



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

QUARTERLY REPORT

July - September 2012

INTERCONNECTIVITY

A stylized graphic of a circuit board or network diagram, rendered in glowing blue and white lines. The lines form a complex, interconnected pattern that resembles a microchip or a network of data paths. The graphic is positioned in the lower right quadrant of the page, with the word 'INTERCONNECTIVITY' written in a white, italicized font across it.

This second Quarterly Report of the Securities and Futures Commission for financial year 2012-13 covers the period from 1 July to 30 September.

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Highlights

This quarter, we continued to promote a regulatory environment that seeks to uphold market integrity and protect investors while encouraging market development. Further initiatives were taken to enhance our regulatory regime and to reinforce international collaboration to ensure that we are positioned to deal with complex and fast moving global reforms affecting our markets.

Below is a high-level summary of our work during the reporting period:

Regulatory enhancements

- **OTC derivatives regulation:** In July we issued a joint supplemental consultation paper with the Hong Kong Monetary Authority (HKMA) on over-the-counter (OTC) derivatives market participants in Hong Kong. The consultation ended in August and the comments received are now under review.
- **Electronic trading regulation:** In July we also launched a consultation aimed at enhancing the regulatory framework for electronic trading, including Internet trading, direct market access (DMA) and algorithmic trading. We are reviewing feedback to the consultation which ended in September.
- **Short-position reporting regime:** To increase market transparency, we began in September to post weekly on the SFC Web site the aggregated reportable short positions of specified shares on a stock-by-stock basis.
- **Guideline enhancement:** Our amendments to the Guideline on Anti-Money Laundering and Counter-Terrorist Financing took effect in July, along with the amended anti-terrorist financing legislation.
- **International collaboration:** We actively contributed to the initiatives of the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) in support of global regulatory reforms. We participated in all seven policy committees and active task forces of IOSCO.

Listing matters

- **Enhancing sponsors' regulation:** We reviewed public responses to the consultation on the proposed regulatory regime of IPO sponsors in the quarter. The consultation ended on 31 July following a short extension.

Intermediaries

- **Licensing:** During the quarter, we received more than 2,700 licence applications. We approved a Mainland-based credit rating agency (CRA), bringing the total number of licensed CRAs to seven in Hong Kong.
- **Providing guidance to intermediaries:** In July, we issued a circular to give guidance on compliance with suitability obligations when providing services to private banking customers. We advised intermediaries to be on alert for email scams via a circular issued in September.

Product development

- **Broadening renminbi product offerings:** During the quarter, we authorized two additional Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded funds (ETFs) for listing in Hong Kong.

Enforcement

- **Entering into resolutions with three licensed corporations:** Under section 201 of the Securities and Futures Ordinance (SFO), we entered into resolutions with Société Générale, RBC Investment Management (Asia) Ltd and Merrill Lynch (Asia Pacific) Ltd, all of whom were reprimanded and/or fined.

Investor education

- **Establishing IEC:** Chaired by an SFC Non-Executive Director, the Investor Education Centre (IEC) commenced operation in the fourth quarter of 2012.

Operational Review

Intermediaries

Licensing

We received 2,717 licence applications this quarter, up 9.6% from the previous quarter, but down 28.8% from the same period last year. The total number of licensees and registrants remained stable at 39,821.

We licensed the second Mainland-controlled CRA in August, raising to seven the total number of CRAs licensed in Hong Kong.

Supervision

Providing guidance on compliance with suitability obligations

In July, we issued a circular to licensed corporations and registered institutions giving guidance on compliance with the suitability obligations under the Code of Conduct¹. This applies when intermediaries provide services to “private banking customers” who meet the portfolio threshold for personalised portfolio management.

Amending Guideline on Anti-Money Laundering and Counter-Terrorist Financing

To reflect the United Nations (Anti-Terrorism Measures) (Amendment) Ordinance 2012 passed by the Legislative Council on 3 July, we published amendments to the Guideline on Anti-Money Laundering and Counter-Terrorist Financing (AML Guideline) which took effect on 13 July, along with the amended anti-terrorist financing legislation. The amendments to the AML Guideline help licensed corporations and associated entities understand their anti-terrorist financing obligations under the current legislation. We also issued a circular in July to remind them to take all necessary steps to ensure compliance with the new requirements.

Guarding against e-mail scams

In September, we issued a circular to intermediaries advising them to be on alert for fraudulent e-mail instructions on transactions and fund transfers sent by those who hijack the e-mail accounts of individual clients. In addition to highlighting some common e-mail frauds, the circular set out recommended procedures and control techniques for intermediaries to guard against e-mail scams.

Meeting with broker associations

On 2 August 2012, we met with seven major broker associations, and updated them on regulatory developments as well as compliance issues noted during our supervision work.

Market infrastructure and trading

Expanding oversight of OTC derivatives

On 11 July 2012, we issued a supplemental consultation paper jointly with HKMA on Hong Kong’s OTC derivatives market participants, including the proposed scope of the new regulated activities under the SFO as well as the proposed oversight of systemically important participants. We are now reviewing the responses to the consultation, which ended on 31 August. Work on legislative amendments to give effect to the OTC derivatives regulatory regime is in progress.

