



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

# QUARTERLY REPORT

OCTOBER-DECEMBER 2011





This third Quarterly Report of the Securities and Futures Commission for financial year 2011-12 covers the period from 1 October to 31 December. In issuing this publication, the SFC aims to enhance transparency and accountability of its operations.

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# Chief Executive Officer's Statement

During the quarter, we made further progress in enhancing Hong Kong's regulatory regime for the protection of investors whilst ensuring that market development is encouraged and that Hong Kong synchronises its financial market reforms with the Group of Twenty (G-20) objectives, following the global financial crisis.

We consulted the public on two sets of proposals. The first related to regulation of Hong Kong's over-the-counter (OTC) derivatives market and the second, amendments to code of conduct requirements for intermediaries. The former represents a major milestone for Hong Kong to implement the OTC derivatives market reforms agreed by the G-20. The purpose of these reforms is to address potential systemic risk in the OTC derivatives market through the use of central clearing counterparties and also to introduce greater transparency through reporting of transactions to trade repositories. The latter helps pave way for the establishment of the independent Financial Dispute Resolution Centre that will administer a dispute resolution scheme to handle monetary disputes between consumers and financial institutions.

We also sought public opinion on a refinement to our short positions reporting proposals so that reporting would be done on a net rather than a gross basis. This consultation was conducted in response to market feedback to the initial consultation. In addition, jointly with The Stock Exchange of Hong Kong Ltd, we published conclusions on our proposals to streamline property valuation requirements for listing applicants' prospectuses and issuers' circulars. These proposals are intended to eliminate property valuations from prospectuses where inclusion would not provide any relevant or useful information to investors.

Upon the cessation of operation of MF Global Group Hong Kong Ltd in November, we took prompt action to contain possible damage to affected investors. This included issuing an immediate restriction notice facilitating the closing out or transfer of client positions on overseas exchanges and working closely with the provisional liquidators on interim distributions of client funds.

We facilitated the launch of the Renminbi Qualified Foreign Institutional Investors (RQFII) scheme announced in December by working closely with the relevant Mainland authorities and industry practitioners to resolve a number of issues. These included agreeing on implementation details of the RQFII rules and communicating with RQFII applicants on their applications. We have authorized 19 RQFII funds to date.

Internationally, we collaborated closely with international securities regulators, the Financial Stability Board and standard-setting bodies on a range of issues relating to regulatory reform in response to the global financial crisis.

We disciplined two corporations and nine intermediaries, fining them a total of \$7.73 million for a variety of internal control deficiencies and misconduct. We also prosecuted two individuals for carrying on regulated activities without a licence.

Our investor education programme for the quarter focused on alerting investors to possible investment risks amid high market volatility. In October, a television campaign was launched to remind investors of the responsibilities that come with signing a sales contract or agreement.

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

**Ashley Alder**  
Chief Executive Officer

## Regulatory enhancements

During the quarter, we published the consultation conclusions on the Securities and Futures (Short Position Reporting) Rules that would bring into effect the proposed short position reporting requirements. In light of market feedback, the rules were modified to require reporting of short positions on a net rather than a gross basis as originally proposed. We further conducted a consultation on the modification. Conclusions were published on 10 February 2012.

Jointly with the Hong Kong Monetary Authority, we consulted the public on the proposed regulatory regime for Hong Kong's over-the-counter (OTC) derivatives market. The consultation represents a major milestone for Hong Kong to implement the commitment agreed among the Group of Twenty leaders relating to OTC derivatives market reforms. Responses received are being weighed carefully and a conclusion paper will be published in due course. We plan to conduct another consultation on the detailed rules of the new OTC derivatives regime in 2012.

To facilitate the establishment of the Financial Dispute Resolution Centre Ltd (FDRC), we launched a consultation on proposed amendments to the Code of Conduct for Persons Licensed by or Registered with the SFC. One key proposal required persons regulated by the SFC or the Hong Kong Monetary Authority to comply with the FDRC Scheme and be bound by its process. The public also was consulted on other proposed amendments including those relating to handling of complaints, recording of client orders, reporting of suspicious activities and provision of expert evidence.

We published a joint conclusion paper with The Stock Exchange of Hong Kong Ltd on the proposal to streamline property valuation requirements for applicants' prospectuses and issuers' circulars. The Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) (Amendment) Notice 2011, the class exemption notice that implements the proposal, was tabled before the Legislative Council (LegCo) for negative vetting. The House Committee of LegCo appointed a subcommittee to consider the class exemption notice, which came into effect on 1 January 2012.

Also tabled before LegCo for negative vetting were the Securities and Futures (Professional Investor) (Amendment) Rules 2011, which implemented the SFC's proposals to enable firms to use methods tailor-made to the circumstances to establish that a person qualifies as a professional investor. The Rules came into effect on 16 December 2011.

## Enforcement actions

This quarter, we successfully prosecuted two individuals for carrying on regulated activities without being licensed by the SFC. We also filed a number of criminal actions that are pending court proceedings. For a breakdown of data on enforcement actions, please refer to Table 5 in the Activity Data section on page 12.

## Disciplinary actions

During the quarter, we disciplined 11 licensees, including two corporations and nine responsible officers or licensed representatives, fining them a total of \$7.73 million for a variety of misconduct and internal control deficiencies.

