-July for 10 consecutive weeks attracted participation from over 13,000 households in addition to a large general viewership. The quiz format also helped bring traffic to the InvestEd site where contest participants looked up information to help them answer the quiz questions.

The quiz questions covered a wide range of topics from the new investor protection measures to regulation of intermediaries to product features of renminbi products, ETFs, equity-linked investments and warrants, etc.

Outreach prepares teachers for new curriculum

This quarter, we held 11 seminars for over 800 persons of various age groups – from university students to retirees – to help them understand how the market operates, how to manage investment risks and watch out for market misconduct, and why financial planning is important. Moreover, to facilitate continual training for secondary school teachers under the Business, Accounting and Financial Studies curriculum, we jointly organized a half-day seminar with the Education Bureau for over 150 teachers, covering key features and risks of popular investment products such as ETFs, ILAS, renminbi bonds, listed renminbi securities and the latest investor protection measures, namely the KFS and additional disclosure requirements with respect to the sale of investment products.



Through photo comics, this booklet guides investors through the sales process and remind them of their rights.

InvestEd.hk kept up-to-date

We continued to update our InvestEd site content to reflect market developments as well as new regulatory requirements, including sales information disclosure, investor characterisation, Web disclosure on counterparty exposure by synthetic ETF managers and new product information on iBonds.

Organisational Matters

Mr Ashley Ian Alder assumed office as chief executive officer in early October following the Government's announcement of his appointment in August. His term is for three years starting 1 October 2011.

During the quarter, Dr Eddy Fong was re-appointed as non-executive chairman for a term of one year from 20 October 2011. Meanwhile, the Hon Chan Kam-lam and Mr Lawrence Lee Kam-hung were re-appointed as non-executive directors for a term of two years from 15 November 2011.

As at 30 September, our staff count increased to 580 from 524 a year ago.

To foster a culture of engagement, individual divisions have taken steps to encourage and involve staff in creating a participative work environment. In September, a cross-divisional working group was launched to draw up an action plan on macro issues including enhancing staff recognition, increasing the frequency and variety of staff bonding activities and maintaining a congenial working environment.

In September, we implemented the Case Management System (CMS), developed in house to help manage more effectively the reporting, review and status updating of enforcement cases being processed. We estimated that by deploying portable digital devices to review case documents online, we may reduce the use of paper by around 40,000 pieces per year. We also have begun adopting some of the CMS's features for other projects within the organisation so that process efficiency can be enhanced.

Our total revenue for the quarter was \$393 million, down 8.4% from a year ago and up 6.2% from the previous quarter. At \$213 million, expenditure was 17% below our approved budget. This resulted in a surplus of \$180 million for the quarter, compared with \$237 million in the same quarter last year and \$160 million in the previous quarter. Our reserves stood at \$7.3 billion as at 30 September.

Activity Data

Table 1 Authorized collective investment schemes

	As at 30/9/2011	As at 31/3/2011	Change (%)
Unit trusts and mutual funds	1,846	1,944	-5
Investment-linked assurance schemes	252	248	1.6
Pooled retirement funds	35	35	-
Mandatory Provident Fund (MPF) master trust schemes	40	40	-
MPF pooled investment funds	303 ¹	305	-0.7
Others	25 ²	22	13.6
Total	2,501	2,594	-3.6

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

² Other schemes comprised 16 paper gold schemes and nine real estate investment trusts.

Table 2 Authorized unit trusts and mutual funds – by type

	As at 30/9/2011	As at 31/3/2011	Change (%)
Bond	317	327	-3.1
Equity	1,017	1,089	-6.6
Diversified	75	78	-3.8
Money market	43	44	-2.3
Fund of funds	81	80	1.3
Index	100	99	1
Guaranteed	24	36	-33.3
Hedge	6	11	-45.5
Other specialised ¹	18	8	125
Subtotal	1,681	1,772	-5.1
Umbrella structures	165	172	-4.1
Total	1,846	1,944	-5

¹ Comprises Futures and Options Funds, Structured Funds and Funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds – by origin

	As at 30/9/2011	As at 31/3/2011	Change (%)
Hong Kong	201	200	0.5
Luxembourg	1,097	1,161	-5.5
Ireland	281	289	-2.8
Guernsey	3	3	-
United Kingdom	53	58	-8.6
Other Europe	14	15	-6.7
Bermuda	22	22	-
British Virgin Islands	5	6	-16.7
Cayman Islands	163	183	-10.9
Others	7	7	-
Total	1,846	1,944	-5

Table 4 Unlisted structured products¹ offered to the public

	Quarter ended 30/9/2011	Six months ended 30/9/2011	Six months ended 30/9/2010	YoY change (%)
Structured products ² authorized	30	46	0	100
Offering documents authorized	22	86	50	72
Advertisements authorized	0	0	0	-

¹ Comprises the common structured products such as equity linked investments and equity linked deposits.