Enhancing transparency of short selling

To increase market transparency and offer the public a clearer picture of short-selling activities in Hong Kong, we commenced on 7 September 2012 the weekly posting on the SFC Web site of aggregated reportable short positions of specified shares on a stock-by-stock basis.

Granting more ATS authorizations

We granted one Part III automated trading service (ATS) authorization in the third quarter of 2012.

By the end of September, the SFC had granted 26 Part III ATS authorizations, mainly to regulated overseas financial futures and commodity futures exchanges.

¹ Code of Conduct for Persons Licensed by or Registered with the SFC.

Strengthening regulatory framework for electronic trading

On 24 July, we began a two-month consultation to solicit public comments on proposals to enhance the regulatory framework for electronic trading, which includes Internet trading, DMA and algorithmic trading. We proposed that intermediaries put in place specific controls to manage the risks arising from the increased use of sophisticated trading technologies and practices. The proposals also aim to bring the regulation of DMA activities in line with the standards set by IOSCO. The consultation period ended on 24 September, and the comments received are now being reviewed.

Listings and takeovers

Enhancing sponsors regulatory regime

The consultation period for the proposed new IPO sponsors regulations was extended from 6 July to 31 July. The proposals aim at maintaining a quality listing market that instils a high level of confidence among investors. We received responses from a wide array of respondents, including sponsors, the investor community, lawyers, accountants and various corporate governance bodies. We reviewed the responses to the proposals during the quarter and published the conclusions in December.

Keeping industry participants informed

During the quarter, we published the Takeovers Bulletin to inform the industry of takeovers-related issues and to provide statistics of cases for the previous quarter. In the July issue of Dual Filing Update we raised concerns about listing application materials that failed to meet expected standards. We reminded listing sponsors of their professional obligations to substantiate assertions dealing with matters of critical importance with objective analysis, and to provide complete and relevant information, such as meaningful disclosures on risks, historical financial performance and future plans, before submitting the listing applications.

Investment products

Expanding renminbi product offering

We authorized two additional RQFII A-share ETFs for listing in August. Three RQFII A-share ETFs were listed and traded on The Stock Exchange of Hong Kong Ltd with a total investment quota of RMB17 billion as at 30 September 2012.

Releasing findings of fund management survey

In July, we released the Fund Management Activities Survey for 2011, a survey conducted annually to collect information and data on the general state of affairs in the local fund management industry. The findings showed that Hong Kong's combined fund management business recorded a year-on-year decline of 10.4% to \$9,038 billion in 2011. This decrease appeared in line with the general decline of broader indices during the year. On a trailing three-year average basis (2009-2011), the combined fund management business continued on an upward trend, which amounted to \$9,212 billion in value.

Enforcement

We continued to pursue prosecutions and disciplinary actions against violators to uphold investor interests and market integrity.

Repurchase offer to Hontex shareholders issued

Following orders made by the Court of First Instance (CFI) in proceedings we brought, Hontex International Holdings Company Ltd issued an offer document for the repurchase of its shares to all shareholders who subscribed for or bought its shares and still held them as of 20 June 2012 (ie, the date of the CFI's order). The offer was not made available to the company's controlling shareholders. The repurchase offer closed on 29 October 2012. The level of acceptance was 98.73%.

Proceedings against Ernst & Young over access to accounting records

We commenced proceedings under section 185 of the SFO against Ernst & Young for failing to produce specified accounting records requested by us. We had issued formal notices seeking audit working papers and underlying accounting documents relating to Standard Water Ltd. However, Ernst & Young did not comply with our request and claimed that it did not have the relevant records that were held by its joint-venture partner in Mainland China, Ernst & Young Hua Ming, and there were legal impediments under Chinese law which prohibited Ernst & Young Hua Ming from producing them to Ernst & Young. The CFI is scheduled to hear the case in March 2013.

Proceedings on alleged insider dealing

In 2011, we commenced proceedings under section 213 of the SFO against six defendants in relation to allegations of insider dealing in the shares of Schramm Holding AG. An interim injunction order was obtained to freeze the assets of the defendants. The investigation continued.

Other criminal proceedings

We also commenced criminal proceedings against the following entities:

- PME Group Ltd, a listed company, and its director, Ivy Chan Shui Sheung, under section 384 of the SFO. The SFC alleged that three announcements issued by the company were false and misleading because it was taking steps to acquire control of a listed company, which was a material acquisition and ought to have been disclosed; and
- Pacific Sun Advisors Ltd, a licensed corporation, and its director Andrew Pieter Mantel, regarding the issue of advertisements to promote a collective investment scheme without the SFC's authorization.

Market misconduct prosecuted

This quarter, we obtained a compensation order against a former CEO of a listed company and prosecuted two individuals for unlicensed dealing. (Please refer to Table 5 in the "Activity Data" section on page 12 for relevant statistics.)

Compensation order against former CEO obtained

The CFI ordered Li Wo Hing (WH Li), former CEO of Medical China Ltd, now known as China Asean Resources Ltd (China Asean), to pay \$10.7 million in compensation to the company resulting from his misconduct. This was the second compensation order² obtained this year under section 214 of the SFO.

The CFI also disqualified WH Li and James Li Nga Kuk, former chairman of China Asean, from being a director or taking part in the management of any corporation without leave of the court for seven years and four years respectively.

