

# Securities and Futures Commission

## Independent auditor's report to the Securities and Futures Commission

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

We have audited the consolidated financial statements of the Securities and Futures Commission (the "SFC") and its subsidiaries (together referred to as the "Group") set out on pages 65 to 85, which comprise the consolidated and the SFC statement of financial position as at 31 March 2012 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the financial statements

The Hong Kong Securities and Futures Ordinance requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group's affairs as at 31 March 2012 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### KPMG

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

31 May 2012

## Consolidated statement of comprehensive income

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Income</b>			
Levies		1,091,953	1,373,404
Fees and charges		230,074	171,696
Investment income	5	118,927	131,097
Less: custody and advisory expenses		(2,801)	(2,613)
Investment income net of third party expenses		116,126	128,484
Recoveries from Investor Compensation Fund		4,442	4,157
Other income	6	3,072	6,057
		1,445,667	1,683,798
<b>Expenses</b>			
Staff costs and directors' emoluments	7	650,564	564,876
Premises			
rent		73,525	63,642
other		29,128	25,640
Other expenses	8	108,130	85,162
Depreciation	10(a)	40,227	41,090
		901,574	780,410
<b>Surplus and total comprehensive income for the year</b>		<b>544,093</b>	<b>903,388</b>

The notes on pages 70 to 85 form part of these financial statements.

## Consolidated statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Non-current assets</b>			
Fixed assets	10(a)	49,364	46,689
Held-to-maturity debt securities	9	4,802,488	3,827,632
		4,851,852	3,874,321
<b>Current assets</b>			
Held-to-maturity debt securities	9	1,567,623	2,401,449
Debtors, deposits and prepayments	14	168,160	207,000
Bank deposits	11	1,035,893	602,190
Cash at bank and in hand	11	3,348	3,226
		2,775,024	3,213,865
<b>Current liabilities</b>			
Fees received in advance		73,835	68,657
Creditors and accrued charges		67,888	71,504
		141,723	140,161
<b>Net current assets</b>		2,633,301	3,073,704
<b>Total assets less current liabilities</b>		7,485,153	6,948,025
<b>Non-current liabilities</b>	13	15,432	22,397
<b>Net assets</b>		<b>7,469,721</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>	15	42,840	42,840
<b>Accumulated surplus</b>		7,426,881	6,882,788
		<b>7,469,721</b>	6,925,628

Approved and authorized for issue by the SFC on 31 May 2012 and signed on its behalf by

**Ashley Alder**  
Chief Executive Officer

**Eddy C Fong**  
Chairman

The notes on pages 70 to 85 form part of these financial statements.

## Statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Non-current assets</b>			
Fixed assets	10(b)	49,358	46,677
Held-to-maturity debt securities	9	4,802,488	3,827,632
		4,851,846	3,874,309
<b>Current assets</b>			
Held-to-maturity debt securities	9	1,567,623	2,401,449
Debtors, deposits and prepayments	14	167,959	206,862
Bank deposits	11	1,035,893	602,190
Cash at bank and in hand	11	3,026	2,909
		2,774,501	3,213,410
<b>Current liabilities</b>			
Fees received in advance		73,835	68,657
Creditors and accrued charges		67,359	71,037
		141,194	139,694
<b>Net current assets</b>		2,633,307	3,073,716
<b>Total assets less current liabilities</b>		7,485,153	6,948,025
<b>Non-current liabilities</b>	13	15,432	22,397
<b>Net assets</b>		<b>7,469,721</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>	15	42,840	42,840
<b>Accumulated surplus</b>		7,426,881	6,882,788
		<b>7,469,721</b>	6,925,628

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**Ashley Alder**  
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The notes on pages 70 to 85 form part of these financial statements.

## Consolidated statement of changes in equity

For the year ended 31 March 2012 (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 year	–	903,388	903,388
Balance at 31 March 2011 and 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the year	–	544,093	544,093
Balance at 31 March 2012	42,840	7,426,881	<b>7,469,721</b>

The notes on pages 70 to 85 form part of these financial statements.

## Consolidated statement of cash flows

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	544,093	903,388
Adjustments for:		
Depreciation	40,227	41,090
Investment income	(118,927)	(131,097)
Profit on disposal of fixed assets	(4)	(24)
	465,389	813,357
Decrease/(increase) in debtors, deposits and prepayments	26,062	(8,819)
Increase in fees received in advance	5,178	59,397
(Decrease)/increase in creditors and accrued charges	(3,616)	206
Decrease in non-current liabilities	(6,965)	(7,392)
Net cash generated from operating activities	486,048	856,749
<b>Cash flows from investing activities</b>		
Interest received	188,529	197,228
Held-to-maturity debt securities purchased	(2,599,374)	(2,503,382)
Held-to-maturity debt securities redeemed at maturity	2,401,520	1,523,827
Fixed assets purchased	(42,898)	(38,332)
Net cash used in investing activities	(52,223)	(820,659)
<b>Net increase in cash and cash equivalents</b>	433,825	36,090
<b>Cash and cash equivalents at beginning of the year</b>	605,416	569,326
<b>Cash and cash equivalents at end of the year</b>	<b>1,039,241</b>	605,416

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

	2012 \$'000	2011 \$'000
Bank deposits	1,035,893	602,190
Cash at bank and in hand	3,348	3,226
	<b>1,039,241</b>	605,416

## Notes to the consolidated financial statements

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The SFC is governed by Part II of the Hong Kong Securities and Futures Ordinance (the SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 8/F Chater House, 8 Connaught Road, Central, Hong Kong.

### 2. Income

Details of the funding of the SFC are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council; and
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

### 3. Significant accounting policies

#### (a) Statement of compliance

We have prepared the consolidated financial statements, which comprise the SFC and its subsidiaries (together referred to as the "Group"), in accordance with International Financial Reporting Standards ("IFRSs") (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board ("IASB").

We set out below a summary of our significant accounting policies.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the SFC. Note 3(q) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the SFC for the current and prior accounting periods reflected in these financial statements.

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 20).

#### (b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis. The accounting policies have been applied consistently by Group entities.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (c) Basis of consolidation

Subsidiaries are those entities in which the SFC, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Control exists when the SFC has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. We include the financial statements of subsidiaries in the consolidated financial statements from the date that control commences until the date that control ceases. We eliminate all material intragroup balances and transactions and any unrealised profits and losses arising from intra-group transactions in preparing the consolidated financial statements.

#### (d) Recognition of income

We recognise income in the statement of comprehensive income provided it is probable that the economic benefits will flow to the Group and we can measure reliably the revenue and costs. We record our income as follows:

##### (i) Levies

We record levies from the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited as income on an accrual basis.

##### (ii) Fees and charges

We record annual fees as income on a straight-line basis over the periods to which they relate. We record other fees and charges as income when they are receivable.

##### (iii) Investment income

We record investment income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and held-to-maturity debt securities; and (b) the amortisation of premiums or discounts on purchases of held-to-maturity debt securities.

#### (e) Operating leases

We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of comprehensive income as an integral part of the aggregate net lease payments made.

#### (f) Employee benefits

We make accrual for salaries and allowances, annual leave, contributions to defined contribution schemes and the cost of non-monetary benefits in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, we state these amounts at their present values. Other benefits for services received are accrued when a contractual or constructive obligation arises for the SFC.

#### (g) Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see note 3(o)). We charge depreciation to the statement of comprehensive income to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 3 to 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the statement of comprehensive income as an expense as incurred.



## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (g) Fixed assets and depreciation (cont'd)

We review the carrying amounts of fixed assets for indications of impairment at the end of each reporting period. An impairment loss is recognised to the extent that the carrying amount of an asset, or the cash-generating unit to which it belongs, is more than its recoverable amount. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the statement of comprehensive income on the date of retirement or disposal.

#### (h) Investments

We state our investments in debt securities, which we have positive intention and ability to hold to maturity, initially at fair value and subsequently at amortised cost using the effective interest method less impairment losses, if any (see note 3(o)). We account for purchases and sales of debt securities on the settlement date.

#### (i) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the SFC:

- (a) A person, or a close member of that person's family, is related to the SFC if that person:
  - (i) has control or joint control over the SFC;
  - (ii) has significant influence over the SFC; or
  - (iii) is a member of the key management personnel of the SFC or the SFC's parent.

- (b) An entity is related to the SFC if any of the following conditions applies:

- (i) The entity and the SFC are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is an entity controlled by the Government of the Hong Kong Special Administrative Region, any transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of International Accounting Standard ("IAS") 24.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of comprehensive income.

#### (k) Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of debtors and other receivables at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, we reduce the carrying amount to the estimated recoverable amount by means of a charge to the statement of comprehensive income (see note 3(o)).

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### (m) Creditors and accrued charges

We state creditors and accrued charges initially at fair values and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (n) Investment in subsidiaries

We state an investment in a subsidiary at cost less any impairment losses in the statement of financial position.

#### (o) Impairment

##### (i) Recognition of impairment loss

We review the carrying amounts of the SFC's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the SFC about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor; or significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

##### (ii) Calculation of impairment loss

We calculate the recoverable amount of the SFC's investments in held-to-maturity debt securities and receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, we discount the estimated future cash flows to their present value at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, we determine the recoverable amount for the cash-generating unit to which the asset belongs.

##### (iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation or amortisation, if we had not recognised any impairment loss.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the SFC has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the SFC will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably. If the effect is material, we determine provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (q) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the SFC. Of these, the following developments are relevant to the SFC's financial statements:

- IFRS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

### 5. Investment income

	2012 \$'000	2011 \$'000
Interest income	175,751	187,211
Amortisation of premium on held-to-maturity debt securities	(57,909)	(57,475)
Amortisation of discount on held-to-maturity debt securities	1,085	1,361
	<b>118,927</b>	131,097

Interest income is derived as follows:

	2012 \$'000	2011 \$'000
Interest income from held-to-maturity debt securities	165,953	184,934
Other interest income	9,798	2,277
Total interest income on financial assets not at fair value through profit or loss	<b>175,751</b>	187,211

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 6. Other income

	2012 \$'000	2011 \$'000
Investigation costs awarded	924	3,986
FinNet managed network and support fee	1,584	1,561
Sale of SFC publications	457	433
Gain on disposal of fixed assets	4	24
Others	103	53
	<b>3,072</b>	6,057

### 7. Staff costs and directors' emoluments

	2012 \$'000	2011 \$'000
Salaries and allowances	591,275	512,824
Retirement benefits	34,744	31,990
Medical and life insurance	16,840	14,577
Staff functions	1,571	1,323
Recruitment	4,951	3,447
Registration and membership fees	1,183	715
	<b>650,564</b>	564,876

The total number of staff as at 31 March 2012 was 614 (611 for the SFC and 3 for the Investor Compensation Company Limited) (at 31 March 2011: the total number of staff was 547 comprising 544 for the SFC and 3 for the Investor Compensation Company Limited).