² 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 30/9/2011	Six months ended 30/9/2011	Six months ended 30/9/2010	YoY change (%)
Cases completed	74	136	142	-4.2
Successful prosecutions	9	21	26	-19.2
Disciplinary inquiries conducted	17	24	45	-46.7
Actions taken against licensees	14	20	31	-35.5
Trading inquiries issued	1,227	2,077	2,160	-3.8
Investigations started	83	143	147	-2.7
Investigations completed	55	111	108	2.8
Investigations completed within seven months (%)	65	68	76	-10.5
Persons charged in criminal proceedings	9	19	27	-29.6
Criminal charges laid	66*	122	160	-23.8
Notices of Proposed Disciplinary Actions issued	9	29	16	81.3
Notices of Final Decision issued	19	25	34	-26.5
Persons subject to civil proceedings	44	44	43	2.3
Compliance advice letters issued	63	114	106	7.5

* We brought a total of 66 charges against 9 persons, with 2 charges laid against one person for insider dealing.

Table 6 Intermediaries supervision

	Quarter ended 30/9/2011	Six months ended 30/9/2011	Six months ended 30/9/2010	YoY change (%)
Risk-based, on-site inspections conducted	87	157	114	37.7

Table 7 Listing applications and takeovers activities

	Quarter ended 30/9/2011	Six months ended 30/9/2011	Six-months ended 30/9/2010	YoY change (%)
Listing applications filed under the dual filing regime	64	132	100	32
Takeovers and share repurchases transactions handled	71	155	156	-0.6

Table 8 Licensees and registrants

	As at 30/9/2011	As at 31/3/2011	Change (%)
Licensed corporations	1,783	1,752	1.8
Registered institutions	111	109	1.8
Individuals	38,145	36,827	3.6
Total	40,039	38,688	3.5

Table 9 Public enquiries and complaints

	Quarter ended 30/9/2011	Six months ended 30/9/2011	Six months ended 30/9/2010	YoY change (%)
Public enquiries received ¹	2,438	4,908	4,702	4.4
Nature of complaints received ²				
Conduct of licensed intermediaries and registered institutions	133	233	215	8.4
Listing-related matters and disclosure of interests	110	218	260	-16.2
Market misconduct	158	295	178	65.7
Products	2	2	5	-60
Other financial activities	115	226	176	28.4
Miscellaneous	13	14	3	366.7
Subtotal	531	988	837	18
Complaints related to Lehman Brothers received	50	124	57	117.5
Total	581	1,112	894	24.4

¹ Comprises written and phone enquiries.

² The complaint figures reflect the number of complainants.

Financial Statements: Securities and Futures Commission

Consolidated statement of comprehensive income

For the three months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended	
	30 September 2011 \$'000	30 September 2010 \$'000
Income		
Levies	304,923	354,692
Fees and charges	57,358	39,851
Investment income	29,724	32,888
Less: custody and advisory expenses	(700)	(652)
Investment income net of third party expenses	29,024	32,236
Recoveries from Investor Compensation Fund	1,079	1,020
Other income	811	763
	393,195	428,562
Expenses		
Staff costs and directors' emoluments	162,972	140,751
Premises		
rent	15,911	15,911
other	6,635	6,312
Other expenses	19,261	18,939
Depreciation	8,289	9,563
	213,068	191,476
Surplus and total comprehensive income for the quarter	180,127	237,086

Consolidated statement of comprehensive income

For the six months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2011 \$'000	30 September 2010 \$'000
Income			
Levies		584,415	688,011
Fees and charges		114,886	74,969
Investment income		61,626	65,577
Less: custody and advisory expenses		(1,406)	(1,239)
Investment income net of third party expenses		60,220	64,338
Recoveries from Investor Compensation Fund		2,147	2,061
Other income		1,683	2,891
		763,351	832,270
Expenses			
Staff costs and directors' emoluments	7	323,388	279,478
Premises			
rent		31,821	31,821
other		13,278	12,508
Other expenses		38,799	28,386
Depreciation		15,417	17,573
		422,703	369,766
Surplus and total comprehensive income for the period		340,648	462,504

The notes on pages 20 to 22 form part of the condensed consolidated financial statements.