Insurance agents convicted of unlicensed selling

The Eastern Magistrates Court convicted Lau Chun Yin (Lau) and Chau Chi Ho (Chau), insurance agents of Universal Insurance Consultants and Brokers Ltd (UIC), for advising clients to invest in a fund through an asset management firm to which they were not accredited. They were each fined and ordered to pay the SFC's investigation costs.

The SFC also prosecuted UIC and its sole director Au Mei Chun (Au) for aiding and abetting Lau and Chau in the commission of the offences. UIC and Au pleaded not guilty and the trial was concluded in November 2012. A verdict will be given on 28 December 2012.

Disciplining licensees

During this quarter, we disciplined seven licensees, including four corporations and three licensed representatives.

Resolutions reached under section 201

The SFC entered into resolutions with three licensed corporations under section 201 of the SFO and reprimanded them:

² The first compensation order was obtained in relation to Styland Holdings Ltd.

- Société Générale (SG), for internal control failings in the wealth management activities of its Hong Kong branch regarding the disclosure of certain fees and charges in secondary-market transactions of OTC bonds, options and structured notes. SG agreed to, among other things, reimburse affected customers the full value of fees and interests totalling more than US\$11 million;
- RBC Investment Management (Asia) Ltd (RBC), for its provision of investment advice to clients on a number of non-SFC authorized funds between 2006 and 2008. RBC had failed to ensure that its investment recommendations were based on thorough analyses and were reasonable in all the circumstances. RBC will, among other things, make repurchase offers to eligible customers and pay compensation to eligible former customers. It was also fined \$4 million; and
- Merrill Lynch (Asia Pacific) Ltd (Merrill Lynch), for failing to take adequate steps to properly handle complaints of 11 clients in 2008 before rejecting their complaints in breach of the Code of Conduct³. About \$56.4 million was invested in investment products that were disputed by the 11 clients, and they were the subject of a fraud perpetrated by Joyce Hsu Ming Mei (Hsu), a former licensed representative of Merrill Lynch convicted of 20 counts of theft and other dishonesty offences. Merrill Lynch agreed to engage an independent law firm and auditor to conduct a review of all client accounts handled by Hsu and to fully compensate clients who suffered losses as a result of her misconduct. Merrill Lynch was fined \$3.5 million.

IMC Asia Pacific Ltd reprimanded and fined \$1.5 million

We also reprimanded IMC Asia Pacific Ltd (IMC) and fined it \$1.5 million for regulatory breaches and internal control failings. IMC had, among other things, input wrong short-selling indicators to sale orders and failed to report the short-selling input errors to the Hong Kong Exchanges and Clearing Ltd.

Individual wrongdoers disciplined

Disciplinary actions were taken against the following people during this quarter:

- Two former licensees, Leung Kam Yu and Esther Lee Ying Chih, were banned from re-entering the industry for three years for, among other things, operating discretionary accounts on behalf of client(s) without prior written authorization and effecting unauthorized transactions in the account(s); and
- Edmond Leung Chi Keung had his licence revoked and was banned from re-entering the industry for 10 years for engaging in insider dealing in the shares of China Overseas Land & Investment Ltd.

Appeals

Du's convictions for insider dealing upheld

The Court of Appeal (CA) upheld the insider dealing convictions of Du Jun (Du), former Managing Director of Morgan Stanley Asia Ltd, in relation to shares of CITIC Resources Holdings Ltd. Du was jailed for seven years and fined \$23.3 million in 2009 after being convicted of insider dealing. Du appealed his convictions and sentence.

³ This refers to the Code of Conduct for Persons Licensed by and Registered with the SFC.

The CA upheld all convictions but reduced Du's term of imprisonment from seven years to six years and lowered the fine to \$1.688 million. In reducing the fine, the CA took into account the ongoing civil proceedings commenced by the SFC against Du under section 213 of the SFO in which the SFC is seeking remedial orders against him for the benefit of his trading counterparties.

Jail sentence and fine against insider restored on final appeal

Pablo Chan Pak Hoe (Chan) was initially sentenced by the Eastern Magistracy in 2010 to serve 240 hours of community service after he was found guilty of insider dealing in shares of Universe International Holdings Ltd.

The SFC applied for a review of the sentence and Chan was sentenced subsequently to serve four months' imprisonment and was fined \$120,000. Chan then appealed to the CFI, which reinstated the community service order. The Court of Final Appeal (CFA) overturned this, and reinstated both the fine and the jail sentence but reduced the term of imprisonment by one month to take account of his completion of 240 hours of community service.

Appeal by unlicensed securities advisor dismissed

The CFA dismissed Lo Kam Chung's application for leave to appeal against the judgment handed down by the CFI on his sentence. In 2011, Lo was convicted of advising on securities via Facebook when he was not licensed by the SFC. He was fined \$20,000 and given a community service order of 80 hours. Lo appealed his sentence to the CFI, which lowered the fine but upheld the community service order.

Regulatory collaboration

Participating in global standard setting

IOSCO

In the aftermath of the London Interbank Offered Rate (LIBOR) scandal, a Task Force on Financial Benchmarks was launched by IOSCO to develop global principles for financial benchmarks. Our Chief Executive Officer is a member of the task force.