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

## 7. Staff costs and directors' emoluments (cont'd)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances & benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contribution \$'000	2012 Total \$'000	2011 Total \$'000
				(Note 1)		
<b>Chief Executive Officer</b>						
Martin Wheatley, JP (resigned 8 June 2011)	–	1,695	272	136	2,103	9,327
Ashley Alder (appointed 1 October 2011)	–	3,000	–	300	3,300	–
			(Note 3)			
<b>Executive Directors</b>						
Alexa Lam, JP	–	5,000	1,333	500	6,833	6,700
Brian Ho	–	4,237	1,144	423	5,804	5,534
Keith Lui	–	4,197	1,175	420	5,792	5,429
Mark Steward	–	4,400	1,320	440	6,160	5,830
Paul Kennedy (resigned 6 April 2010)	–	–	–	–	–	112
	–	22,529	5,244	2,219	29,992	32,932
<b>Non-executive Chairman</b>						
Dr Eddy C Fong, GBS, JP	841	–	–	–	841	702
<b>Non-executive Directors</b>						
The Hon Chan Kam-lam, SBS, JP	243	–	–	–	243	234
Angelina PL Lee, SBS, JP	243	–	–	–	243	234
Kenneth HW Kwok, BBS, SC, JP (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Professor Liu Pak Wai, SBS, JP (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Shengman Zhang (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Lawrence Lee, JP	243	–	–	–	243	234
Wong Kai Man, BBS, JP	243	–	–	–	243	234
Anderson Chow, SC	242	–	–	–	242	58
Professor Leonard Cheng Kwok-hon, JP	242	–	–	–	242	58
Carlson Tong, JP (appointed 1 April 2011)	242	–	–	–	242	–
	2,539	–	–	–	2,539	2,282
<b>Total directors' emoluments</b>	<b>2,539</b>	<b>22,529</b>	<b>5,244</b>	<b>2,219</b>	<b>32,531</b>	<b>35,214</b>

Note 1 This represents net contribution expenses accrued during the period ended 31 March 2012 in accordance with the accounting policy set out in note 3(f) on page 71. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested at 31 March 2012 was \$1,645,000 (At 31 March 2011: \$1,815,000).

Note 2 Retired having completed appointment period.

Note 3 Discretionary pay, if any, is to be approved in 2012/13.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals in 2011/2012, representing the emoluments of four executive directors and one senior director, was \$28,975,000 (2010/2011: \$32,820,000 for five executive directors) with the breakdown as follows:

	2012 \$'000	2011 \$'000
Salaries, allowances & benefits in kind	20,967	24,349
Discretionary pay	5,912	6,069
Retirement scheme contribution	2,096	2,402
	<b>28,975</b>	<b>32,820</b>

Their emoluments are within the following bands:

	2012 No. of individuals	2011 No. of individuals
\$4,000,001 to \$4,500,000	1	0
\$4,500,001 to \$5,000,000	0	0
\$5,000,001 to \$5,500,000	0	1
\$5,500,001 to \$6,000,000	2	2
\$6,000,001 to \$6,500,000	1	0
\$6,500,001 to \$7,000,000	1	1
\$7,000,001 to \$7,500,000	0	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	0	1

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

## 7. Staff costs and directors' emoluments (cont'd)

**Employee benefits**

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme):

**(a) ORSO Scheme****(i) General grade staff**

For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the SFC prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2011: nil).

**(ii) Professional staff**

We use forfeited contributions in respect of professional staff who leave the SFC prior to qualifying for 100% disbursement of the contributions to offset the SFC's future contributions. The amount so forfeited during the year was \$3,713,000 (2011: \$2,952,000) and the amount so forfeited available at the end of the reporting period was \$86,000 (2011: \$602,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

**(b) MPF Scheme**

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

## 8. Other expenses

	2012 \$'000	2011 \$'000
Training and development	7,271	5,920
Legal and professional services	26,297	20,714
Information and systems services	29,147	27,755
Auditor's remuneration	479	443
Funding for the Financial Dispute Resolution Centre	7,500	–
Funding for the Financial Reporting Council	4,410	4,200
Funding for the Hong Kong Securities Institute	1,200	–
Funding for the Investor Education Centre	980	–
Funding for the International Accounting Standards Committee Foundation	390	389
General office and insurance	6,476	5,370
External relations	20,618	18,996
Exchange loss	3,362	1,375
	<b>108,130</b>	85,162

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

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

#### The Group and the SFC

		2012 \$'000	2011 \$'000
Maturing after one year			
In the second to sixth years	– unlisted	2,467,808	1,756,248
	– listed in Hong Kong	124,343	–
	– listed outside Hong Kong	2,210,337	2,071,384
		4,802,488	3,827,632
Maturing within one year			
	– unlisted	592,326	451,746
	– listed in Hong Kong	–	95,323
	– listed outside Hong Kong	975,297	1,854,380
		1,567,623	2,401,449
		<b>6,370,111</b>	6,229,081
Amortised cost at 31 March			
	– unlisted	3,060,134	2,207,994
	– listed in Hong Kong	124,343	95,323
	– listed outside Hong Kong	3,185,634	3,925,764
		<b>6,370,111</b>	6,229,081
Market value at 31 March			
	– unlisted	3,073,401	2,205,710
	– listed in Hong Kong	124,877	95,836
	– listed outside Hong Kong	3,227,935	3,982,773
		<b>6,426,213</b>	6,284,319

The average yield to maturity of the debt securities was 0.9% at 31 March 2012 (2011: 1.5%).



## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

## 10. Fixed assets

## (a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2011	68,699	7,912	180,516	55,703	1,599	314,429
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,666	8,091	127,086	65,071	1,599	272,513
Accumulated depreciation						
At 1 April 2011	63,527	5,194	153,474	44,404	1,141	267,740
Charge for the year	4,677	1,093	21,664	12,641	152	40,227
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,671	6,074	102,743	54,368	1,293	223,149
Net book value						
At 31 March 2012	11,995	2,017	24,343	10,703	306	<b>49,364</b>
Cost						
At 1 April 2010	61,147	7,528	161,641	48,300	1,967	280,583
Additions	8,012	1,156	19,850	8,727	611	38,356
Disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	68,699	7,912	180,516	55,703	1,599	314,429
Accumulated depreciation						
At 1 April 2010	51,344	5,024	138,382	34,443	1,967	231,160
Charge for the year	12,643	942	16,067	11,285	153	41,090
Written back on disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	63,527	5,194	153,474	44,404	1,141	267,740
Net book value						
At 31 March 2011	5,172	2,718	27,042	11,299	458	46,689

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 10. Fixed assets (cont'd)

#### (b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>						
At 1 April 2011	68,684	7,856	180,516	55,462	1,599	314,117
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,651	8,035	127,086	64,830	1,599	272,201
<b>Accumulated depreciation</b>						
At 1 April 2011	63,511	5,151	153,474	44,163	1,141	267,440
Charge for the year	4,677	1,087	21,664	12,641	152	40,221
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,655	6,025	102,743	54,127	1,293	222,843
<b>Net book value</b>						
At 31 March 2012	11,996	2,010	24,343	10,703	306	<b>49,358</b>
<b>Cost</b>						
At 1 April 2010	61,132	7,472	161,641	48,059	1,967	280,271
Additions	8,012	1,156	19,850	8,727	611	38,356
Disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	68,684	7,856	180,516	55,462	1,599	314,117
<b>Accumulated depreciation</b>						
At 1 April 2010	51,328	4,987	138,382	34,209	1,967	230,873
Charge for the year	12,643	936	16,067	11,278	153	41,077
Written back on disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	63,511	5,151	153,474	44,163	1,141	267,440
<b>Net book value</b>						
At 31 March 2011	5,173	2,705	27,042	11,299	458	46,677

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2012 ranged from 0.34% to 2.09% (2011: 0.04% to 1.34%). These balances mature within one year at both 31 March 2012 and 31 March 2011.

### 12. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorized share capital of \$10,000 and issued share capital of \$2 and Investor Compensation Company Limited (ICC) on 11 September 2002 with an authorized 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 SFO.

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2012, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2 (2011: \$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 March 2012 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 consolidated financial statements.

### 13. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our statement of comprehensive income on a straight line basis over the lease period from 2004 to 2017 as an integral part of the lease expense.

### 14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$160,338,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2011: \$196,758,000). Receivables are usually due within 30 days.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2012 and 2011.

### 15. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government. The SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. The SFC manages its funding requirements from its income and accumulated surplus.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 16. Capital commitments

Capital commitments outstanding at 31 March 2012 not provided for in the financial statements were as follows:

	2012 \$'000	2011 \$'000
Authorized and contracted for	29,366	29,158
Authorized but not contracted for	45,141	32,046

### 17. Commitment to pay rents for offices

During the year, 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 March 2012 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017 is as follows:

	The Group and the SFC	
	2012 \$'000	2011 \$'000
Payable next year	178,563	72,473
Payable in one to five years	736,774	76,265
Payable in more than five years	75,158	–
	<b>990,495</b>	148,738

During the year ended 31 March 2012, \$73,525,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011: \$63,642,000).

### 18. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, we have the following significant related party transactions.

#### (a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$4,442,000 was recovered from ICF for ICC's expenses (2011: \$4,157,000). As at 31 March 2012, the amount due to ICF from ICC was \$85,000 (at 31 March 2011: \$128,000).

#### (b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 18. Related party transactions (cont'd)

#### (c) Operating expenses of FinNet

During the year, all operating expenses incurred by FinNet were absorbed by the SFC. The amount absorbed for the year was \$22,000 (2011: \$20,000) including the provision for audit fee of \$11,100 (2011: \$10,500).

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

Prior to his appointment, the Group engaged a non-executive director to provide legal services in respect of a number of matters. He continued to provide services in respect of matters commenced prior to his appointment. During the year, fees paid to him for such services amounted to \$496,000 (2011: \$489,000) under normal commercial terms and conditions.

### 19. Financial instruments

Financial instruments of the SFC comprise held-to-maturity debt securities, bank deposits, cash at bank and debtors. These are classified into different categories at inception in accordance with IAS 39, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: held to maturity and other financial liabilities.