- We reprimanded Citigroup Global Markets Asia Ltd and fined it \$6 million. We also suspended the approval for Lisa Chan Sin Man to act as a responsible officer and suspended her licence for eight months, for failing to act sufficiently on a number of "red flags," which would have detected a former licensed representative's misconduct earlier. We investigated into the suspected misconduct of the representative, who was responsible for operating what appeared to have been a fraudulent scheme involving 13 wealth management customers. Citigroup agreed to pay for an external auditor to audit affected customers' accounts and assess the amount of compensation required. It also agreed to hire at its own expense an external expert to conduct a review of the practices and policies in its private banking division.
- We reprimanded Solomon Independent Financial Ltd and fined it \$1.5 million for facilitating unlicensed activities of employees of the insurance broker Black Swan Capital (International) Ltd. We also suspended the approval for Connie Leung Wing Kam, who was primarily responsible for devising the arrangement, to act as a responsible officer for Solomon and suspended her licence for seven months. In the arrangement entered with Solomon, Black Swan received commissions for referring clients to Solomon. Black Swan employees making the referrals were not licensed by the SFC; they also conducted regulated activities for the clients they referred.
- We reprimanded Chang Wa Shan, a responsible officer at Taifair Securities Ltd, and fined him \$200,000 for internal control deficiencies for which he was partially responsible. An SFC investigation found that the settlement supervisor of Taifair, who was not licensed by the SFC, had misappropriated clients' assets.

- We prohibited Wan Ten Lok and Sunny Yan Kwok Ting of Core Pacific-Yamaichi Capital Ltd (CPY) from re-entering the industry for six years and four years respectively, following the determination of the Securities and Futures Appeals Tribunal. CPY was the sponsor for the listing of Tungda Innovative Lighting Holdings Ltd in July 2002 until October 2003. Shortly after the listing, SEHK sought CPY's response to a complaint that Tungda had falsified invoices and overstated sales figures in its initial public offering prospectus. The SFC alleged that CPY's response, prepared under Wan's supervision, was misleading and inaccurate, giving a false impression that CPY had conducted sufficient due diligence. To distance himself from CPY's due diligence, Wan also undertook an extensive fabrication exercise with Yan's assistance.
- We banned Emilie Chau Shuk Man, a research analyst at Deutsche Bank, from re-entering the industry for two years for failing to avoid conflicts of interests and other misconduct. From May 2006 to September 2007, she failed to disclose her financial interests in two listed corporations that were subjects of 19 research reports she prepared. She also dealt in securities that were subjects of the reports within the dealing blackout period imposed on analysts by the relevant code of conduct.
- Woo Sai Cheung was suspended for 18 months for concealing from his employer his personal trades in two accounts and conducting illegal short selling on 18 August and 10 September 2010.
- Leung Bing Yiu was suspended for four months for his conviction on 26 September 2011 of carrying on securities advisory business without being licensed. Between January and June 2010, he entered into an arrangement with an unlicensed person and provided investment advice via short message services to subscribers who paid monthly fees. At the time, Leung was not licensed to advise on securities.
- Ian So Kwok Wai was reprimanded and fined \$30,000 for failing to maintain a proper audit trail of orders when he executed trades in one of his clients' accounts at Phillip Commodities (HK) Ltd between July and October 2010.

### Appeal and court-prosecuted actions

- The Eastern Magistracy acquitted a fund manager, Liang Jiang, of false trading. On the last trading days of each month between June and December 2008, Liang placed orders for a fund and his wholly-owned company to purchase two stocks. The Magistrate said that although Liang's actions were suspicious, he could have been carrying out portfolio rebalancing for the fund. The SFC appealed the acquittal on 22 December 2011.
- Simon Littlewood was fined \$5,000 for holding out as carrying on corporate finance and asset management business, without being licensed by the SFC.
- Lo Kam Chung was fined \$20,000 and given a community service order of 80 hours for carrying on a business of advising on securities without an SFC licence. Lo was found to have given securities advice to paid subscribers to a private discussion group he had set up in Facebook between April and November 2010.

### Seeking leads for enforcement inquiries

To encourage the public to help us locate individuals who are sought in relation to enforcement inquiries but cannot be traced using traditional methods, we launched on our website a new section "Have You Seen These People?" The section contains details of individuals who are the subjects of arrest warrants or whom we believe have important information that may assist in other enforcement inquiries.

### Overseeing takeovers-related matters

In November, the Executive<sup>1</sup> publicly criticised FIL Investment Management (Hong Kong) Ltd, trading under the name Fidelity Worldwide Investment in Hong Kong, for its breaches of disclosure requirements under Rule 22 of the Takeovers Code.

In light of the breaches of Rule 22 by local and overseas fund managers, the Executive issued a letter to all registered and licensed fund managers in Hong Kong regarding dealing disclosure obligations under the rule to raise awareness and facilitate compliance. The letter provided practical guidance on the steps a fund manager who is an "associate" under the Takeovers Code might take to ensure timely and appropriate compliance with its dealing disclosure obligations. Through fund management-related associations in Hong Kong and overseas, a wide spectrum of fund managers also received the letter.

<sup>1</sup> The Executive refers to the Executive Director of Corporate Finance Division of the SFC or his delegate.