We participated in all seven policy committees and active task forces of IOSCO:

- Since May 2012, we contributed to IOSCO's various international standards for the global securities market, including the Policy Recommendations for Money Market Funds, the Principles for Oil Price Reporting Agencies and the International Standards for Derivatives Market Intermediary Regulation.
- We took part in the preparation of a number of consultation reports, including the Technological Challenges to Effective Market Surveillance Issues and Regulatory Tools, the Recovery and Resolution of Financial Market Infrastructures by CPSS⁴-IOSCO, Global Developments in Securitization Regulation and Internal Controls of Credit Rating Agencies.
- At a meeting of the Task Force on Unregulated Markets and Products – Working Group on Retail Structured Products, we presented our regulatory experience and provided input on the setting of standards in the regulation of retail structured products.

In addition, we submitted input to the IOSCO workstream to identify non-bank global systemically important financial institutions.

FSB

We contributed to the following FSB initiatives:

- the thematic review questionnaire on resolution regimes;

⁴ Committee on Payment and Settlement Systems

- in our capacity as the chair of the IOSCO Committee 3 on the regulation of market intermediaries, discussed with FSB executives how IOSCO and the FSB Resolution Steering Group will collaborate on policy work dealing with the protection of client assets; and
- responded to a survey of the Resolution Steering Group sent to all member jurisdictions regarding the protection of client assets and their treatment in resolution.

Strengthening cross-border collaboration

After the Central Government announced further initiatives to strengthen financial sector co-operation between the Mainland and Hong Kong in June, we continued to work intensively with Mainland authorities on implementation. We met with senior officials from the China Securities Regulatory Commission (CSRC), the People's Bank of China and the State Administration of Foreign Exchange to discuss expanding the scope of the RQFII scheme, further liberalisation of renminbi and the development of offshore renminbi business in Hong Kong.

We also contributed to other projects to enhance cross-border financial co-operation between the Mainland and Hong Kong, including:

- providing support for the Government's attendance at the 15th Plenary of the Hong Kong-Guangdong Co-operation Joint Conference held in September;
- organising training sessions for executives from the CSRC and Mainland financial institutions to better understand Hong Kong's securities market and regulatory regime.

At the 16th Annual Meeting of Asia-Pacific Central Securities Depository Group held in Bali hosted by Indonesia during 19-22 September, we were invited to speak for the theme "Building Investors' Confidence through Investor Protection Program." We introduced the background and development of Hong Kong's investor compensation fund and shared with participants the current regime and our past experience in handling claims from investors. About 200 delegates from Asian

Development Bank, securities market and bank regulators, custodians, clearing houses and share registrars of Asia-Pacific countries attended the meeting.

Advancing CEPA initiatives

We worked closely with Mainland authorities on the Closer Economic Partnership Arrangement (CEPA). Two measures under CEPA Supplement VI and VII made significant progress during the quarter. Two exchange-traded funds investing in Hong Kong listed stocks completed their fund raising exercises in August and were listed on Mainland stock exchanges on 22 October, providing an alternative channel for Mainland investors to invest in Hong Kong's securities market. The first Hong Kong-Mainland joint-venture investment advisory company commenced operation in August.

We have maintained policy dialogue with Mainland authorities on other CEPA measures for many years. This quarter:

- the CSRC issued new provisions for QFIIs⁵ including major amendments such as lowering the eligibility requirements for QFIIs, simplifying licence application procedures and expanding the scope of investment. The new provisions allow a wider group of Hong Kong financial institutions to invest in the Mainland securities market; and
- the CSRC issued a consultation regarding amendments to the rules on the establishment of joint-venture securities companies. The proposed amendments will raise the upper limit of the stake held by foreign shareholders from 33% to 49% and will relax the business scope requirements.

⁵ Qualified Foreign Institutional Investors

Interacting with investors

With the global economic outlook remaining uncertain and in an extremely low-yield environment, we alerted investors to the risks of investing in times of volatility, including those relating to margin trading and overseas investments. We also continued to help investors navigate the basics of financial planning. Through publications and the mass media, we also explained what RQFII A-share ETFs are all about and continued to emphasise the importance of responsible investing.

Sounding alerts

During the quarter, “Money Talks” began airing on Commercial Radio to cover topics such as the risks of investing overseas and trading leveraged products, as well as the meaning of credit ratings and the importance of public disclosure of price-sensitive information by listed companies. The “Investing 101” drama series was aired on RTHK’s Putonghua channel to explain stock trading and investor protection issues.

We continued the TV commercial – “Invest prudently/ Signing means responsibility.” We also ran three-minute educational videos – “Pointers for Investing” and 10 20-second videos offering advice to investors on how to protect their interests via major TV channels, public transport media, news portals and mobile applications.

InvestEd Intelligence explained the function of the Financial Dispute Resolution Centre, features and risks of participating in an investment-linked assurance scheme, and explained why shareholders do not necessarily have to accept a mandatory cash offer. In September, we published the last edition of this e-newsletter, now that our investor education work is to be taken up by the recently established IEC.

Underscoring importance of financial planning

In August, we rolled out on our InvestEd site, public buses and news channels 12 interview videos entitled “Put your assets in order”, in which three market professionals shared their expertise in building, monitoring and rebalancing an investment portfolio, as well as assessing volatility and managing risks. We discussed what investors need to know when investing and managing their finances in our bi-monthly e-newsletter *InvestEd Intelligence* and our weekly *Headline Daily* column.