The main financial risks of the SFC arise from its investments in held-to-maturity debt securities. The SFC confers upon its Executive Directors the power to act upon the advice received from an external investment adviser and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk. The Executive Directors report thereon to the SFC on a regular basis.

#### (a) Credit risk

The SFC's credit risk is primarily attributable to debt security investments. The Financial Secretary has approved our investment policy which, subject to other control limits, only allows the SFC to invest in high-quality dated securities, rated AA or above. The policy also limits the exposure to each organisation and each country, except for the US Treasury. During the year, the SFC complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

#### (b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The SFC is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The SFC manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the SFC's interest bearing assets are disclosed in the respective notes to the financial statements. At 31 March 2012, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the SFC's surplus and accumulated surplus by approximately \$19,916,000 (2011: \$17,011,000). As at 31 March 2012 the average duration of the SFC's investment portfolio was 1.79 years (31 March 2011: 1.66 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2011.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 19. Financial instruments (cont'd)

#### (c) Exchange rate risk

The only foreign currency investment allowed under the SFC's investment policy is US dollar dated securities. As the HK dollar is pegged to the US dollar, and since there were no other exchange rate exposures other than in US dollars and HK dollars, the SFC was not exposed to significant foreign exchange risk at the end of the reporting period.

#### (d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2012 and 2011 except for held-to-maturity debt securities as disclosed in note 9. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed held-to-maturity debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.

### 20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Effective for  
accounting periods  
beginning on or after

Amendments to IAS 1, <i>Presentation of financial statements – presentation of items of other comprehensive income</i>	1 July 2012
IFRS 13, <i>Fair value measurement</i>	1 January 2013
IFRS 9, <i>Financial instruments</i>	1 January 2015

The SFC is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of SFC's results of operations and financial position.

# Investor Compensation Fund (the Fund)

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

The members of the Committee present their annual report together with the audited financial statements for the year ended 31 March 2012.

### Establishment of the Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Fund on 1 April 2003.

### Financial statements

The surplus of the Fund for the financial year ended 31 March 2012 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 88 to 103.

### Members of the Committee

The members of the Committee during the year ended 31 March 2012 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)

### Interests in contracts

No contract of significance to which the Fund was a party, and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

### Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Investor Compensation Fund Committee meeting.

By order of the Committee

**Keith Lui**  
*Chairman*

4 June 2012

## Independent auditor's report to the Securities & Futures Commission (the SFC)

We have audited the financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 88 to 103, which comprise the statement of financial position as at 31 March 2012 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### The SFC's responsibility for the financial statements

The Securities and Futures Ordinance requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2012 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### KPMG

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

4 June 2012



## Statement of comprehensive income

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Income</b>			
Net investment income	5	53,556	88,837
Exchange difference		(1,902)	1,695
Other investment income		49	–
Recoveries		–	4,569
		51,703	95,101
<b>Expenses</b>			
Investor Compensation Company Limited expenses	7	4,442	4,157
Compensation write-backs	8	–	(218)
Auditor's remuneration		102	95
Bank charges		794	770
Professional fees		3,373	3,239
		8,711	8,043
<b>Surplus and total comprehensive income for the year</b>		<b>42,992</b>	<b>87,058</b>

The notes on pages 92 to 103 form part of these financial statements.

## Statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
– Debt securities	9	1,664,886	1,608,583
– Pooled fund	9	232,304	224,824
Fair value adjustment on unsettled trades		–	15
Interest receivable		18,579	17,823
Due from Investor Compensation Company Limited		85	128
Fixed and call deposits with banks	10	153,839	189,486
Cash at bank	10	26,652	12,467
		2,096,345	2,053,326
<b>Current liabilities</b>			
Provision for compensation	8	150	150
Creditors and accrued charges		1,010	983
		1,160	1,133
<b>Net current assets</b>		2,095,185	2,052,193
<b>Net assets</b>		<b>2,095,185</b>	2,052,193
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund	11	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	11	108,923	108,923
Accumulated surplus		991,544	948,552
		<b>2,095,185</b>	2,052,193

Approved and authorized for issue by the Securities and Futures Commission (the SFC) on 4 June 2012 and signed on its behalf by

**Eddy C Fong**  
Chairman of the SFC

**Ashley Alder**  
Chief Executive Officer of the SFC

The notes on pages 92 to 103 form part of these financial statements.

## Statement of changes in equity

For the year ended 31 March 2012 (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 year	–	–	87,058	87,058
Balance at 31 March 2011 and 1 April 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the year	–	–	42,992	42,992
Balance at 31 March 2012	994,718	108,923	991,544	<b>2,095,185</b>

The notes on pages 92 to 103 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	42,992	87,058
Net investment income	(53,556)	(88,837)
Exchange difference	1,902	(1,695)
Decrease in amount due from Investor Compensation Company Limited	43	133
Decrease in provision for compensation	–	(5,506)
Increase in accounts payable and accrued charges	27	88
Net cash used in operating activities	(8,592)	(8,759)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(633,209)	(509,650)
Sale or maturity of debt securities	565,399	409,036
Sale of equity securities	1,109	968
Interest received	53,831	57,623
Net cash used in investing activities	(12,870)	(42,023)
Net decrease in cash and cash equivalents	(21,462)	(50,782)
Cash and cash equivalents at beginning of the year	201,953	252,735
<b>Cash and cash equivalents at end of the year</b>	<b>180,491</b>	201,953

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

	2012 \$'000	2011 \$'000
Fixed and call deposits with banks	153,839	189,486
Cash at bank	26,652	12,467
	<b>180,491</b>	201,953

## Notes to the financial statements

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

### 1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing.

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council has by order set the maximum amount of compensation at \$150,000 per claimant for a single default in relation to securities traded at the Stock Exchange of Hong Kong Limited (SEHK) or futures contracts traded at the Hong Kong Futures Exchange Limited (HKFE).

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities & Futures (Investor Compensation-Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

### 2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund, the Commodities Dealers' Deposits Fund and the Securities Margin Financiers' Security Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on SEHK and futures contracts traded on the HKFE, and returns earned on the investment of the Fund (see also note 5).

### 3. Significant accounting policies

#### (a) Statement of compliance

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(m) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as designated at fair value through profit or loss at their fair value (see note 3(e)).

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Recognition of income

We recognise income in the statement of comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

#### (d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies that are stated at fair value into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. We record exchange gains and losses on translation in the statement of comprehensive income.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (e) Financial instruments

##### (i) Initial recognition

We classify the financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables and other financial liabilities.

We initially measure financial instruments at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. We charge transaction costs on financial assets and financial liabilities at fair value through profit or loss immediately.

We account for financial assets and financial liabilities on the date the Fund becomes a party to the contractual provisions of the instrument. We use settlement date accounting to record regular purchase or sale of financial assets. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets or financial liabilities.

The Fund's financial instruments mainly consist of debt and equity securities designated at fair value through profit or loss. We state financial assets and liabilities under this category at fair value and recognise changes in the fair value in the statement of comprehensive income in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the statement of comprehensive income.

##### (ii) Fair value measurement principles

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. Unlisted equity investments are shares in pooled funds. The fair value is determined based on the Fund's share in the net assets of the pooled funds as determined by the custodian.

##### (iii) Derecognition

We derecognise a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

We derecognise a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

##### (iv) Offsetting

We offset the financial assets and financial liabilities and report the net amount in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (f) Impairment

##### (i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

##### (ii) Calculation of impairment loss

We calculate the recoverable amount of the Fund's receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount.

##### (iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we would have determined if we had not recognised any impairment loss.

#### (g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### (h) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(f)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

##### (i) Provision for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.

As the Fund is continually updating information in respect of claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.



## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (j) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

#### (k) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (l) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund or the Fund's parent.
- (b) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### (m) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- IFRS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 5. Net investment income

	2012 \$'000	2011 \$'000
Interest income from bank deposits	425	248
Interest income on financial assets designated at fair value through profit or loss	45,847	48,807
Realised loss on disposal of equity securities	(39)	(10)
Realised loss on redemption/disposal of debt securities	(4,129)	(2,443)
Gain on revaluation of equity securities	8,954	40,979
Gain on revaluation of debt securities	2,498	1,256
Net investment income	<b>53,556</b>	88,837

### 6. Levy from SEHK/HKFE

From 1 April 2003, the Fund received a levy chargeable on leviab le SEHK transactions and leviab le HKFE contracts pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and re-instatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion. Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 and the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase of securities and futures contract with effect from 19 December 2005.

### 7. ICC expenses

The SFC formed ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of ICC. For the year ended 31 March 2012, ICC incurred costs of \$4,442,000 for its operations (2011:\$4,157,000).

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

## 8. Provision for compensation

	\$'000
Balance as at 1 April 2010	5,656
Less: compensation expenses/(write-backs) during the year ended 31 March 2011	(218)
Less: compensation paid during the year ended 31 March 2011	(5,288)
Balance as at 31 March 2011, 1 April 2011 and 31 March 2012	<b>150</b>

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 \$150,000 per claimant. As at 31 March 2012 all provisions were expected to be paid within one year.

## 9. Financial assets designated at fair value through profit or loss

	2012 \$'000	2011 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong at quoted market prices	499,550	535,919
Listed – outside Hong Kong based on valuation techniques	112,595	109,436
Listed – in Hong Kong	167,820	143,605
Unlisted	884,921	819,623
	<b>1,664,886</b>	1,608,583
(ii) Maturity profile		
Within one year	664,820	552,995
After one year but within two years	246,059	443,101
After two years but within five years	607,328	484,958
After five years	146,679	127,529
	<b>1,664,886</b>	1,608,583
(iii) The weighted average effective interest rate of debt securities on 31 March 2012 was 1.9% (2011: 1.7%).		
(b) Pooled fund		
Unlisted	<b>232,304</b>	224,824

The pooled fund comprises mainly listed equity securities.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2012 ranged from 0.2% to 0.9% (2011: 0.1% to 0.3%). The balances mature within one year at both 31 March 2012 and 31 March 2011.

### 11. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2012, the SFC had \$994,718,000 (2011: \$994,718,000) and \$108,923,000 (2011: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from the UECF and the CECF and the accumulated surplus.

### 12. Material related party transactions

We have related party relationships with the SFC, ICC and the UECF. During the year, there were no significant related party transactions other than those disclosed in the financial statements (refer to notes 7 & 11).

### 13. Financial risk management and fair values

The financial assets of the Fund mainly comprise debt securities and units in a pooled fund. The underlying investments of the pooled fund mainly comprise equity securities.