### Handling closure of an intermediary

On 1 November, we issued a restriction notice to MF Global Group Hong Kong Ltd (MFGHK) following the cessation of its operations. Subsequent to the appointment of the provisional liquidators, we made a number of variations to the restriction notice to allow the provisional liquidators to carry out their duties and to remove the deadline for MFGHK to close out or transfer clients' positions on the HKFE Clearing Corporation Ltd. Various consents were granted to MFGHK, including the consent to enable it to close out or transfer clients' positions on overseas exchanges. On 15 December, the provisional liquidators obtained the court's sanction for an interim distribution of clients' funds of up to \$500 million.

### Issuing market circulars

In November, we issued a circular to all licensed corporations to remind them to ensure proper management of risks to which they and their clients were exposed, if they provided services that involved conducting transactions in other jurisdictions through overseas counterparties. The circular also reminded them to explain to their clients, as set out in the relevant code of conduct, the risks associated with such trading activities and take a proactive role in dealing with clients' enquiries and concerns.

In response to Lyxor International Asset Management's (Lyxor) announcement of the proposed voluntary delisting and deauthorisation of Lyxor exchange-traded funds (ETFs), we issued a circular to all intermediaries in December to advise them to communicate material information to their relevant clients and to handle clients' instructions in a timely manner.

### Facilitating industry compliance

In November we held a briefing session for more than 150 industry participants following a surveillance exercise on a number of product key fact statements issued by existing SFC-authorized funds and material in offering documents of SFC-authorized and investment-linked assurance schemes. The exercise was conducted following the full implementation of additional disclosure requirements introduced on 25 June 2010<sup>2</sup>.

During the quarter, we held three industry training seminars on anti-money laundering (AML).

<sup>2</sup> 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.

In October, we shared with around 120 members of the Hong Kong Securities Professionals Association the common deficiencies noted by us during supervision work. We also invited them to send us their feedback to the consultation on the Guideline on Anti-Money Laundering and Counter-Terrorist Financing. Later in the quarter, we conducted two other AML training seminars together with the Financial Services and the Treasury Bureau, the Joint Financial Intelligence Unit and a major investment bank. Attended by about 600 managerial staff and compliance officers of licensed corporations, the seminars provided an overview of the latest AML developments, enhanced participants' understanding of the statutory obligations and practices for reporting suspicious transactions, and examined some key aspects of AML systems and controls from the perspective of regulators and the private sector.

In a seminar on safeguarding client assets by securities brokers held in November, we shared with over 300 members of the Hong Kong Institute of Chartered Public Accountants our observations about past cases of client assets misappropriation and ways to conduct an effective circularisation of client accounts in the audit of licensed brokerages.

### Expanding trading monitoring capacity

We upgraded our real-time securities trading monitoring system during the quarter to cope with projected growth in market trading volume. The upgrade expanded the system's peak trading monitoring capacity by about tenfold to 30,000 orders per second, 200 million orders and 13.3 million trades per trading day. Some new monitoring functions also were included as part of the enhancement.

### Noting public concerns

The total number of complaints increased moderately in the past nine months to 1,553 from 1,434 a year ago. We received 12 Lehman Brothers-related (LB) complaints this quarter, as of 31 December, the total number of LB-related complaints was 9,263. For a breakdown on the nature of complaint cases, please refer to Table 9 in the "Activity Data" section on page 13.

# Development

## Authorization of the first RQFII fund product

On 16 December 2011, China Securities Regulatory Commission (CSRC), People's Bank of China (PBoC) and the State Administration of Foreign Exchange (SAFE) jointly announced the Renminbi Qualified Foreign Institutional Investor (RQFII) pilot scheme that allows Hong Kong subsidiaries of qualified fund managers and securities companies to use renminbi raised in Hong Kong to invest in Mainland securities markets. The successful launch of the RQFII scheme not only marks another major milestone in the process of internationalisation of renminbi, but also confirms the strategic significance of Hong Kong for the Mainland's financial reforms – bringing Hong Kong one step closer to becoming an off-shore renminbi centre.

Having worked on various aspects of this policy initiative since 2009, we facilitated the launch of the RQFII scheme as follows:

- Immediately after the announcement of the RQFII rules, we met with the relevant Mainland authorities to understand the implementation details of the RQFII schemes.
- On 23 December 2011, we held an industry briefing for all RQFII applicants, their legal advisers and trustees to communicate the result of our discussions with the Mainland authorities.
- We also worked closely with the RQFII holders and their advisers on RQFII-related retail fund applications.
- On 30 December 2011, we authorized the first four RQFII funds. For the first time, Hong Kong retail investors can directly use renminbi to invest in the Mainland equity and bond (in particular, the interbank bond) markets and have access to daily liquidity.

## Development of exchange-traded funds (ETFs)

During the fourth quarter of 2011, we authorized 14 new ETFs, including eight physical ETFs and six synthetic ETFs - bringing the total number of SFC-authorized ETFs to 90. With a view to ensure that Hong Kong investors could exit the market in a fair and orderly manner, we also worked closely with the Hong Kong Stock Exchange (SEHK) regarding the proposed voluntary delisting from SEHK, and deauthorization, of 12 overseas synthetic ETFs.

## Enhancing ties with the Mainland

During this quarter, we carried on high-level dialogue with key Mainland authorities, to discuss various cross-border policy issues such as renminbi internationalisation, capital account opening, capital market reforms and the development of financial infrastructure relating to renminbi investment products in Hong Kong. The authorities included CSRC, SAFE, PBoC, the Ministry of Commerce, the National Development and Reform Commission, the National Council for Social Security Fund and the China Foreign Exchange Trade System & National Interbank Funding Centre.