Shedding light on RQFII A-share ETF

We stepped up our efforts to help investors understand RQFII A-share ETFs, updating the list of frequent asked questions on our InvestEd site. Furthermore, we pointed out in *InvestEd Intelligence* how they differ from other A-share ETFs and RQFII retail funds, and explained further the risks of ETFs and funds related to RQFII in radio programmes and our newspaper column.

Reaching out to investors

This quarter, we organised 13 seminars for more than 700 individuals from different segments of the community, including university students, the police force and senior citizens.

Following the SFC Web site revamp in the quarter, we explained in *Headline Daily* how investors can benefit from the enhanced features of the new site to look up licensees, investment products or file a complaint.

Establishing IEC

The IEC, a subsidiary of the SFC, commenced operation in the fourth quarter of 2012. The IEC’s mission is to cover investor education over the broad retail financial sector and represents a significant enhancement of Hong Kong’s efforts to ensure that investors are able to make informed choices. The IEC is chaired by an SFC Non-Executive Director, Professor Leonard Cheng and its governing body comprises representatives from the financial industry, the Education Bureau and the financial regulators.



The last issue of *InvestEd Intelligence* heralds the imminent launch of the Investor Education Centre

Organisational Matters

The Government appointed Mr Carlson Tong to succeed Dr Eddy Fong as chairman of the SFC from 20 October. Dr Eddy Fong retired from the SFC on 19 October.

We welcomed the Government's appointment of Ms Teresa Ko Yuk Yin and Dr Kelvin Wong Tin-yau as non-executive directors (NEDs) for terms of two years from 1 August and 20 October respectively. Mrs Angelina Lee's term as an NED expired on 31 July.

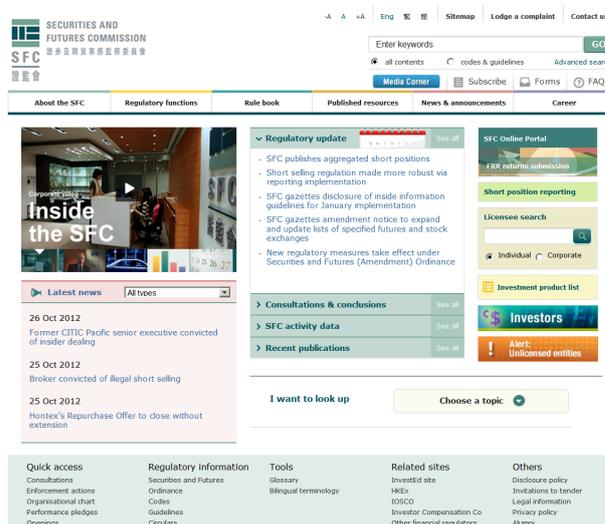
The Government re-appointed three executive directors for three-year terms during the quarter:

- Mr Brian Ho - Corporate Finance (effective from 28 August);
- Mr Keith Lui - Supervision of Markets (effective from 28 August); and
- Mr Mark Steward - Enforcement (effective from 25 September)

In August, we launched a redesigned Web site with better navigation tools, functionality and richer content. One key enhancement is the rule book sub-site, which collates and presents regulatory materials in a readily searchable format.

As at 30 September, we had 647 staff (580 as at 30 September 2011).

Our revenue for the quarter was \$269 million, down from \$393 million in the quarter ended 30 September 2011 and down from \$293 million in the previous quarter. Low market turnover reduced our levy income by 4% to \$203 million from \$212 million in the last quarter. Our expenditure for the quarter was \$250 million, 5% lower than the previous quarter and 14% below our approved budget. This resulted in a surplus of \$19 million, compared with \$180 million in the quarter ended 30 September 2011 and \$30 million last quarter. As at 30 September, our reserves stood at \$7.5 billion.



The revamped SFC Web site enhances user experience

Activity Data

Table 1 Authorized collective investment schemes

	As at 30.9.2012	As at 31.3.2012	Change (%)
Unit trusts and mutual funds	1,850	1,863	-0.7
Investment-linked assurance schemes	259	254	2
Pooled retirement funds	35	35	-
MPF master trust schemes	40	39	2.6
MPF pooled investment funds	299 ¹	297	0.7
Others	26 ²	25	4
Total	2,509	2,513	-0.2

¹ In this category, 160 of the funds were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

² Other schemes comprise 17 paper gold schemes and nine REITs.

Table 2 Authorized unit trusts and mutual funds – by type

	As at 30.9.2012	As at 31.3.2012	Change (%)
Bond	327	330	-0.9
Equity	978	995	-1.7
Diversified	76	78	-2.6
Money market	42	40	5
Fund of funds	78	82	-4.9
Index	118	111	6.3
Guaranteed	20	22	-9.1
Hedge	5	6	-16.7
Other specialised ¹	17	17	-
Subtotal	1,661	1,681	-1.2
Umbrella structures	189	182	3.8
Total	1,850	1,863	-0.7

¹ Comprises futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds – by origin

	As at 30.9.2012	As at 31.3.2012	Change (%)
Hong Kong	296	261	13.4
Luxembourg	1,048	1,070	-2.1
Ireland	280	282	-0.7
Guernsey	1	3	-66.7
United Kingdom	53	53	–
Other Europe	2	2	–
Bermuda	7	22	-68.2
British Virgin Islands	5	5	–
Cayman Islands	150	157	-4.5
Others	8	8	–
Total	1,850	1,863	-0.7

Table 4 Unlisted structured products¹ offered to the public

	Quarter ended 30.9.2012	Six months ended 30.9.2012	Six months ended 30.9.2011	YoY change (%)
Structured products ² authorized	48	80	46	73.9
Offering documents authorized	32	81	86	-5.8
Advertisements authorized	0	1	0	N/A

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

² The power for the SFC to authorize structured products under the SFO came into effect on 13 May 2011.