The main financial risks of the Fund arise from its investments in debt securities and units in the pooled fund. The SFC appoints external investment managers to manage the Fund's investments and to ensure that the portfolio's investments comply with the Fund's investment policy approved by the SFC which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign currency risk. The external investment managers report thereon to the SFC on a regular basis.

The Fund's exposure to these risks and the financial risk management policies and practices used by the Fund to manage these risks are described below.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 13. Financial risk management and fair values (cont'd)

#### (a) Credit risk

The Fund's Investment Policy and Administrative Guidelines (the Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits. The Policy further limits the Fund's exposure to each issuer and each country, except for holdings of US Treasuries, any issuances by Hong Kong Government and specified multilateral agencies rated AAA by Moody's or S&P's and approved pooled funds. The Fund's investment managers are responsible for managing the portfolio and ensuring the portfolio's investments meet the Policy and restrictions and reports thereon on a monthly basis. During the year, the Fund complied with the above Policy and, as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

#### (b) Liquidity risk

The Fund's policy is to regularly monitor its liquidity requirement to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

#### (c) Interest rate risk

The Fund's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank deposits. The Fund's bank deposits are exposed to short term bank deposit interest re-pricing risk.

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than 2.5 years within its debt securities portfolio. As at 31 March 2012 the duration was 1.79 years (31 March 2011: 1.82 years).

At 31 March 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$32,407,000 (2011: \$32,492,000). Further, at 31 March 2012, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Fund's interest income and the accumulated surplus by approximately \$5,221,000 (2011: \$4,398,000). The extent of any decrease in interest rate is expected to be minimal which would decrease the Fund's surplus by an insignificant amount. Other components of the accumulated surplus would not be affected (2011: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the end of the reporting period. The analysis is performed on the same basis for the year ended 31 March 2011.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 13. Financial risk management and fair values (cont'd)

#### (d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollar foreign exchange exposure. As the HK dollar is pegged with the US dollar, the Fund was not exposed to significant foreign exchange risk.

#### (e) Market risk

The investment activities of the Fund expose it to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt and equity securities. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

The Fund invests in units of a pooled fund, which mainly comprises listed equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase/decrease of 24.8% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$50,410,000 (2011: a general increase/decrease of 24.9% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$48,337,000).

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the changes in the benchmark index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Fund's investment in pooled fund would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant. The analysis is performed on the same basis for 2011.

#### (f) Fair values of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2012 and 2011.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

**13. Financial risk management and fair values (cont'd)****(f) Fair values of financial instruments (cont'd)**

Where available, the fair value of the debt securities is the quoted market price. The fair value of unlisted debt securities is determined based on quotes from bond market-makers.

The fair value of the investment in the unlisted pooled fund is determined based on the Fund's share in the net assets of the pooled fund as determined by the custodian. The majority of the underlying assets of the pooled fund are listed securities.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

	2012			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Assets</b>				
Trading securities				
– Listed	651,836	128,129	–	779,965
– Unlisted	99,215	785,706	–	884,921
Pooled fund				
– Unlisted	232,304	–	–	232,304
	983,355	913,835	–	<b>1,897,190</b>

	2011			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Assets</b>				
Trading securities				
– Listed	663,537	125,423	–	788,960
– Unlisted	72,133	747,490	–	819,623
Pooled fund				
– Unlisted	224,824	–	–	224,824
	960,494	872,913	–	1,833,407

During the year there were no significant transfers between financial instruments in Level 1 and Level 2.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 14. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 8, 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 \$525,000 (2011: \$600,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

### 15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Effective for  
accounting periods  
beginning on or after

Amendments to IAS 1,

*Presentation of  
financial statements –*

*Presentation of items of*

*other comprehensive income*

1 July 2012

IFRS 9, *Financial Instruments*

1 January 2015

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.



# Unified Exchange Compensation Fund (the Fund)

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

The members of the Committee present their annual report together with the audited financial statements for the year ended 31 March 2012.

### 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 from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After settlement of all claims against the Fund 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.

### Financial statements

The surplus of the Fund for the financial year ended 31 March 2012 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 106 to 115.

### Members of the Committee

The members of the Committee during the year ended 31 March 2012 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)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

### Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Securities Compensation Fund Committee meeting.

By order of the Committee

**Keith Lui**  
*Chairman*

22 May 2012

## Independent auditor's report to the Securities & Futures Commission (the SFC)

We have audited the financial statements of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 106 to 115, which comprise the statement of financial position as at 31 March 2012 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### The SFC's responsibility for the financial statements

The repealed Hong Kong Securities Ordinance (Chapter 333) requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2012 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### KPMG

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

22 May 2012

## Statement of comprehensive income

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Income</b>			
Interest income		420	173
Recoveries	5	(1)	1,666
		419	1,839
<b>Expenses</b>			
Auditor's remuneration		43	40
Professional fees		14	13
Sundry expenses		1	1
		58	54
<b>Surplus and total comprehensive income for the year</b>		<b>361</b>	<b>1,785</b>

The notes on pages 110 to 115 form part of these financial statements.

## Statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Current assets</b>			
Equity securities received under subrogation		1	1
Interest receivable		103	20
Fixed and call deposits with banks		72,647	71,565
Cash at bank		273	274
		73,024	71,860
<b>Current liabilities</b>			
Creditors and accrued charges	6	10,297	10,294
		10,297	10,294
<b>Net current assets</b>		62,727	61,566
<b>Net assets</b>		<b>62,727</b>	61,566
Representing :			
<b>Compensation fund</b>			
Contributions from SEHK	7	49,500	48,700
Excess transaction levy from SEHK	9	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	10	3,002	3,002
Accumulated surplus		17,656	17,295
		1,057,445	1,056,284
Contributions to Investor Compensation Fund	11	(994,718)	(994,718)
		<b>62,727</b>	61,566

Approved and authorized for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 22 May 2012 and signed on its behalf by

**Keith Lui**  
Chairman

**Tai Chi Kin**  
Committee Member

The notes on pages 110 to 115 form part of these financial statements.

## Statement of changes in equity

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Compensation Fund balance as at 1 April	61,566	58,681
Net contribution from SEHK	800	1,100
Total comprehensive income for the year	361	1,785
Compensation Fund balance as at 31 March	<b>62,727</b>	61,566

The notes on pages 110 to 115 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	361	1,785
Interest income	(420)	(173)
Decrease in equity securities received under subrogation	–	1
Increase/(decrease) in creditors and accrued charges	3	(11)
Net cash (used in)/generated from operating activities	(56)	1,602
<b>Cash flows from investing activities</b>		
Interest received	337	157
Net cash generated from investing activities	337	157
<b>Cash flows from financing activities</b>		
Contributions from SEHK	800	1,100
Net cash generated from financing activities	800	1,100
Net increase in cash and cash equivalents	1,081	2,859
Cash and cash equivalents at beginning of the year	71,839	68,980
<b>Cash and cash equivalents at end of the year</b>	<b>72,920</b>	71,839

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

	2012 \$'000	2011 \$'000
Fixed and call deposits with banks	72,647	71,565
Cash at bank	273	274
	<b>72,920</b>	71,839

## Notes to the financial statements

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

### 1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of the Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

### 2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, the SFC may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to the SEHK the investment return earned on any remaining deposits net of Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from the SEHK (2011: Nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determines to retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries; SEHK replenishments detailed in note 14; special levy surplus detailed in note 10; and transaction levy received before the SFO became effective from 1 April 2003.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF and less contributions from SEHK (deposits for transferred trading rights) as disclosed on the face of the statement of financial position.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies

#### (a) Statement of compliance

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(i) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

#### (b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a break-up basis with assets stated at recoverable amounts. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease as these are estimated to be immaterial.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Recognition of income

##### (i) Interest income

We record interest income as it accrues using the effective interest method.

##### (ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

##### (iii) Replenishments by SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.



## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (d) Impairment

##### (i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

##### (ii) Calculation of impairment loss

We calculate the recoverable amount of the Fund's receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount.

##### (iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we would have determined if we had not recognised any impairment loss.

#### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### (f) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (g) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund or the Fund's parent.
- (b) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (h) Related parties (cont'd)

- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### (i) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- IFRS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 4. Taxation

Section 87 of the Hong Kong Inland Revenue Ordinance exempts the Fund from Hong Kong Profits Tax.

### 5. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised 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 of shares allocated and the remaining shares at market value as of 31 March 2012 after deducting relevant processing fees and charges for collecting and selling the shares 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 IFRS 7, Financial instruments: Disclosures, these subrogated shares should 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".

### 6. Creditors and accrued charges

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

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

### 7. Set-off of SEHK deposits and refunds/contributions from SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the relinquishment. During the year, deposits of \$1,300,000 in respect of 26 new trading rights were received from SEHK.

During the year, the SFC had refunded to SEHK of \$500,000 in respect of the deposit of 10 relinquished trading rights. As at 31 March 2012, there are 6 trading rights in total that have been relinquished but not yet refunded.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 7. Set-off of SEHK deposits and refunds/contributions from SEHK (cont'd)

The movement of contributions from SEHK during the year was as follows:

	2012 \$'000	2011 \$'000
Balance brought forward	48,700	47,600
Add: 26 new trading rights issued (2011: 34)	1,300	1,700
Less: 10 relinquished trading rights refunded (2011: 12)	(500)	(600)
Balance carried forward	<b>49,500</b>	48,700

### 8. 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 5), if any, will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

### 9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy.

### 10. Special levy surplus

In November 2000, the former Financial Services Bureau of the HKSAR Government transferred to the Fund \$3,002,000 under the provisions of the Exchanges (Special Levy) Ordinance.

### 11. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF up to 31 March 2012 amounted to \$994,718,000 (2011: \$994,718,000).

### 12. Material related party transactions

We have related party relationships with the ICF and the SFC. During the year, there were no significant related party transactions other than those disclosed in the financial statements.

### 13. Financial risk management

The Fund's interest bearing assets mainly comprise deposits at banks which mature or re-price in the short term, as a result of which the Fund is subject to a limited exposure to interest rate risk due to fluctuations in the prevailing market rates. At 31 March 2012, it is estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$726,000 (2011: \$716,000). Other components of accumulated surplus would not be affected (2011: Nil) by the changes in interest rates. The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in HK dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 or A-1 by Moody's or S&P respectively.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

## Notes to the financial statements (cont'd)

For the year ended 31 March 2012

### 14. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2012, SEHK has replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,816,000 to the Fund as follows:

	2012 \$'000	2011 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: Recoveries received for compensation paid up to \$8 million	(29,946)	(29,946)
Add: Recoveries re-distributed to claimants	16,385	16,385
Less: Replenishments from SEHK	(16,361)	(16,361)
<b>Net amount the SFC may request SEHK for replenishment</b>	<b>70,816</b>	70,816

Under Section 74(3) of Schedule 10 of the SFO, the SFC having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishment from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need for requesting SEHK for replenishment in the near future.