Consolidated statement of financial position

At 30 September 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2011 \$'000	At 31 March 2011 \$'000
Non-current assets			
Fixed assets		42,439	46,689
Held-to-maturity debt securities	2	3,855,122	3,827,632
		3,897,561	3,874,321
Current assets			
Held-to-maturity debt securities	2	2,399,024	2,401,449
Debtors, deposits and prepayments		182,284	207,000
Bank deposits		975,950	602,190
Cash at bank and in hand		3,320	3,226
		3,560,578	3,213,865
Current liabilities			
Fees received in advance		73,626	68,657
Creditors and accrued charges		99,536	71,504
		173,162	140,161
Net current assets		3,387,416	3,073,704
Total assets less current liabilities		7,284,977	6,948,025
Non-current liabilities	3	18,701	22,397
Net assets		7,266,276	6,925,628
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,223,436	6,882,788
		7,266,276	6,925,628

The notes on pages 20 to 22 form part of the condensed consolidated financial statements.

Statement of financial position

At 30 September 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2011 \$'000	At 31 March 2011 \$'000
Non-current assets			
Fixed assets		42,430	46,677
Held-to-maturity debt securities	2	3,855,122	3,827,632
		3,897,552	3,874,309
Current assets			
Held-to-maturity debt securities	2	2,399,024	2,401,449
Debtors, deposits and prepayments		182,117	206,862
Bank deposits		975,950	602,190
Cash at bank and in hand		2,615	2,909
		3,559,706	3,213,410
Current liabilities			
Fees received in advance		73,626	68,657
Creditors and accrued charges		98,655	71,037
		172,281	139,694
Net current assets			
		3,387,425	3,073,716
Total assets less current liabilities			
		7,284,977	6,948,025
Non-current liabilities			
	3	18,701	22,397
Net assets			
		7,266,276	6,925,628
Funding and reserves			
Initial funding by Government			
		42,840	42,840
Accumulated surplus			
		7,223,436	6,882,788
		7,266,276	6,925,628

The notes on pages 20 to 22 form part of the condensed consolidated financial statements.

Consolidated statement of changes in equity

For the six months ended 30 September 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 period	–	462,504	462,504
Balance at 30 September 2010	42,840	6,441,904	6,484,744
Balance at 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the period	–	340,648	340,648
Balance at 30 September 2011	42,840	7,223,436	7,266,276

The notes on pages 20 to 22 form part of the condensed consolidated financial statements.

Consolidated statement of cash flows

For the six months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2011 \$'000	30 September 2010 \$'000
Cash flows from operating activities		
Surplus for the period	340,648	462,504
Adjustments for:		
Depreciation	15,417	17,573
Investment income	(61,626)	(65,577)
Gain on disposal of fixed assets	(3)	(20)
	294,436	414,480
Decrease / (increase) in debtors, deposits and prepayments	7,934	(34,815)
Increase in creditors and accrued charges	28,032	30,874
Increase in fees received in advance	4,969	48,965
Decrease in non-current liabilities	(3,696)	(3,021)
Net cash generated from operating activities	331,675	456,483
Cash flows from investing activities		
Interest received	107,062	110,545
Held-to-maturity debt securities bought	(1,043,239)	(1,452,659)
Held-to-maturity debt securities redeemed	989,520	889,627
Fixed assets bought	(11,164)	(19,243)
Net cash generated from / (used in) investing activities	42,179	(471,730)
Net increase / (decrease) in cash and cash equivalents	373,854	(15,247)
Cash and cash equivalents at beginning of the six months period	605,416	569,326
Cash and cash equivalents at end of the six months period	979,270	554,079

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2011 \$'000	At 30 September 2010 \$'000
Bank deposits	975,950	547,870
Cash at bank and in hand	3,320	6,209
	979,270	554,079

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2011
(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 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 the Investor Compensation Company Limited (ICC) in the SFC's condensed financial statements made up to 30 September 2011. 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 2011 to the interim financial report.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2011.