Table 5 Enforcement activities

	Quarter ended 30.9.2012	Six months ended 30.9.2012	Six months ended 30.9.2011	Change (%)
Number of trading inquiries issued under S181 ¹	1,656	2,938	2,077	41.5
Number of investigations started	99	171	143	19.6
Number of investigations completed	70	138	111	24.3
Number of investigations completed within seven months (%)	38 (54%)	77 (56%)	75 (68%)	2.7
Number of persons charged in criminal proceedings	6	20	19	5.3
Number of criminal charges laid	20	53	122	-56.6
Number of Notices of Proposed Disciplinary Action ²	9	13	29	-55.2
Number of Decision Notices ³	6	15	25	-40.0
Number of persons subject to ongoing civil proceedings	52	52	44	18.2
Compliance advice letters issued	130	200	114	75.4

¹ 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.

² A Notice of Proposed Disciplinary Action is 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.

³ A Decision Notice sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Table 6 Intermediary supervision

	Quarter ended 30.9.2012	Six months ended 30.9.2012	Six months ended 30.9.2011	YoY change (%)
Risk-based, on-site inspections conducted	73	145	157	-7.6

Table 7 Listing applications and takeovers activities

	Quarter ended 30.9.2012	Six months ended 30.9.2012	Six months ended 30.9.2011	Change (%)
Listing applications filed under the dual filing regime	29	64	132	-51.5
Takeovers and share repurchases transactions handled	55	146	155	-5.8

Table 8 Licensees and registrants

	As at 30.9.2012	As at 31.3.2012	Change (%)
Licensed corporations	1,874	1,840	1.8
Registered institutions	117	116	0.9
Licensed individuals	37,830	37,750	0.2
Total	39,821	39,706	0.3

Table 9 Public enquiries and complaints

	Quarter ended 30.9.2012	Six months ended 30.9.2012	Six months ended 30.9.2011	YoY change (%)
Public enquiries ¹	2,104	4,034	4,908	-17.8
Nature of complaints ²				
Conduct of licensed intermediaries and registered institutions	68	126	233	-45.9
Listing-related matters and disclosure of interests	126	270	218	23.9
Market misconduct	71	147	295	-50.2
Products	0	3	2	50
Other financial activities	106	196	226	-13.3
Miscellaneous	0	0	14	-
Subtotal	371	742	988	-24.9
Complaints related to Lehman Brothers	3	8	124	-93.5
Total	374	750	1,112	-32.6

¹ Comprise written and phone enquiries.

² The complaint figures reflect the number of complainants.

Securities and Futures Commission

Independent auditors' report on review of interim financial information To the board of directors of the Securities and Futures Commission (the SFC) (Established in Hong Kong under the Securities and Futures Ordinance)

Introduction

We have reviewed the accompanying consolidated and the SFC's statements of financial position as of 30 September 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at 30 September 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

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

4 December 2012

Consolidated statement of comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Income		
Levies	203,210	304,923
Fees and charges	41,399	57,358
Investment income	23,552	29,724
Less: custody and advisory expenses	(678)	(700)
Investment income net of third party expenses	22,874	29,024
Recoveries from Investor Compensation Fund	1,237	1,079
Other income	186	811
	268,906	393,195
Expenses		
Staff costs and directors' emoluments	185,399	162,972
Premises		
Rent	32,173	15,911
Other	9,323	6,635
Other expenses	14,205	19,261
Depreciation	8,938	8,289
	250,038	213,068
Surplus and total comprehensive income for the quarter	18,868	180,127

Consolidated statement of comprehensive income

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 September 2012 \$'000	30 September 2011 \$'000
Income			
Levies		414,853	584,415
Fees and charges		95,059	114,886
Investment income		49,586	61,626
Less: custody and advisory expenses		(1,359)	(1,406)
Investment income net of third party expenses		48,227	60,220
Recoveries from Investor Compensation Fund		2,474	2,147
Other income		1,192	1,683
		561,805	763,351
Expenses			
Staff costs and directors' emoluments	7	370,406	323,388
Premises			
Rent		52,036	31,821
Other		16,817	13,278
Other expenses		57,557	38,799
Depreciation		16,362	15,417
		513,178	422,703
Surplus and total comprehensive income for the period		48,627	340,648

The notes on pages 21 to 23 form part of the condensed consolidated financial statements.