We continued to support to the Government in furthering Hong Kong's co-operative relationship with Mainland regions and cities, including Beijing, Shanghai, Guangdong, Shenzhen, Sichuan and Chongqing.

## Licensing of intermediaries

We received 2,789 licence applications during the quarter, down about 27% from the previous quarter and a decrease of about 0.5% compared with the same period in 2010. The total number of licensees and registrants as at December 31 was 39,406, up 1.9% from 31 March 2011.

### Enhancing process efficiency

In November 2011, the functionality of the SFC Online Portal was enhanced to facilitate the process related to licensing applications. The portal now accepts submissions of all types of licensing applications, notifications, annual returns and payments. The enhancements to the portal follow prior improvement to facilitate electronic submission of notifications and annual returns since the launch of the portal in September 2009 and electronic payment of annual fees and other fees since April 2010.

### Supporting international work

We collaborate closely with international securities regulators on regulatory development and reform implementations. During the quarter, we participated in a roundtable on high frequency trading and market structure in London and took part in a meeting hosted by the European Securities and Markets Authority in Paris on over-the-counter derivatives regulation, implementation efforts and cross-border issues.

In November, we reported to the Financial Stability Board (FSB) progress of Hong Kong's implementation of the G-20 recommendations to strengthen financial stability. The report is available to the public on the FSB website. In December, we attended the FSB Standing Committee on Standards Implementations meeting held in Singapore.

At the International Organization of Securities Commission (IOSCO), we are represented in all six standing committees and key task forces. During the quarter, we attended all working level meetings and discussions and actively contributed towards setting improved industry standards relevant to the securities and futures markets. We hosted a meeting in December in Hong Kong for the Standing Committee on Credit Rating Agencies and attended the IOSCO's Asia Pacific Regional Committee meeting held in Kuala Lumpur.

In October, an inaugural meeting was held by the working group on margin requirements for non-centrally cleared derivatives. Aiming to develop a proposal by June 2012, we organized discussions among working group members to prepare for the meeting held in Hong Kong in January 2012.

During the quarter, we received delegations from Mongolia, Korea and mainland China and shared with them our experience in securities regulation, in particular, on supervision of intermediaries and investor education.

### Communicating with market participants

Our CEO and senior executives spoke at industry events and shared their views. At one event our Chief Executive Officer Ashley Alder reiterated the importance of close communication and co-operation between industry and fellow regulators to ensure quality regulation – on which Hong Kong bases its attraction as an international financial centre.

In October, we issued the annual review of the performance of The Stock Exchange of Hong Kong Ltd (SEHK) and its regulation of listing matters for 2010, in which we affirmed that we were satisfied that SEHK had taken steps to address recommendations we made in the 2009 review. Our further recommendations for SEHK include developing guidance for accepted overseas jurisdictions to properly implement the Listing Rules requirements and further improving market accessibility to information on SEHK's practices, procedures and decisions.

# Education

During the quarter, we focused on raising investors' awareness of their rights and responsibilities by launching investor education (IE) programmes through various channels. We also continued to raise issues for the public to note while investing.

## Significance of signing championed

In October, a television campaign was launched to remind investors that when signing a contract or agreement, in effect, this means they have agreed to its terms and the responsibility for their investment decision. We emphasised that they should consider carefully all variables and risks before signing on the dotted line.

Entitled "Invest prudently/ Signing means responsibility," the campaign consists of a 60- and a 30-second TV commercial and is a sequel to our 2009 campaign, "Be smart/ Ask first," using the same theme song.

We posted the 30-second Cantonese version of the commercial on YouTube and popular news portals to reach the growing number who use the Internet to obtain investment information. The commercial was played online over 1.6 million times during a four-week promotional period.

We also distributed calendars which tie in with the TV campaign.



TV campaign: Invest prudently. Signing means responsibility

## Equip investors against volatility

Amid intense market volatility, we issued a press release in early October to remind investors trading on margin to monitor their positions closely, which may be closed out mandatorily by brokers without notification when markets move against them.

An article in the November issue of our *InvestEd Intelligence* bi-monthly also alerted investors to the possible tightening of margin requirements by brokerages without prior notice. Investors were warned that if they failed to fulfil such requirements on time, they could be subject to forced liquidation and suffer substantial loss as a result.

## Celebrity sharing aired on radio

We ran a 13-segment radio interview programme in which celebrities from different professions shared their investment experience with Wu Mang Ching, market commentator and host. The programme was aired during market hours on Metro Finance every Friday from October 2011 to early January 2012. Our Director of External Relations joined the host and guests to point out investing do's and don'ts, based on the celebrities' experience.

Topics discussed include issues to note when getting investment advice from an intermediary, the importance of keeping track of trading documents, as well as risks with margin trading, renminbi products, funds, bonds, initial public offerings and listing formats other than stocks, such as Hong Kong Depositary Receipts (HDRs).

## New requirements for domestic synthetic ETFs explained

We explained in a series of articles in *Headline Daily* and our *InvestEd Intelligence* bi-monthly the new requirement for domestic synthetic exchange-traded fund issuers to raise their collateral levels and to disclose more information.