2. Held-to-maturity debt securities

As of 30 September 2011, the total market value of held-to-maturity debt securities amounted to \$6,335,145,000 (31 March 2011: \$6,284,319,000), which was above the total carrying value of \$6,254,146,000 (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 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 2011. 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 2011, 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 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

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 \$2,147,000 (2010: \$2,061,000), 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 2011	30 September 2010
	\$'000	\$'000
Short-term employee benefits	12,054	13,305
Post employment benefits	1,027	1,181
	13,081	14,486

The total remuneration is included in "staff costs and directors' emoluments" on page 15. 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 \$344,000 (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 \$172,000 under normal commercial terms and conditions.

8. Commitment to pay rents for offices

During the period, we have entered into a new operating lease for the SFC's office premises for 11 years starting 1 November 2011. The lease is subject to a rent review on 1 September 2017. The rent we will have to pay after 1 September 2017 will be fixed on or before 1 July 2017 based on the then prevailing market rent but subject to a cap set out in the lease agreement.

At 30 September 2011 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017 is as follows :

	Unaudited	Audited
	At 30 September 2011	At 31 March 2011
	\$'000	\$'000
Payable next year	105,287	72,473
Payable in one to five years	767,280	76,265
Payable in more than five years	165,348	-
	1,037,915	148,738

Independent review report to the board of directors of the Securities and Futures Commission (the 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 15 to 22 which comprises the consolidated and the SFC's statements of financial position as of 30 September 2011 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 2011 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

24 November 2011

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 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 25 to 30.

3. Members of the Committee

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

On behalf of the Committee

Keith Lui

Chairman

24 November 2011

Statement of comprehensive income

For the three months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended	
	30 September 2011 \$'000	30 September 2010 \$'000
Income		
Net investment (loss) / income	(40,560)	55,917
Exchange difference	542	(3,049)
Recoveries	-	4,108
	(40,018)	56,976
Expenses		
Investor Compensation Company expenses	1,079	1,020
Auditor's remuneration	26	26
Bank charges	200	193
Professional fees	833	799
	2,138	2,038
(Deficit)/Surplus and total comprehensive income for the quarter	(42,156)	54,938

Statement of comprehensive income

For the six months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Note	Unaudited six month ended	
		30 September 2011 \$'000	30 September 2010 \$'000
Income			
Net investment (loss) / income		(12,505)	70,224
Exchange difference		985	(364)
Recoveries		-	4,108
		(11,520)	73,968
Expenses			
Investor Compensation Company expenses	2	2,147	2,061
Compensation write-backs		-	(218)
Auditor's remuneration		52	47
Bank charges		398	373
Professional fees		1,715	1,605
		4,312	3,868
(Deficit)/Surplus and total comprehensive income for the period		(15,832)	70,100

The notes on page 30 form part of the condensed financial statements.

Statement of financial position

At 30 September 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2011 \$'000	At 31 March 2011 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
Debt securities		1,637,862	1,608,583
Equity securities		189,526	224,824
Fair value adjustment on unsettled trades		8	15
Interest receivable		17,005	17,823
Due from Investor Compensation Company		344	128
Fixed and call deposits with banks		190,135	189,486
Cash at bank		2,591	12,467
		2,037,471	2,053,326
Current liabilities			
Provision for compensation	3	150	150
Creditors and accrued charges		960	983
		1,110	1,133
Net current assets		2,036,361	2,052,193
Net assets		2,036,361	2,052,193
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		932,720	948,552
		2,036,361	2,052,193

The notes on page 30 form part of the condensed financial statements.

Statement of changes in equity

For the six months ended 30 September 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 period	-	-	70,100	70,100
Balance at 30 September 2010	994,718	108,923	931,594	2,035,235
Balance at 1 April 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the period	-	-	(15,832)	(15,832)
Balance at 30 September 2011	994,718	108,923	932,720	2,036,361

The notes on page 30 form part of the condensed financial statements.