### 15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income* Effective for accounting periods beginning on or after 1 July 2012

IFRS 9, *Financial Instruments* 1 January 2015

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

# Breakdown of SFC activity data

**Table 1 Number of investment products authorized**

	2011/12	2010/11	2009/10
Unit trusts and mutual funds	1,863	1,944	1,968
Investment-linked assurance schemes	254	248	239
Pooled retirement funds	35	35	34
MPF master trust schemes	39	40	37
MPF pooled investment funds <sup>1</sup>	297	305	296
Others <sup>2</sup>	25	22	25
<b>Total</b>	<b>2,513</b>	<b>2,594</b>	<b>2,599</b>

<sup>1</sup> 125 funds included in this category 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 REITs.

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

	Number	%	Total NAV <sup>1</sup> (US\$ million)	%
Bond	330	19.63	324,078	31.96
Equity	995	59.13	436,280	43.03
Diversified	78	4.70	32,345	3.19
Money market	40	2.38	100,535	9.92
Fund of funds	82	4.88	7,817	0.77
Index	111	6.60	105,118	10.37
Guaranteed	22	1.31	712	0.07
Hedge	6	0.36	704	0.07
Other specialised <sup>2</sup>	17	1.01	6,284	0.62
	1,681	100	1,013,873	100
Umbrella structures	182			
<b>No. of authorized funds</b>	<b>1,863</b>			

<sup>1</sup> Net Asset Value as at 31 December 2011.

<sup>2</sup> Includes Futures and Options Funds, Structured Funds and Funds that invest in financial derivative instruments.

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

	Umbrella funds	Sub-funds	Single funds	Total	%	Total NAV <sup>1</sup> (US\$ million)	%
Hong Kong	56	145	60	261	14.01	33,408	3.30
Luxembourg	54	1,014	2	1,070	57.43	634,092	62.54
Ireland	32	248	2	282	15.14	217,853	21.49
Guernsey	2	1	0	3	0.16	0	0.00
United Kingdom	5	43	5	53	2.84	40,333	3.98
Other Europe	0	0	2	2	0.11	16	0.00
Bermuda	3	16	3	22	1.18	4,528	0.45
British Virgin Islands	1	4	0	5	0.27	23	0.00
Cayman Islands	29	102	26	157	8.43	11,058	1.09
Others	0	0	8	8	0.43	72,562	7.15
<b>No. of authorized funds</b>	<b>182</b>	<b>1,573</b>	<b>108</b>	<b>1,863</b>	<b>100</b>	<b>1,013,873</b>	<b>100</b>

<sup>1</sup> Net Asset Value as at 31 December 2011 (excluding “umbrella funds”).

**Table 4 Renminbi bonds: authorization of offer and marketing documents**

	2011/12	2010/11	2009/10
Authorizations granted under section 105 of the SFO	0	4 <sup>1</sup>	4
Authorizations granted to register prospectuses under the Companies Ordinance	0	2 <sup>2</sup>	3 <sup>3</sup>

<sup>1</sup> Include one renminbi bond offering with a retail issue size of RMB4,000 million.

<sup>2</sup> Two renminbi bond offerings with an aggregate retail issue size of RMB3,000 million.

<sup>3</sup> Three renminbi bond offerings with an aggregate retail issue size of RMB5,974 million.

**Table 5 Unlisted retail structured products<sup>1</sup>: authorization of offer and marketing documents**

	2011/12	2010/11	2009/10
Structured products <sup>2</sup> authorized	85	N/A	N/A
Authorizations granted under section 105 of the SFO	141	84	24
Authorizations granted to register prospectuses under the Companies Ordinance	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 6 Number of Licensees as at 31 March 2012 vs last year**

	Corporations		Representatives		Responsible Officers		Total		Change
	2012	2011	2012	2011	2012	2011	2012	2011	
Stock Exchange Participants	453	440	11,618	11,552	1,568	1,486	13,639	13,478	+1%
Futures Exchange Participants	117	117	952	931	150	123	1,219	1,171	+4%
Stock Exchange and Futures Exchange Participants	65	63	3,984	3,447	380	360	4,429	3,870	+14%
Non-Participants	1,205	1,132	15,890	16,074	3,208	2,854	20,303	20,060	+1%
<b>Total</b>	<b>1,840</b>	<b>1,752</b>	<b>32,444</b>	<b>32,004</b>	<b>5,306</b>	<b>4,823</b>	<b>39,590</b>	<b>38,579</b>	<b>+3%</b>

**Table 7 New listing applications**

	2011/12	2010/11	2009/10
Total listing applications received	191	201	132
Applications for transfer from GEM to Main Board	9	17	6
Listed	102	117	79
Cases lapsed / withdrawn / rejected <sup>1</sup>	35	11	13

<sup>1</sup> As at 31 March 2012.

**Table 8 Takeovers activities**

	2011/12	2010/11	2009/10
<b>Codes on Takeovers and Mergers and Share Repurchases</b>			
General and partial offers under Takeovers Code	29	29	37
Privatisations	9	6	9
Whitewash waiver applications	31	30	41
Other applications under the Takeovers Code	209	224	254
Off-market and general offer repurchases	2	2	9
Other applications under the Share Repurchases Code	3	13	13
<b>Total</b>	<b>283</b>	<b>304</b>	<b>363</b>
<b>Takeovers Bulletins</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Executive Statements</b>			
Sanctions imposed with parties' agreement <sup>1</sup>	2	2	1
<b>Takeovers and Mergers Panel</b>			
Meetings for review of the Takeovers and Share Repurchases Codes	3	1	1
Hearings before the Panel (disciplinary and non-disciplinary)	2	2	3
Statements issued by the Panel <sup>2</sup>	2	2	1

<sup>1</sup> Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Repurchases.

<sup>2</sup> Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Repurchases.



**Table 9 Breaches by licensed corporations noted during inspections**

Nature of Breaches	2011/12	2010/11	2009/10
Failure to comply with Financial Resources Rules	13	14	12
Failure to safekeep client securities	9	10	7
Failure to maintain proper books and records	9	6	15
Failure to safekeep client money	18	10	21
Unlicensed dealing and other registration issues	2	2	6
Breach of licensing condition	6	2	1
Breach of requirements of contract notes / statements of account / receipts	17	22	30
Failure to make filing / notification	1	1	1
Breach of margin requirements	2	3	5
Marketing malpractices	1	1	0
Illegal short selling of securities	1	0	2
Dealing malpractices	2	1	2
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	80	88	132
Breach of Corporate Finance Adviser Code of Conduct	1	10	16
Breach of Fund Manager Code of Conduct	20	24	12
Non-compliance with anti-money laundering guidelines	102	28	6
Breach of other rules and regulations of the Exchanges	5	20	15
Internal control weaknesses	93	121	107
Others	54	39	51
<b>Total</b>	<b>436</b>	<b>402</b>	<b>441</b>

**Table 10 Successful prosecutions****Insider dealing<sup>1</sup>**

Case	Defendants	Date of conviction	Fine (\$) / Penalty	Investigation costs awarded (\$)
1	LAM Kwong Yu	27.2.2012	50,000 and 5 months' imprisonment suspended for 2 years	107,131

**Market manipulation<sup>1</sup>**

Case	Defendants	Date of conviction	Fine (\$) / Penalty	Investigation costs awarded (\$)
1	LAM Lok Yin	7.6.2011	89,100 and 120 hours' community service	60,007
2	TSOI Bun	30.1.2012	500,000 and 6 months' imprisonment suspended for 2 years and cold shoulder order to prohibit TSOI to trade in futures contracts during Pre-Market Openings for 1 year	45,838
<b>Total: 2 entities</b>			<b>589,100</b>	<b>105,845</b>

**Unlicensed activities<sup>1</sup>**

Case	Activities / Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
<b>Unlicensed dealing in securities</b>				
1	LAW Look Tend	1.9.2011	10,000	2,701 <sup>2</sup>
2	LEUNG Bing Yiu	1.9.2011	25,000	18,909
3	LO Kam Chung	24.11.2011	10,000 and 80 hours' community service	25,652
<b>Unlicensed investment adviser</b>				
4	Billion Global Asset Management Ltd	23.8.2011	10,000	20,002
<b>Issued advertisement relating to carrying on of regulated activities while unlicensed</b>				
5	LAW Look Tend	1.9.2011	12,000	16,208 <sup>2</sup>
<b>Total: 5 entities</b>			<b>77,000</b>	<b>83,472</b>

<sup>1</sup> Cases where fines were below \$10,000 are not shown here.

<sup>2</sup> LAW Look Tend was convicted of the offences of unlicensed dealing and issuing advertisement relating to carrying on of regulated activities while unlicensed in the same hearing. LAW was ordered to pay total investigation costs of \$18,909.

**Table 10 Successful prosecutions (cont'd)****Disclosure of interests<sup>1</sup>**

Case	Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
1	CHUI Chuen Shun	4.4.2011	42,000	28,625
2	IU Chung	14.4.2011	40,000	8,642
3	CQS (Hong Kong) Ltd	26.5.2011	12,000	21,931
4	KAN Che Kin Billy Albert	28.7.2011	26,400	16,196
5	TSANG Kwok Man	25.8.2011	25,000	43,701
6	BHL Solar Technology Co. Ltd	28.11.2011	15,000	8,310
7	China Technology Development Group Corporation	28.11.2011	15,000	8,310
8	Li Alan	28.11.2011	30,000	8,310
9	Chong Kin Ngai	22.12.2011	65,000	15,719
10	Lei Shing Hong Investment Ltd	1.3.2012	50,000	31,448
11	Lei Shing Hong Capital Ltd	1.3.2012	25,000	–
12	Lei Shing Hong Ltd	1.3.2012	25,000	–
<b>Total: 12 entities</b>			<b>370,400</b>	<b>191,192</b>

<sup>1</sup> Cases where fines were below \$10,000 are not shown here.