We also covered other topical issues in the free daily to remind investors about evaluating the fundamentals of the underlying business before investing in a stapled security, what to note when investing in overseas companies via HDRs, pointers on online trading and features and risks of equity-linked investments (ELIs).

Related 20-second product education videos were also broadcast on the MTR from November to December 2011.

### Investor awareness of rights raised

To increase further investors’ awareness of their rights in a sales process, we published six photo-illustrated stories following the release of our IE booklet entitled “Know your Rights in the Sales Process” in September. The stories reminded investors of the intermediaries’ responsibility to know the client, the investor’s right to a post-sale cooling-off period and disclosure of the intermediary’s sales benefits, among other things. The stories were published in two free dailies with a combined circulation of 1.18 million.

### Pre-retirement seminars held

This quarter, we held 21 seminars for over 2,800 attendees from various sectors – including staff of the Trade Development Council, secondary school teachers and civil servants who were about to retire. The seminars discussed points to note when choosing an investment advisor, features and risks of various investment products, and why sound financial planning is essential for retirement. To prepare civil servants retiring in two years, the Civil Service Bureau invited us to conduct a talk for 1,800 civil servants and their spouses on how to apply financial planning concepts and what to note when picking investment products to match retirement objectives.



Calendars also reminded investors to take responsibility

# Organisational Matters

During the quarter, Ms Lam Po Yee, representing the Hong Kong Investment Funds Association, was appointed alternate member of the Investor Education Advisory Committee with effect from 27 October. Ms Lam replaces Ms Cheung Marn-Kay, Katherine, who stepped down on 12 October 2011.

To facilitate cross-divisional collaboration, a series of staff communication programmes were organised. The “Commission Connection Series,” for instance, invited operational divisions to share with other units hot topics in their areas. Meanwhile, our CEO hosted a sharing session at two different locations to share with staff members his vision and goals for the organisation.

As at 31 December, our staff count increased to 588 from 539 a year ago.

To promote effective knowledge and information sharing, we enhanced our Intranet by introducing the latest portal technology, which integrates with various business systems and document repositories. In addition to offering an upgraded search capability, the revamped portal allows staff to manage their work more effectively.

Our total revenue for the quarter was \$338 million, down 26% from the quarter ended 31 December 2010 and down 14% from the last quarter. At \$229 million, expenditure was 17% below our approved budget, yielding a surplus of \$109 million for the quarter, compared with \$259 million in the same quarter last year and \$180 million in the last quarter. Our reserves stood at \$7.4 billion as at 31 December.

# Activity Data

**Table 1 Authorized collective investment schemes**

	As at 31/12/2011	As at 31/3/2011	Change (%)
Unit trusts and mutual funds	1,836	1,944	-5.6
Investment-linked assurance schemes	254	248	2.4
Pooled retirement funds	35	35	-
Mandatory Provident Fund (MPF) master trust schemes	40	40	-
MPF pooled investment funds	311 <sup>1</sup>	305	2
Others	25 <sup>2</sup>	22	13.6
<b>Total</b>	<b>2,501</b>	<b>2,594</b>	<b>-3.6</b>

<sup>1</sup> In this category, 125 of the funds were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

<sup>2</sup> Other schemes comprised 16 paper gold schemes and nine real estate investment trusts.

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

	As at 31/12/2011	As at 31/3/2011	Change (%)
Bond	319	327	-2.4
Equity	998	1,089	-8.4
Diversified	77	78	-1.3
Money market	41	44	-6.8
Fund of funds	81	80	1.3
Index	107	99	8.1
Guaranteed	22	36	-38.9
Hedge	6	11	-45.5
Other specialised <sup>1</sup>	17	8	112.5
<b>Subtotal</b>	<b>1,668</b>	<b>1,772</b>	<b>-5.9</b>
Umbrella structures	168	172	-2.3
<b>Total</b>	<b>1,836</b>	<b>1,944</b>	<b>-5.6</b>

<sup>1</sup> 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 31/12/2011	As at 31/3/2011	Change (%)
Hong Kong	213	200	6.5
Luxembourg	1,088	1,161	-6.3
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	150	183	-18.0
Others	7	7	-
<b>Total</b>	<b>1,836</b>	<b>1,944</b>	<b>-5.6</b>

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

	Quarter ended 31/12/2011	Nine months ended 31/12/2011	Nine months ended 31/12/2010	YoY change (%)
Structured products <sup>2</sup> authorized	16	62	N/A	N/A
Offering documents authorized	23	109	68	60.3
Advertisements authorized	0	0	0	-

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

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

**Table 5 Enforcement**

	Quarter ended 31/12/2011	Nine months ended 31/12/2011	Nine months ended 31/12/2010	YoY change (%)
Cases completed	58	194	243	-20.2
Successful prosecutions	9	30	39	-23.1
Disciplinary inquiries conducted	14	38	57	-33.3
Actions taken against licensees	11	31	40	-22.5
Trading inquiries issued	997	3,074	3,132	-1.9
Investigations started	70	213	204	4.4
Investigations completed	45	156	186	-16.1
Investigations completed within seven months (%)	78	70	70	-
Persons charged in criminal proceedings	8	27	38	-28.9
Criminal charges laid	36 <sup>1</sup>	158	261	-39.5
Notices of Proposed Disciplinary Actions issued	3	32	23	39.1
Notices of Final Decision issued	8	33	42	-21.4
Persons subject to civil proceedings	42	42	44	-4.5
Compliance advice letters issued	59	173	150	15.3

<sup>1</sup> We brought a total of 36 charges against eight persons, with two charges laid against two persons for market manipulation.