Consolidated statement of financial position

At 30 September 2012 (Expressed in Hong Kong dollars)

		Unaudited	Audited
	Note	At 30 September 2012 \$'000	At 31 March 2012 \$'000
Non-current assets			
Fixed assets		46,696	49,364
Held-to-maturity debt securities	2	3,768,296	4,802,488
		3,814,992	4,851,852
Current assets			
Held-to-maturity debt securities	2	2,436,256	1,567,623
Debtors, deposits and prepayments		126,985	168,160
Fixed and call deposits with banks		1,295,502	1,035,893
Cash at bank and in hand		2,674	3,348
		3,861,417	2,775,024
Current liabilities			
Fees received in advance		20,078	73,835
Creditors and accrued charges		111,881	67,888
		131,959	141,723
Net current assets		3,729,458	2,633,301
Total assets less current liabilities		7,544,450	7,485,153
Non-current liabilities	3	26,102	15,432
Net assets		7,518,348	7,469,721
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,475,508	7,426,881
		7,518,348	7,469,721

The notes on pages 21 to 23 form part of the condensed consolidated financial statements.

Statement of financial position

At 30 September 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 30 September 2012 \$'000	At 31 March 2012 \$'000
Non-current assets			
Fixed assets		46,693	49,358
Held-to-maturity debt securities	2	3,768,296	4,802,488
		3,814,989	4,851,846
Current assets			
Held-to-maturity debt securities	2	2,436,256	1,567,623
Debtors, deposits and prepayments		126,717	167,959
Fixed and call deposits with banks		1,295,502	1,035,893
Cash at bank and in hand		2,045	3,026
		3,860,520	2,774,501
Current liabilities			
Fees received in advance		20,078	73,835
Creditors and accrued charges		110,981	67,359
		131,059	141,194
Net current assets		3,729,461	2,633,307
Total assets less current liabilities		7,544,450	7,485,153
Non-current liabilities	3	26,102	15,432
Net assets		7,518,348	7,469,721
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,475,508	7,426,881
		7,518,348	7,469,721

The notes on pages 21 to 23 form part of the condensed consolidated financial statements.

Consolidated statement of changes in equity

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the period	–	340,648	340,648
Balance at 30 September 2011	42,840	7,223,436	7,266,276
Balance at 1 April 2012	42,840	7,426,881	7,469,721
Total comprehensive income for the period	–	48,627	48,627
Balance at 30 September 2012	42,840	7,475,508	7,518,348

The notes on pages 21 to 23 form part of the condensed consolidated financial statements.

Consolidated statement of cash flows

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Cash flows from operating activities		
Surplus for the period	48,627	340,648
Adjustments for:		
Depreciation	16,362	15,417
Investment income	(49,586)	(61,626)
Gain on disposal of fixed assets	(21)	(3)
	15,382	294,436
Decrease in debtors, deposits and prepayments	21,709	7,934
Increase in creditors and accrued charges	43,993	28,032
(Decrease) / increase in fees received in advance	(53,757)	4,969
Increase / (decrease) in non-current liabilities	10,670	(3,696)
Net cash generated from operating activities	37,997	331,675
Cash flows from investing activities		
Interest received	94,286	107,062
Held-to-maturity debt securities bought	(861,575)	(1,043,239)
Held-to-maturity debt securities redeemed	1,001,900	989,520
Fixed assets bought	(13,673)	(11,164)
Net cash generated from investing activities	220,938	42,179
Net increase in cash and cash equivalents	258,935	373,854
Cash and cash equivalents at beginning of the six months period	1,039,241	605,416
Cash and cash equivalents at end of the six months period	1,298,176	979,270

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2012 \$'000	At 30 September 2011 \$'000
Fixed and call deposits with banks	1,295,502	975,950
Cash at bank and in hand	2,674	3,320
	1,298,176	979,270

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2012 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) in the SFC's condensed financial statements made up to 30 September 2012. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2012 to the interim financial report.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2012.

2. Held-to-maturity debt securities

As of 30 September 2012, the total market value of held-to-maturity debt securities amounted to \$6,273,783,000 (31 March 2012: \$6,426,213,000), which was above the total carrying value of \$6,204,552,000 (31 March 2012: \$6,370,111,000).

3. Non-current liabilities

The Group and the SFC

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

4. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 September 2012. Therefore we do not provide an ageing analysis of debtors and creditors

5. Exchange fluctuation

All items on the statement of financial position are denominated in either United States dollars or Hong Kong dollars. As these two currencies are closely pegged, we do not consider we are exposed to significant exchange rate risk.

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

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

6. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorised share capital of \$10,000 and issued share capital of \$2 and ICC on 11 September 2002 with an authorised share capital of \$1,000 and issued share capital of \$0.20. Both FinNet and ICC are incorporated in Hong Kong.

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

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

Both companies are wholly owned subsidiaries of the SFC. As at 30 September 2012, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.20. The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 30 September 2012 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in these condensed consolidated financial statements.

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

7. Related party transactions

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

- (a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$2,474,000 (2011: \$2,147,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all directors) comprised :

	Unaudited six months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Short-term employee benefits	13,308	12,054
Post employment benefits	1,192	1,027
	14,500	13,081

The total remuneration is included in "staff costs and directors' emoluments" on page 16. Discretionary pay is not included above as the decision to pay is not determinable at this point in time.

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

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

7. Related party transactions (cont'd)

- (c) Included in creditors and accrued charges is an amount due to the Investor Compensation Fund amounting to \$617,000 (At 31 March 2012: \$85,000).
- (d) Legal services provided by a non-executive director

During the period, a non-executive director continued to provide legal services in respect of matters commenced prior to his appointment. Fees payable to him for such services during the period amounted to \$90,000 under normal commercial terms and conditions.