**Table 11 Most significant disciplinary action**

Item	Company / Name	Date of action	Conduct	Action / SFAT decision
1	HSBC Trinkaus Investment Management Ltd	4.5.2011	Inadequate procedures in relation to distribution of equity linked notes	Reprimanded and fined \$3 million Licence partially suspended for 2 years
2	Core Pacific-Yamaichi International (H.K.) Ltd	12.5.2011	Internal systems and controls in relation to sale of Minibonds, Octave Notes and Constellation Notes	Reprimanded and agreed to repurchase LB-related structured products from eligible customers involving a total value of about \$9.6 million
3	Merrill Lynch (Asia Pacific) Ltd	12.5.2011	Internal control failings in relation to sale of index-linked notes	Reprimanded and fined \$3 million
4	Quam Securities Company Ltd CHIU Chun Kit, Calvin	19.5.2011	Internal control deficiencies in handling Mainland clients' accounts	Reprimanded and fined \$1 million Reprimanded and fined \$300,000
5	TSIEN Pak Cheong, David	14.6.2011	Insider dealing	Banned for 10 years. Decision of SFAT reaffirmed by Court of Appeal
6	Sun Hung Kai Investment Services Ltd	21.6.2011	Failings in relation to sale of LB-related equity-linked notes	Reprimanded and fined \$4.5 million
7	Citibank (Hong Kong) Ltd	8.7.2011	Distribution of market-linked notes and equity-linked notes issued by LB	Citibank agreed to repurchase the LB notes from eligible customers involving a total value of about \$1.06 billion
8	Taifair Securities Ltd KWOK Fai	15.8.2011	Internal control deficiencies and misappropriation of clients' assets	Reprimanded and fined \$400,000 Reprimanded and fined \$100,000
9	LUK Ka Cheung, Steve	23.8.2011	Insider dealing	Banned for 10 years
10	Oasis Management (Hong Kong) LLC Seth Hillel FISCHER	15.9.2011	Trading malpractices	Reprimanded and fined \$7.5 million Reprimanded and fined \$7.5 million

**Table 11 Most significant disciplinary action (cont'd)**

Item	Company / Name	Date of action	Conduct	Action / SFAT decision
11	TANG Siu Fong	27.9.2011	Misappropriation of clients' accounts	Banned for life
12	Citigroup Global Markets Asia Ltd CHAN Sin Man, Lisa	3.10.2011	Delay in reporting suspected misconduct to SFC and insufficient supervision	Reprimanded and fined \$6 million Licence suspended for 8 months
13	WAN Ten Lok YAN Kwok Ting, Sunny	11.10.2011	Forgery and sponsor failures	Banned for 6 years, following determination by SFAT Banned for 4 years, following determination by SFAT
14	CHAU Shuk Man, Emilie	12.10.2011	Failures to disclose secret account and to avoid conflicts of interests	Banned for 2 years
15	Solomon Independent Financial Advisors Ltd LEUNG Wing Kam, Connie	13.10.2011	Facilitating unlicensed activities	Reprimanded and fined \$1.5 million Licence suspended for 7 months
16	WOO Sai Cheung	28.10.2011	Illegal short selling with secret accounts	Licence suspended for 18 months
17	CHANG Wa Shan	2.11.2011	Insufficient management supervision	Reprimanded and fined \$200,000
18	NG Kar Lun, Paco FONG Wai Lap, Adrian	13.2.2012	Trading overpriced shares in the grey market	Licence revoked and banned for 10 years Banned for 3 years
19	LI Junfeng	1.3.2012	Maintaining secret accounts and misleading the SFC	Licence suspended for 14 months
20	HUI Chi Cheung, Miranda	2.3.2012	Conducting unauthorized trading transactions in clients' accounts	Banned for 10 years
21	Ramesh Kumar Chuharmal SADHWANI	26.3.2012	Operating a fraudulent scheme	Banned for 10 years, following determination by SFAT

**Table 12 Other enforcement action**

		2011/12	2010/11	2009/10
(1)	No. of s.179 <sup>1</sup> enquiries commenced	23	17	17
(2)	No. of s.181 <sup>2</sup> enquiries commenced (no. of letters sent)	175 (4,034)	160 (4,165)	167 (4,141)
(3)	No. of s.182 <sup>3</sup> directions issued	296	252	269
(4)	No. of show cause letters <sup>4</sup> issued	1	0	0
	No. of Section 8 <sup>4</sup> directions issued	1	0	1
(5)	No. of cases with search warrants executed	15	22	14
(6)	No. of compliance advice letters issued	240	185	230
(7)	Criminal litigation			
	(a) Insider dealing			
	No. of persons summonsed summarily (summonses laid)	3 (12)	0 (0)	2 (5)
	No. of persons charged on indictment (no. of charges)	0 (0)	0 (0)	0 (0)
	(b) Market manipulation			
	No. of persons summonsed summarily (summonses laid)	3 (10)	9 (76)	8 (44)
	No. of persons charged on indictment (no. of charges)	0 (0)	0 (0)	0 (0)
	(c) Others			
	No. of persons summonsed summarily (summonses laid)	32 (185)	56 (285)	24 (134)
	No. of persons charged on indictment (no. of charges)	0 (0)	0 (0)	0 (0)
(8)	Civil litigation			
	(a) S.213 <sup>5</sup> action			
	No. of persons against whom s.213 action is ongoing	41	28	26
	No. of persons against whom s.213 action was completed	3	4	3
	(b) S.214 <sup>6</sup> action			
	No. of persons against whom s.214 action is ongoing	16	14	13
	No. of persons against whom s.214 action was completed	9 <sup>7</sup>	5	12
	(c) Others			
	No. of persons against whom other civil action is ongoing	0	2	1
	No. of persons against whom other civil action was completed	0	2	3

**Table 12 Other enforcement action (cont'd)**

		2011/12	2010/11	2009/10
(9)	Disciplinary enquiries			
	No. of Notices of Proposed Disciplinary Action <sup>8</sup> issued	39	29	59
	No. of Notices of Decision <sup>9</sup> issued (including s.201 <sup>10</sup> agreement)	38	49	78
(10)	SFAT cases			
	No. of ongoing cases	0	7	8
	No. of completed cases	8	13	7

<sup>1</sup> Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed corporation in relation to fraud or other misconduct.

<sup>2</sup> Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

<sup>3</sup> Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct, etc.

<sup>4</sup> A Section 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Ltd (SEHK) to suspend trading in the shares of a listed corporation on grounds that the market is misinformed, disorderly or unfair.

A show cause letter is sent by the SFC to inform a listed corporation that it is minded to exercise its power under Section 8 of the Securities and Futures (Stock Market Listing) Rules to direct the SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

<sup>5</sup> Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance (CFI) for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance.

<sup>6</sup> Section 214 of the SFO gives the SFC the power to apply to the CFI for a range of orders, including disqualification orders against directors, where the business or affairs of a listed corporation is conducted in a manner which is oppressive or unfairly prejudicial to its members.

<sup>7</sup> Two out of these nine persons appealed against the orders made in 2010. The appeal was heard and the Court of Appeal handed down judgment in May 2011.

<sup>8</sup> A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

<sup>9</sup> A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

<sup>10</sup> Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

**Table 13 Requests for regulatory co-operation**

	2011/12		2010/11		2009/10	
	In	Out	In	Out	In	Out
Enforcement-related requests for assistance	104	104	93	74	88	89
Licensing-related requests for assistance	76	964	86	1,068	144	847

"In" represents requests received, while "out" are requests made.

**Table 14 Comparison with overseas regulatory agencies**

It is difficult to obtain detailed data, in a consistent format, for sensible comparison of key performance measures with other regulators and this is complicated further by the different mandates which each of these regulators have. Nevertheless, we have set out in this table some key data relating to the size of certain other regulators for the interest of readers.

All foreign currency amounts have been translated into Hong Kong dollars with the exchange rate on 31 March of each of the three years.

	2011/12	2010/11	2009/10
<b>SFC (year ended on 31 March)<sup>1</sup></b>			
Number of staff (at year-end date)	611	544	501
Total expenditure (\$ million)	902	780	730
<b>US Securities and Exchange Commission (SEC) (year ended on 30 September)<sup>2</sup></b>			
Number of staff (at year-end date)	3,946 <sup>5</sup>	3,844 <sup>6</sup>	3,748
Total expenditure (\$ million)	10,557 <sup>5</sup>	9,434 <sup>6</sup>	8,553
<b>UK Financial Services Authority (FSA) (year ended on 31 March)<sup>3</sup></b>			
Number of staff (at year-end date)	4,000 <sup>7</sup>	3,337 <sup>8</sup>	3,150
Total expenditure (\$ million)	6,464 <sup>7</sup>	5,977 <sup>8</sup>	5,014
<b>Australian Securities &amp; Investment Commission (ASIC) (year ended on 30 June)<sup>4</sup></b>			
Number of staff (at year-end date)	Data not available	1,893	1,932
Total expenditure (\$ million)	Data not available	3,106	2,756

<sup>1</sup> The SFC is an independent non-governmental statutory body funded mainly by a market levy and is responsible for regulating the securities and futures markets in Hong Kong.

<sup>2</sup> The US SEC is an independent, non-partisan, quasi-judicial regulatory government agency with responsibility for administering the federal securities laws.

<sup>3</sup> The FSA is an independent non-governmental body funded by the firms it regulates. It has been given statutory powers to regulate the financial services in the UK including authorization and regulation of deposit taking, insurance, mortgage lending, general insurance advice, mortgage advice and investment business.

<sup>4</sup> The ASIC is an independent Commonwealth government body which enforces and regulates company and financial services laws to protect consumers, investors and creditors.

<sup>5</sup> Budget figures extracted from FY2013 Congressional Justification.

<sup>6</sup> Actual figures extracted from FY2013 Congressional Justification.

<sup>7</sup> Budget figures extracted from FSA Business Plan 2011/2012.

<sup>8</sup> Actual figures extracted from FSA Annual Report 2010/11.



**Table 15 Statistical information and financial position of the Hong Kong securities industry<sup>1</sup>**

	As at 31.12.2011	As at 31.12.2010	As at 31.12.2009
Total number of securities dealers & securities margin financiers	856	831	769
Total number of active cash clients <sup>2</sup>	1,042,151	1,113,657	957,651
Total number of active margin clients <sup>2</sup>	135,201	132,101	138,772
<b>Total number of active clients (-5%)</b>	<b>1,177,352</b>	<b>1,245,758</b>	<b>1,096,423</b>
<b>Balance sheet</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Cash in hand and at bank <sup>3</sup>	294,981	292,827	276,962
Amounts receivable from margin clients <sup>4</sup>	50,171	58,468	40,160
Amounts receivable from clients and other dealers arising from dealing in securities	99,286	138,422	120,754
Proprietary positions	114,284	173,873	143,467
Other assets	142,096	147,754	137,182
<b>Total assets (-14%)</b>	<b>700,818</b>	<b>811,344</b>	<b>718,525</b>
Amounts payable to clients and other dealers arising from dealing in securities	252,342	287,645	263,372
Total borrowings from financial institutions	61,430	71,558	48,572
Short positions held for own account	62,492	107,211	36,891
Other liabilities	96,764	126,899	177,965
Total shareholders' funds	227,790	218,031	191,725
<b>Total liabilities and shareholders' funds (-14%)</b>	<b>700,818</b>	<b>811,344</b>	<b>718,525</b>

## Remarks:

<sup>1</sup> Data were extracted from the monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded from these computations.