**Table 6 Intermediaries supervision**

	Quarter ended 31/12/2011	Nine months ended 31/12/2011	Nine months ended 31/12/2010	YoY change (%)
Risk-based, on-site inspections conducted	59	216	180	20

**Table 7 Listing applications and takeovers activities**

	Quarter ended 31/12/2011	Nine months ended 31/12/2011	Nine months ended 31/12/2010	YoY change (%)
Listing applications filed under the dual filing regime	30	162	140	15.7
Takeovers and share repurchases transactions handled	77	232	219	5.9

**Table 8 Licensees and registrants**

	As at 31/12/2011	As at 31/3/2011	Change (%)
Licensed corporations	1,804	1,752	3
Registered institutions	110	109	0.9
Individuals	37,492	36,827	1.8
<b>Total</b>	<b>39,406</b>	<b>38,688</b>	<b>1.9</b>

**Table 9 Public enquiries and complaints**

	Quarter ended 31/12/2011	Nine months ended 31/12/2011	Nine months ended 31/12/2010	YoY change (%)
Public enquiries received <sup>1</sup>	2,025	6,933	6,920	0.2
Nature of complaints received <sup>2</sup>				
Conduct of licensed intermediaries and registered institutions	122	355	312	13.8
Listing-related matters and disclosure of interests	91	309	374	-17.4
Market misconduct	97	392	288	36.1
Products	2	4	9	-55.6
Other financial activities	115	341	301	13.3
Miscellaneous	2	16	3	433.3
<b>Subtotal</b>	<b>429</b>	<b>1,417</b>	<b>1,287</b>	<b>10.1</b>
Complaints related to Lehman Brothers received	12	136	147	-7.5
<b>Total</b>	<b>441</b>	<b>1,553</b>	<b>1,434</b>	<b>8.3</b>

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

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

# Financial Statements: Securities and Futures Commission

## Consolidated statement of comprehensive income

For the nine months ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2011 \$'000	31 December 2010 \$'000	31 December 2011 \$'000	31 December 2010 \$'000
<b>Income</b>					
Levies		835,372	1,064,513	250,956	376,502
Fees and charges		170,821	119,227	55,935	44,258
Investment income		91,397	98,268	29,771	32,691
Less: custody and advisory expenses		(2,117)	(1,921)	(711)	(683)
Investment income net of third party expenses		89,280	96,347	29,060	32,008
Recoveries from Investor Compensation Fund		3,212	3,082	1,065	1,021
Other income		2,077	5,038	572	2,073
		1,100,762	1,288,207	337,588	455,862
<b>Expenses</b>					
Staff costs and directors' emoluments	7b	488,668	423,542	165,280	144,065
Premises					
rent		52,563	47,732	20,742	15,911
other		21,609	19,064	8,331	6,556
Other expenses		61,196	48,708	22,396	20,247
Depreciation		27,271	27,816	11,855	10,243
		651,307	566,862	228,604	197,022
<b>Surplus and total comprehensive income for the period</b>					
		<b>449,455</b>	<b>721,345</b>	<b>108,984</b>	<b>258,840</b>

The notes on pages 19 to 21 form part of the condensed consolidated financial statements.

## Consolidated statement of financial position

At 31 December 2011

(Expressed in Hong Kong dollars)

		Unaudited	Audited
	Note	At 31 December 2011 \$'000	At 31 March 2011 \$'000
<b>Non-current assets</b>			
Fixed assets		51,813	46,689
Held-to-maturity debt securities	2	4,133,970	3,827,632
		4,185,783	3,874,321
<b>Current assets</b>			
Held-to-maturity debt securities	2	2,205,340	2,401,449
Debtors, deposits and prepayments		151,154	207,000
Bank deposits		1,066,120	602,190
Cash at bank and in hand		3,412	3,226
		3,426,026	3,213,865
<b>Current liabilities</b>			
Fees received in advance		80,495	68,657
Creditors and accrued charges		137,524	71,504
		218,019	140,161
<b>Net current assets</b>		3,208,007	3,073,704
<b>Total assets less current liabilities</b>		7,393,790	6,948,025
<b>Non-current liabilities</b>	3	18,707	22,397
<b>Net assets</b>		<b>7,375,083</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>		42,840	42,840
<b>Accumulated surplus</b>		7,332,243	6,882,788
		<b>7,375,083</b>	6,925,628

The notes on pages 19 to 21 form part of the condensed consolidated financial statements.

## Statement of financial position

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2011 \$'000	At 31 March 2011 \$'000
<b>Non-current assets</b>			
Fixed assets		51,806	46,677
Held-to-maturity debt securities	2	4,133,970	3,827,632
		4,185,776	3,874,309
<b>Current assets</b>			
Held-to-maturity debt securities	2	2,205,340	2,401,449
Debtors, deposits and prepayments		151,048	206,862
Bank deposits		1,065,450	602,190
Cash at bank and in hand		3,412	2,909
		3,425,250	3,213,410
<b>Current liabilities</b>			
Fees received in advance		80,495	68,657
Creditors and accrued charges		136,741	71,037
		217,236	139,694
<b>Net current assets</b>			
		3,208,014	3,073,716
<b>Total assets less current liabilities</b>			
		7,393,790	6,948,025
<b>Non-current liabilities</b>			
	3	18,707	22,397
<b>Net assets</b>			
		<b>7,375,083</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
		42,840	42,840
<b>Accumulated surplus</b>			
		7,332,243	6,882,788
		<b>7,375,083</b>	6,925,628

The notes on pages 19 to 21 form part of the condensed consolidated financial statements.