Statement of cash flows

For the six months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2011 \$'000	30 September 2010 \$'000
Cash flows from operating activities		
(Deficit) / Surplus for the period	(15,832)	70,100
Net investment loss / (income)	12,505	(70,224)
Exchange difference	(985)	364
Increase in amount due from Investor Compensation Company	(216)	(155)
Decrease in provision for compensation	-	(5,356)
(Decrease) / Increase in creditors and accrued charges	(23)	24
Net cash used in operating activities	(4,551)	(5,247)
Cash flows from investing activities		
Purchase of debt securities	(272,176)	(286,157)
Sale or maturity of debt securities	237,796	235,395
Sale of equity securities	571	445
Interest received	29,133	28,152
Net cash used in investing activities	(4,676)	(22,165)
Net decrease in cash and cash equivalents	(9,227)	(27,412)
Cash and cash equivalents at beginning of the six-month period	201,953	252,735
Cash and cash equivalents at end of the six-month period	192,726	225,323

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2011 \$'000	At 30 September 2010 \$'000
Cash at bank	2,591	5,633
Fixed and call deposits with banks	190,135	219,690
	192,726	225,323

Notes to the condensed financial statements

For the six months ended 30 September 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.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2011.

2. Investor Compensation Company expenses

The Securities and Futures Commission 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 six months ended 30 September 2011, ICC incurred \$2,147,000 for its operation (For the six months ended 30 September 2010 : \$2,061,000).

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 September 2011 was \$150,000 (31 March 2011: \$150,000). As at 30 September 2011 all provisions were expected to be paid within one year.

4. Material 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 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 \$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.

Independent review report to the board of directors of the Securities and Futures Commission (the 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 26 to 30 which comprises the statement of financial position of the Investor Compensation Fund (the Fund) as of 30 September 2011 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 2011 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

24 November 2011

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 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 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 33 to 38.

3. Members of the Committee

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

On behalf of the Committee

Keith Lui

Chairman

10 November 2011

Statement of comprehensive income

For the three months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended	
	30 September 2011 \$'000	30 September 2010 \$'000
Income		
Interest income	73	49
	73	49
Expenses		
Auditor's remuneration	11	11
Professional fees	8	6
	19	17
Surplus and total comprehensive income for the quarter	54	32

Statement of comprehensive income

For the six months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2011 \$'000	30 September 2010 \$'000
Income		
Interest income	126	70
	126	70
Expenses		
Auditor's remuneration	22	20
Professional fees	15	13
	37	33
Surplus and total comprehensive income for the period	89	37

The notes on page 38 form part of the condensed financial statements.

Statement of financial position

At 30 September 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2011 \$'000	At 31 March 2011 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		33	20
Fixed and call deposits with banks		71,988	71,565
Cash at bank		173	274
		72,195	71,860
Current liabilities			
Creditors and accrued charges		10,290	10,294
Net current assets		61,905	61,566
Net assets		61,905	61,566
Representing:			
Compensation fund			
Contributions from SEHK	3	48,950	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		17,384	17,295
		1,056,623	1,056,284
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		61,905	61,566

The notes on page 38 form part of the condensed financial statements.

Statement of changes in equity

For the six months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited	
	2011 \$'000	2010 \$'000
Compensation fund balance as at 1 April	61,566	58,681
Net contributions from SEHK	250	250
Total comprehensive income for the period	89	37
Compensation fund balance as at 30 September	61,905	58,968

The notes on page 38 form part of the condensed financial statements.

Statement of cash flows

For the six months ended 30 September 2011
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2011 \$'000	30 September 2010 \$'000
Cash flows from operating activities		
Surplus for the period	89	37
Interest income	(126)	(70)
Decrease in equity securities received under subrogation	-	1
Decrease in creditors and accrued charges	(4)	(18)
Net cash used in operating activities	(41)	(50)
Cash flows from investing activities		
Interest received	113	47
Net cash generated from investing activities	113	47
Cash flows from financing activities		
Net contributions from SEHK	250	250
Net cash generated from financing activities	250	250
Net increase in cash and cash equivalents	322	247
Cash and cash equivalents at beginning of the six-month period	71,839	68,980
Cash and cash equivalents at end of the six-month period	72,161	69,227

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2011 \$'000	At 30 September 2010 \$'000
Fixed and call deposits with banks	71,988	69,105
Cash at bank	173	122
	72,161	69,227

Notes to the condensed financial statements

For the six months ended 30 September 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 from 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.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2011.

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 September 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 six months, deposits of \$600,000 in respect of 12 new trading rights were received from SEHK and deposits of \$350,000 in respect of 7 relinquished trading rights were refunded to SEHK. As at 30 September 2011, there are 7 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 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 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.

Independent review report to the board of directors of the Securities and Futures Commission (the 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 34 to 38 which comprises the statement of financial position of the Unified Exchange Compensation Fund (the Fund) as of 30 September 2011 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 2011 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

10 November 2011