<sup>2</sup> Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

<sup>3</sup> Cash in hand and at bank includes trust monies held on behalf of clients totalled \$115,368 million (31.12.2010: \$119,475 million).

<sup>4</sup> Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis:

As at 31.12.2011	As at 31.12.2010
3.9	4.7

**Table 15 Statistical information and financial position of the Hong Kong securities industry<sup>1</sup> (cont'd)**

	12 months to 31.12.2011	12 months to 31.12.2010	12 months to 31.12.2009
<b>Profit and loss</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Total value of transactions <sup>5</sup>	<b>57,159,686</b>	54,372,754	46,347,239
Net securities commission income	<b>25,953</b>	31,079	31,676
Gross interest income	<b>6,399</b>	5,280	3,979
Other income <sup>6</sup>	<b>77,524</b>	82,365	62,841
<b>Total operating income (-7%)</b>	<b>109,876</b>	<b>118,724</b>	<b>98,496</b>
Total overheads and interest expense	<b>103,764</b>	102,224	90,164
<b>Total operating profit (-63%)</b>	<b>6,112</b>	<b>16,500</b>	<b>8,332</b>
Net profit on proprietary trading	<b>3,671</b>	10,606	12,905
<b>Net profit for the period (-64%)</b>	<b>9,783</b>	<b>27,106</b>	<b>21,237</b>

<sup>5</sup> The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

<sup>6</sup> Other income comprises fund management fee income, corporate finance income, inter-company management fee income and others.

**Table 16 Stock market**

	2011/12	2010/11	2009/10
<b>Number of listed companies on the Stock Exchange</b>	<b>1,510</b>	1,426	1,332
Main Board	<b>1,337</b>	1,258	1,158
Growth Enterprise Market	<b>173</b>	168	174
<b>Market capitalisation (\$ billion)</b>	<b>19,775.3</b>	21,396.9	18,055.6
Main Board	<b>19,690.7</b>	21,259.1	17,920.9
Growth Enterprise Market	<b>84.6</b>	137.8	134.7
<b>Average daily market turnover (\$ million)</b>	<b>66,543.1</b>	71,862.9	67,138.1
Main Board	<b>66,328.5</b>	71,363.8	66,725.6
Growth Enterprise Market	<b>214.6</b>	499.1	412.5

# Committees, panels and tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. This section outlines the work of these committees and panels and provides a membership list by type in alphabetical order. For information on the **Audit Committee, Remuneration Committee, Budget Committee** and **Executive Committee**, please see our discussion in the Corporate Governance chapter.

## SFC committees

### Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training, advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

#### Chairman

TISDALL Stephen Clifford

#### Members

Prof CHAN Chi Fai, Andrew, SBS, JP	PICKERELL Blair Chilton
ESPINA Anthony	SHEK Chi Fai, Derek
Prof LAU Hing Ling, Amy	SO Yuk Sing, Christine
Prof LUI Ting Ming, Francis	VAS CHAU Lai Kun, Judy
Dr MAK Sui Choi, Billy	

#### Secretary

YUEN Ho Duen, Judith

**No. of meetings: 0**

**Average attendance rate: N/A**

### Advisory Committee

Advises the Commission on any matter of policy regarding the performance of its functions.

#### Chairman

FONG Ching, Eddy, GBS, JP

#### Members

ALDER Ashley Ian (from 1.10.2011)	LEUNG Margaret, JP
CHAN Henry (to 31.5.2011)	LI Brian David Man-bun (from 1.6.2011)
CHEONG, Ying Chew Henry	Dr LIN Yong
CHEUNG Katherine Marn-kay (from 1.6.2011)	LO Peter Chi-wai (from 1.6.2011)
CHEW Fook-aun	TSANG Frederick Sui-cheong (from 1.6.2011)
DICKENS, Mark Francis, JP	WHEATLEY Martin, JP (to 8.6.2011)
EU Andrew Douglas	WONG Anna Wai-kwan (from 1.6.2011)
FU Yu Ning (to 31.5.2011)	WONG Kwai-lam (to 31.5.2011)
Dr HU Zulu, Fred (to 31.5.2011)	WONG Shou Yeh, David (to 31.5.2011)
LAM CHEUNG, Alexa, JP	WU Thomas Jefferson

**No. of meetings: 4**

**Average attendance rate: 81.4%**

## Committee on Real Estate Investment Trusts

Advises the Commission on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

During the year, the Committee met once to discuss policy issues in relation to REITs.

### Chairman

LAM CHEUNG, Alexa, JP

### Members

CHENG Wai Meng, Milton	LAW Shing Mui, Alice
Prof CHENG Yu Shek, Joseph, JP	LEUNG Kar Cheung, Catherine
Dr CH' IEN Kuo Fung, Raymond	LIM Chai Geok
CHOI Fung Yee, Christina	LUI Yin Tat
FOK Glenn	LYNN Sui Yuen, Robert
HO Yin Tung, Brian	MAGUIRE John Martin
KONG YAO FAH Sew Youne	NIGHTINGALE Anthony John Liddell
Dr KWOK Chi Piu, Bill	Prof PANG Tsan Wing, SBS

### Secretary

CHAN DUEN, Grace

**No. of meetings: 1**

**Average attendance rate: 76.9%**

## Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Repurchases (Codes) or of the Takeovers Appeal Committee on a case-by-case basis.

During the year, there were no disciplinary proceedings under the Codes nor meetings of the Takeovers Appeal Committee involving members of this Committee.

### Members

CHAN Kin Keung, Anthony, SC	LI Gladys Veronica, SC
CHAN King Sang, Edward, SC	NG Kar Fai, Peter, SC
HO Ambrose, SC	WONG Yuk Lun, Horace, SC

**No. of meetings: 0**

**Average attendance rate: N/A**

## Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance.

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

### Chairman

LUI Kei Kwong, Keith

### Members

CHOW Ka Ming, Anderson, SC      LAM CHEUNG, Alexa, JP      TAI Chi Kin (from 1.4.2011)

**No. of meetings: 1**

**Average attendance rate: 100%**

## Investor Education Advisory Committee

Provides ideas and support to the SFC in setting its investor education targets.

In the past year, the Committee met once to review the SFC's investor education work for the first six months of fiscal 2011 and share insights into areas that the SFC should focus on.

### Chairman

WAN Chi Yiu, Andrew

### Members

CHAN King Cheung	Dr MAK Sui Choi, Billy
CHIU Lai Kuen, Susanna	PAN San Kong, Terry
CHOW Ka Leung, Louis	SIN Tak Wah
LECKIE Stuart Hamilton, OBE, JP	TAI Chi Kin
LEE Kam Wing, Bruno	WONG Wan Ming, Rosa
LEE Yiu Wing	

### Alternate Members

CHEUNG Marn-kay, Katherine (to 11.10.2011)	LO Wai Keung, David
LAM Po Yee (from 27.10.2011)	TAM Sau Ngor, Vera

### Secretary and Ex officio

LAI, Ivy Wan Ying

**No. of meetings: 1**

**Average attendance rate: 85%**

## Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Nominations Committee met once to consider the appointment and reappointment of members to the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

### Ex officio Members

ALDER Ashley Ian (Chairman) (from 1.10.2011)	HO Yin Tung, Brian
CLARK Stephen Edward	WHEATLEY Martin, JP (Chairman) (to 8.6.2011)

### Members

CHOW Ka Ming, Anderson, SC	Dr FONG Ching, Eddy, GBS, JP
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### Alternate members to CLARK Stephen Edward

GRAHAM David	LIU Chee Ming
KO, Teresa Yuk Yin, JP	MAGUIRE John Martin

**No. of meetings: 1**

**Average attendance rate: 80%**

## Products Advisory Committee

The Committee may be consulted by the SFC on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds, overall market environment, industry practices and novel product features. Members' term of appointment is from the Committee's establishment on 10 August 2010 to 31 March 2012.

During the year, the Committee held a sub-group meeting to discuss new renminbi products in Hong Kong.

### Chairman

LAM CHEUNG, Alexa, JP

### Members

Dr AU King Lun, MH	LEE Mun Nang (from 29.4.2011 to 31.3.2012)
Prof CHAN Kalok	Prof LIU Pak-wai, SBS, JP
CHAN King Cheung, BBS	LUK Kin Yu, Peter
CHING Kerry Kim Wai (from 28.11.2011 to 31.3.2012)	MAHOMED Ferheen
CHOI Fung Yee, Christina	MAK Tat Cheung
CHOW Ka Leung, Louis	MASSEY LI Susan Hong
FUNG Hau Chung, Andrew	McSHANE Darren Mark
FUNG Ka Shing, Bernard	MURRAY Alastair Elliot
GOOD Nicholas Michael Whateley	NORONHA Virginia
HEUNG Shu Fai	NOYES Keith Samuel
HON Wai Ming, Angel	PICKERELL Blair Chilton
HSU David	RICHARDSON David Alexander
KWAN Sau Ha	SHIU Barbara
LAU Ka Shi, Betsy	TSANG Jacob Chung
LAW Shing Mui, Alice	WONG Wan Ming, Rosa
LEE Chi Kee, Trevor (from 28.11.2011 to 31.3.2012)	YIP Chi Leung
LEE Kevin	

### Secretary

POON Wing Yee, Loreen

**No. of meetings: 1**

**Average attendance rate: 80%**

## Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met four times and discussed a number of issues, including the listing of overseas companies, the Securities and Futures (Amendment) Bill 2011 regarding the Proposed Statutory Codification of Certain Requirements to Disclose Price Sensitive Information by Listed Corporations, the Hong Kong Institute of Chartered Public Accountants's proposals to modernise Hong Kong accountants' report regime, trading halt policy and rights issues.