## Consolidated statement of changes in equity

For the nine months ended 31 December 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	–	721,345	721,345
Balance at 31 December 2010	42,840	6,700,745	6,743,585
Balance at 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the period	–	449,455	449,455
Balance at 31 December 2011	42,840	7,332,243	<b>7,375,083</b>

The notes on pages 19 to 21 form part of the condensed consolidated financial statements.

## Consolidated statement of cash flows

For the nine months ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2011 \$'000	31 December 2010 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	449,455	721,345
Adjustments for:		
Depreciation	27,271	27,816
Investment income	(91,397)	(98,268)
Gain on disposal of fixed assets	(4)	(24)
	385,325	650,869
Decrease in debtors, deposits and prepayments	42,881	6,885
Increase in creditors and accrued charges	66,020	54,186
Increase in fees received in advance	11,838	64,070
Decrease in non-current liabilities	(3,690)	(5,254)
Net cash generated from operating activities	502,374	770,756
<b>Cash flows from investing activities</b>		
Interest received	148,069	155,774
Held-to-maturity debt securities bought	(1,821,355)	(2,009,077)
Held-to-maturity debt securities redeemed	1,667,420	1,149,127
Fixed assets bought	(32,392)	(25,603)
Net cash used in investing activities	(38,258)	(729,779)
<b>Net increase in cash and cash equivalents</b>	464,116	40,977
<b>Cash and cash equivalents at beginning of the nine-month period</b>	605,416	569,326
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>1,069,532</b>	610,303

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

	Unaudited	
	At 31 December 2011 \$'000	At 31 December 2010 \$'000
Bank deposits	1,066,120	606,597
Cash at bank and in hand	3,412	3,706
	<b>1,069,532</b>	610,303

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 31 December 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 operation of the SFC for the nine months ended 31 December 2011.

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

As of 31 December 2011, the total market value of held-to-maturity debt securities amounted to \$6,392,731,000 (31 March 2011: \$6,284,319,000), which was above the total carrying cost of \$6,339,310,000 (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 2017 as an integral part of the lease expense.

### 4. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 31 December 2011. Therefore we do not provide an ageing analysis of debtors and creditors.

### 5. Exchange fluctuation

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

## 6. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorised share capital of \$10,000 and issued share capital of \$2 and 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 31 December 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 31 December 2011 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

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

## 7. Related party transactions

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

- (a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$3,212,000 (2010: \$3,082,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all non-executive directors) comprised :

	Unaudited nine months ended	
	31 December 2011 \$'000	31 December 2010 \$'000
Short-term employee benefits	18,687	19,920
Post employment benefits	1,624	1,784
	<b>20,311</b>	<b>21,704</b>

The total remuneration is included in "staff costs and directors' emoluments" on page 14. Discretionary pay is not included above as the decision to pay is not determinable at this point in time.

- (c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$162,000 (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 \$456,000 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 31 December 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 31 December 2011 \$'000	At 31 March 2011 \$'000
Payable next year	142,012	72,473
Payable in one to five years	752,027	76,265
Payable in more than five years	120,253	-
	<b>1,014,292</b>	148,738

# Investor Compensation Fund (the Fund)

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

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 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 23 to 27.

### 3. Members of the Committee

The members of the Committee during the nine months ended 31 December 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 nine months.

On behalf of the Committee

**Keith Lui**

Chairman

23 February 2012

## Statement of comprehensive income

For the nine months ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2011 \$'000	31 December 2010 \$'000	31 December 2011 \$'000	31 December 2010 \$'000
<b>Income</b>					
Net investment income		10,666	78,714	23,171	8,490
Exchange (loss) / gain		(1,551)	1,061	(2,536)	1,425
Recovery income		-	4,108	-	-
		9,115	83,883	20,635	9,915
<b>Expenses</b>					
Investor Compensation Company Limited expenses	2	3,212	3,082	1,065	1,021
Compensation write-backs	3	-	(218)	-	-
Auditor's remuneration		77	71	25	24
Bank charges		594	578	196	205
Professional fees		2,537	2,426	822	821
		6,420	5,939	2,108	2,071
<b>Surplus and total comprehensive income for the period</b>		<b>2,695</b>	<b>77,944</b>	<b>18,527</b>	<b>7,844</b>

The notes on page 27 form part of the condensed consolidated financial statements.

## Statement of financial position

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2011 \$'000	Audited At 31 March 2011 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
Debt securities		1,566,127	1,608,583
Pooled fund		205,553	224,824
Fair value adjustment on unsettled trades		-	15
Interest receivable		16,241	17,823
Due from Investor Compensation Company Limited		162	128
Fixed deposits with banks		264,902	189,486
Cash at bank		3,016	12,467
		2,056,001	2,053,326
<b>Current liabilities</b>			
Provision for compensation	3	150	150
Creditors and accrued charges		963	983
		1,113	1,133
<b>Net current assets</b>		2,054,888	2,052,193
<b>Net assets</b>		<b>2,054,888</b>	2,052,193
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		951,247	948,552
		<b>2,054,888</b>	2,052,193

The notes on page 27 form part of the condensed financial statements.