### Chairman

HO Yin Tung, Brian

### Members

BROWN Melissa	PHADNIS Dhananjay
CHAN Chi Keung, Raymond	PULLING Edward
KWOK Lam Kwong, Larry, BBS, JP	SHAH Asit Sudhir
MUH Anthony Yi Tong	Prof SO Raymond
NGAN Wai Wah	YE Xiang

**No. of meetings: 4**

**Average attendance rate: 59%**

## Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the Securities and Futures Ordinance, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

### Chairman

LUI Kei Kwong, Keith

### Members

CHOW Ka Ming, Anderson, SC	LO Wai Keung, David (from 1.4.2011)
LAM CHEUNG, Alexa, JP	TAI Chi Kin (from 1.4.2011)

**No. of meetings: 1**

**Average attendance rate: 100%**

## SFC Dual Filing Advisory Group

Advises on treatment of cases and policy issues under the dual filing regime.

During the year, there were no circumstances that called for the convening of a meeting of the Group.

### Members

BROWN Stephen James	IP Koon Wing, Ernest
CHAN Yuk Sing, Freeman	KERR William Walter Raleigh
CHOW Siu Lui	LEE Carmelo Ka Sze
CLARK Stephen John	LEE Raymond
FONG Chi Wai, Alex	NESBITT Gavin Paul
HOWE Christopher John	YEUNG Eirene

**No. of meetings: 0**

**Average attendance rate: N/A**

## SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of The Stock Exchange of Hong Kong Ltd (SEHK) when actual or potential conflicts arise between the interests of Hong Kong Exchanges and Clearing Ltd and those of the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be exercised by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

### Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting

### Members

ALDER Ashley Ian	STEWART Mark Robert
KEYES Terence Francois	TISDALL Stephen Clifford
KO, Teresa Yuk Yin, JP (to 31.3.2012)	TSOI Tong Hoo, Tony
LAM CHEUNG, Alexa, JP	WONG Tin Yau, Kelvin, DBA, FHKIoD
LUI Kei Kwong, Keith	YOUNG Andrew John (from 1.4.2011)
PHENIX Paul Anthony (from 1.4.2011)	

**No. of meetings: 0**

**Average attendance rate: N/A**



## SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of The Stock Exchange of Hong Kong Ltd's (SEHK) Listing Appeals Committee when actual or potential conflicts arise between the interests of the Hong Kong Exchanges and Clearing Ltd and those of the proper performance of SEHK's listing functions. In such cases, the relevant powers and functions may be exercised by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

### Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting

### Members

The Hon CHAN Kam-lam, SBS, JP  
 Prof Leonard K CHENG, JP  
 CHOW Ka Ming, Anderson, SC  
 Dr FONG Ching, Eddy, GBS, JP

LEE Pui Ling, Angelina, SBS, JP  
 LEE Lawrence, JP  
 TONG Carlson, JP  
 WONG Kai-man, BBS, JP

**No. of meetings: 0**

**Average attendance rate: N/A**

## Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

### Chairman

LIU Swee Long, Michael

### Deputy Chairman

CHARLTON Julia Frances

### Members

CHIONG Chung Seng, Desmond  
 FONG Loong Choon, Julian  
 LIU Yun Bonn (from 1.4.2011)  
 NESBITT Gavin Paul  
 NG Wai Sum, Sam

NORRIS Nicholas Andrew  
 RICHARDSON David Alexander  
 SHAFTESLEY Colin  
 TANG Yuen Shun, Cynthia  
 WONG Shiu Hoi, Peter

**No. of meetings: 0**

**Average attendance rate: N/A**

## Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consists of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

## Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Executive at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Repurchases (Codes) and the Rules of Procedure (Rules) for hearings under the Codes and recommends appropriate amendments to the Codes and Rules to the SFC.

During the year, the Panel met three times to consider various policy issues under the Codes and twice to rule on matters relating to the application of the Codes.

### Chairman

CLARK Stephen Edward

### Deputy Chairmen

GRAHAM David

KO, Teresa Yuk Yin, JP

LIU Chee Ming

MAGUIRE John Martin

### Members

CHAN Yuk Sing, Freeman

CHARLTON Julia Frances

DENNY Roger Michael

DESAI Kalpana

IP Koon Wing, Ernest

KWOK Tun Ho, Chester

LAM Sung Lai, Edward

LEE Pui Ling, Angelina, SBS, JP

LIU Che Ning

LIU Swee Long, Michael

LIU Yun Bonn

LO Kin Ching, Joseph

LUNG Hak Kau

MA, Ka Ming, Teresa

NESBITT Gavin Paul

NORRIS Nicholas Andrew

RODGERS Daniel James

SABINE Martin Nevil

SWIFT, Christopher Lee

TAN Siew Boi, May

TORTOISHELL Andrew

VAS CHAU Lai Kun, Judy

WEBB David Michael

WINTER Richard David

YEH V-Nee

YU Ka Po, Benita

**No. of policy meetings: 3**

**Average attendance rate: 56%**

**No. of transaction-related meetings: 2**

**Average attendance rate: N/A**

## Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

### Members

CHAN Yuk Sing, Freeman	LIU Che Ning	SABINE Martin Nevil
CHARLTON Julia Frances	LIU Chee Ming	SWIFT, Christopher Lee
CLARK Stephen Edward	LIU Swee Long, Michael	TAN Siew Boi, May
DENNY Roger Michael	LIU Yun Bonn	TORTOISHELL Andrew
DESAI Kalpana	LO Kin Ching, Joseph	VAS CHAU Lai Kun, Judy
GRAHAM David	LUNG Hak Kau	WEBB David Michael
IP Koon Wing, Ernest	MA, Ka Ming, Teresa	WINTER Richard David
KO, Teresa Yuk Yin, JP	MAGUIRE John Martin	YEH V-Nee
KWOK Tun Ho, Chester	NESBITT Gavin Paul	YU Ka Po, Benita
LAM Sung Lai, Edward	NORRIS Nicholas Andrew	
LEE Pui Ling, Angelina, SBS, JP	RODGERS Daniel James	

**No. of meetings: 0**

**Average attendance rate: N/A**

## Independent panels and tribunal

### Arbitration Panel under Securities and Futures (Leveraged Foreign Exchange Trading) Arbitration Rules

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

During the year, no new cases were received and there was no outstanding case as at 31 March 2012.

### Chairman

CHAN Siu Chung, Justin

### Deputy Chairman

LAM Yuk Kun, Lawrence

### Members

CHAN Kang Muk, Woody	LAU Cheuk Hang, Philip	LEE Pui Shan, Rosita
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## Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and operational decisions made by the SFC and its staff in the performance of its regulatory functions, including the receipt and handling of complaints, licensing and inspection of intermediaries, and disciplinary action.

### Chairman

CHOW Wing Kin, Anthony, SBS, JP

### Members

CHIU Chi Cheong, Clifton

CHOW Yuen Yee

Dr FONG Ching, Eddy, GBS, JP

FUNG Hau Chung, Andrew, JP

Prof HO Yan Ki, Richard

LAI Ying Sie, Benedict, SBS, JP

Dr LAM Kit Lan, Cynthia

LEE Jor Hung, Dannis, BBS

Dr the Honourable LEUNG Mei Fun, Priscilla, JP

LIU Che Ning

SUN Tak Kei, David, BBS, JP

## Securities and Futures Appeals Tribunal

Reviews a range of regulatory decisions made under the Securities and Futures Ordinance by the SFC and to determine any question or issue arising out of or in connection with any review.

### Chairmen

The Hon Mr Justice HARTMANN Michael John, Justice of Appeal of the Court of Appeal of the High Court (from 1.1.2012)

The Hon Mr Justice SAUNDERS John Lonsdale, SBS, Judge of the Court of First Instance of the High Court (to 31.12.2011)

STUART-MOORE Michael, GBS (from 1.1.2012)

The Hon Mr Justice WRIGHT Alan Raymond, Judge of the Court of First Instance of the High Court (from 1.1.2012)

### Members

CHAN Kam Wing, Clement

CHAN Yuen Fan, Florence

Prof CHANG Chieh, Eric

CHEONG Ying Chew, Henry

CHIN Vincent

CHIU Lai Kuen, Susanna

CHU Koh Ann

CHUI Yik Chiu, Vincent

Dr HU Zhanghong

KWAN Pak Chung, Edward

KWOK Lam Kwong, Larry, BBS, JP

KWOK Pui Fong, Miranda

Dr LAM Kit Lan, Cynthia

LAM Sze Cay, Kevin

LIM Wai Tin, Cynthia

LIN C, James

LIU Swee Long, Michael

Prof LOW Chee Keong

MURRAY Alastair

TANG Yuen Shun, Cynthia

TSAI Wing Chung, Philip

TSANG Sui Cheong, Frederick

WONG Wai Kwan, Anna

WONG Yuen Fai, Stanley, JP

YUNG Wen Yee, Wendy

# Abbreviations

Australian Securities and Investments Commission	ASIC
Automated trading service	ATS
Chief Executive, HKSAR	CE
Chief Executive Officer, SFC	CEO
China Securities Regulatory Commission	CSRC
Collective investment schemes	CISs
Committee on Payment and Settlement Systems	CPSS
Coordination Framework for Implementation Monitoring	CFIM
Corporate social responsibility	CSR
Court of Appeal	CA
Court of First Instance	CFI
Credit rating agencies	CRAs
Dual-Tranche-Dual-Counter	DTDC
Electronic Financial Return System	e-FRR
European Securities and Markets Authority	ESMA
European Union	EU
Exchange-traded fund	ETF
Executive Committee, SFC	ExCo
Executive Directors, SFC	EDs
Financial Dispute Resolution Centre Ltd	FDRC
Financial Secretary	FS
Financial Services Authority	FSA
Financial Stability Board	FSB
Group of Twenty	G-20
Hong Kong Exchanges and Clearing Ltd	HKEx
Hong Kong Monetary Authority	HKMA
Hong Kong Society of Financial Analysts	HKSFA
Hong Kong Special Administrative Region	HKSAR
Initial public offering	IPO
Insurance Authority	IA
International Organization of Securities Commissions	IOSCO
Investor Compensation Co, Ltd	ICC
Legislative Council	LegCo
Lehman Brothers	LB
Mandatory Provident Fund Schemes Authority	MPFA
Market Misconduct Tribunal	MMT
Memoranda of understanding	MOU
Non-executive directors, SFC	NEDs
Over-the-counter	OTC
Product Key Facts Statement	KFS
Real Estate Investment Trusts	REITs
Renminbi Qualified Foreign Institutional Investor	RQFII
Securities and Exchange Commission	SEC
Securities and Futures Appeals Tribunal	SFAT
Securities and Futures Ordinance	SFO
Standing Committee on Standards Implementation	SCSI
Systematically important financial institutions	SIFIs
The Open University of Hong Kong	OUIHK
The Stock Exchange of Hong Kong Ltd	SEHK
Trade repositories	TRs