## Statement of changes in equity

For the nine months ended 31 December 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	-	-	77,944	77,944
Balance at 31 December 2010	994,718	108,923	939,438	2,043,079
Balance at 1 April 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the period	-	-	2,695	2,695
Balance at 31 December 2011	994,718	108,923	951,247	<b>2,054,888</b>

The notes on page 27 form part of the condensed financial statements.

## Statement of cash flows

For the nine months ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2011 \$'000	31 December 2010 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	2,695	77,944
Net investment income	(10,666)	(78,714)
Exchange loss / (gain)	1,551	(1,061)
(Increase) / Decrease in amount due from Investor Compensation Company Limited	(34)	55
Decrease in provision for compensation	-	(5,356)
(Decrease) / Increase in creditors and accrued charges	(20)	67
Net cash used in operating activities	(6,474)	(7,065)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(397,975)	(489,650)
Sale or maturity of debt securities	426,590	285,202
Sale of equity securities	844	694
Interest received	42,980	41,585
Net cash generated from/ (used in) investing activities	72,439	(162,169)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>65,965</b>	<b>(169,234)</b>
<b>Cash and cash equivalents at beginning of the nine-month period</b>	<b>201,953</b>	<b>252,735</b>
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>267,918</b>	<b>83,501</b>

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

	Unaudited	
	At 31 December 2011 \$'000	At 31 December 2010 \$'000
Cash at bank	3,016	31,312
Fixed deposits with banks	264,902	52,189
	<b>267,918</b>	<b>83,501</b>

## Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 2011.

### 2. Investor Compensation Company Limited 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 nine months ended 31 December 2011, ICC incurred \$3,212,000 for its operation (For the nine months ended 31 December 2010 : \$3,082,000).

### 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 31 December 2011 was \$150,000 (31 March 2011: \$150,000). As at 31 December 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 nine months, there were no significant related party transactions other than those disclosed in the financial statements.

### 5. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$525,050 (31 March 2011: \$600,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

# Unified Exchange Compensation Fund (the Fund)

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

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 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 29 to 33.

### 3. Members of the Committee

The members of the Committee during the nine months ended 31 December 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 nine months.

On behalf of the Committee

**Keith Lui**

Chairman

14 February 2012

## Statement of comprehensive income

For the nine months ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2011 \$'000	31 December 2010 \$'000	31 December 2011 \$'000	31 December 2010 \$'000
<b>Income</b>					
Interest income		239	125	113	55
Recoveries	2	-	1,666	-	1,666
		239	1,791	113	1,721
<b>Expenses</b>					
Auditor's remuneration		33	30	11	10
Professional fees		15	14	-	1
		48	44	11	11
<b>Surplus and total comprehensive income for the period</b>					
		<b>191</b>	<b>1,747</b>	<b>102</b>	<b>1,710</b>

The notes on page 33 form part of the condensed financial statements.

## Statement of financial position

At 31 December 2011

(Expressed in Hong Kong dollars)

		Unaudited	Audited
	Note	At 31 December 2011 \$'000	At 31 March 2011 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	1	1
Interest receivable		57	20
Fixed and call deposits with banks		72,410	71,565
Cash at bank		175	274
		72,643	71,860
<b>Current liabilities</b>			
Creditors and accrued charges		10,286	10,294
<b>Net current assets</b>		62,357	61,566
<b>Net assets</b>		<b>62,357</b>	61,566
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK	3	49,300	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		17,486	17,295
		1,057,075	1,056,284
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		<b>62,357</b>	61,566

The notes on page 33 form part of the condensed financial statements.

## Statement of changes in equity

For the nine months ended 31 December 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	600	600
Total comprehensive income for the period	191	1,747
<b>Compensation fund balance as at 31 December</b>	<b>62,357</b>	61,028

The notes on page 33 form part of the condensed financial statements.

## Statement of cash flows

For the nine months ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2011 \$'000	31 December 2010 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	191	1,747
Interest income	(239)	(125)
Decrease in equity securities received under subrogation	-	1
Decrease in creditors and accrued charges	(8)	(22)
Net cash (used in) / generated from operating activities	(56)	1,601
<b>Cash flows from investing activities</b>		
Interest received	202	104
Net cash generated from investing activities	202	104
<b>Cash flows from financing activities</b>		
Net contributions from SEHK	600	600
Net cash generated from financing activities	600	600
<b>Net increase in cash and cash equivalents</b>	<b>746</b>	<b>2,305</b>
<b>Cash and cash equivalents at beginning of the nine-month period</b>	<b>71,839</b>	<b>68,980</b>
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>72,585</b>	<b>71,285</b>

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

	Unaudited	
	At 31 December 2011 \$'000	At 31 December 2010 \$'000
Cash at bank	175	174
Fixed and call deposits with banks	72,410	71,111
	<b>72,585</b>	<b>71,285</b>

## Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 31 December 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 nine months, deposits of \$1,000,000 in respect of 20 new trading rights were received from SEHK and deposits of \$400,000 in respect of 8 relinquished trading rights were refunded to SEHK. As at 31 December 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 nine months, there were no significant related party transactions other than those disclosed in the financial statements.

### 5. Contingent liabilities

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

In relation to the 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.