8. Commitment to pay rents for offices

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

At 30 September 2012 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017 is as follows :

	Unaudited	Audited
	At 30 September	At 31 March
	2012	2012
	\$'000	\$'000
Payable next year	213,428	178,563
Payable in one to five years	706,489	736,774
Payable in more than five years	–	75,158
	919,917	990,495

During the period, \$52,036,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011 : \$31,821,000).

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 2012.

1. Establishment of the Fund

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

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 26 to 31.

3. Members of the Committee

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

4. Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman

4 December 2012

Independent auditors' report on review of interim financial information To the board of directors of the Securities and Futures Commission (the SFC) (Established in Hong Kong under the Securities and Futures Ordinance)

Introduction

We have reviewed the accompanying statement of financial position of the Investor Compensation Fund (the Fund) as of 30 September 2012, the statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on the interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at 30 September 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG

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

4 December 2012

Statement of comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Income		
Net investment income / (loss)	47,532	(40,560)
Exchange difference	(533)	542
	46,999	(40,018)
Expenses		
Investor Compensation Company Limited expenses	1,238	1,079
Auditor's remuneration	27	26
Bank charges	205	200
Professional fees	886	833
	2,356	2,138
Surplus / (Deficit) and total comprehensive income for the quarter	44,643	(42,156)

Statement of comprehensive income

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 September 2012 \$'000	30 September 2011 \$'000
Income			
Net investment income / (loss)		63,213	(12,505)
Exchange difference		(1,557)	985
		61,656	(11,520)
Expenses			
Investor Compensation Company Limited expenses	2	2,474	2,147
Auditor's remuneration		55	52
Bank charges		399	398
Professional fees		1,775	1,715
		4,703	4,312
Surplus / (Deficit) and total comprehensive income for the period		56,953	(15,832)

The notes on page 31 form part of the condensed financial statements.

Statement of financial position

At 30 September 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited 30 September 2012 \$'000	Audited At 31 March 2012 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities		1,623,754	1,664,886
– Pooled fund		261,538	232,304
Fair value adjustment on unsettled trades		(112)	–
Interest receivable		14,868	18,579
Due from Investor Compensation Company Limited		617	85
Fixed and call deposits with banks		234,083	153,839
Cash at bank		19,091	26,652
		2,153,839	2,096,345
Current liabilities			
Provision for compensation	3	150	150
Creditors and accrued charges		1,551	1,010
		1,701	1,160
Net current assets		2,152,138	2,095,185
Net assets		2,152,138	2,095,185
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,048,497	991,544
		2,152,138	2,095,185

The notes on page 31 form part of the condensed financial statements.

Statement of changes in equity

For the six months ended 30 September 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 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the period	–	–	(15,832)	(15,832)
Balance at 30 September 2011	994,718	108,923	932,720	2,036,361
Balance at 1 April 2012	994,718	108,923	991,544	2,095,185
Total comprehensive income for the period	–	–	56,953	56,953
Balance at 30 September 2012	994,718	108,923	1,048,497	2,152,138

The notes on page 31 form part of the condensed financial statements.

Statement of cash flows

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Cash flows from operating activities		
Surplus / (Deficit) for the period	56,953	(15,832)
Net investment (income) / loss	(63,213)	12,505
Exchange difference	1,557	(985)
Increase in amount due from Investor Compensation Company Limited	(532)	(216)
Increase / (Decrease) in creditors and accrued charges	541	(23)
Net cash used in operating activities	(4,694)	(4,551)
Cash flows from investing activities		
Purchase of debt securities	(302,585)	(272,176)
Sale or maturity of debt securities	350,316	237,796
Sale of equity securities	577	571
Interest received	29,069	29,133
Net cash generated from / (used in) investing activities	77,377	(4,676)
Net increase / (decrease) in cash and cash equivalents	72,683	(9,227)
Cash and cash equivalents at beginning of the six-month period	180,491	201,953
Cash and cash equivalents at end of the six-month period	253,174	192,726

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 30 September 2012 \$'000	At 30 September 2011 \$'000
Fixed and call deposits with banks	234,083	190,135
Cash at bank	19,091	2,591
	253,174	192,726

Notes to the condensed financial statements

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial report in accordance with International Accounting Standard 34 *Interim financial reporting* adopted by the International Accounting Standards Board.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2012 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2012 to this interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2012.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the six months ended 30 September 2012, ICC incurred \$2,474,000 for its operation (For the six months ended 30 September 2011: \$2,147,000).

3. Provision for compensation

We maintained provision for liabilities arising from claims received resulting from one default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for this case is set at the lower of \$150,000 per claimant or the amount claimed. The provision for compensation at 30 September 2012 was \$150,000 (31 March 2012: \$150,000). As at 30 September 2012 all provisions were expected to be paid within one year.

4. Material related party transactions

The Fund has related party relationships with the Securities and Futures Commission, the ICC and the Unified Exchange Compensation Fund. During the six months, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2012.

5. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$806,946 (31 March 2012: \$525,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 2012.

1. Establishment of the Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Fund. However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect on 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 September 2012, we have transferred HK\$994,718,000 to the ICF. After reserving sufficient money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

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

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 34 to 39.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 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
Mr Tai Chi Kin

4. Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman

3 December 2012

Independent auditors' report on review of interim financial information To the board of directors of the Securities and Futures Commission (the SFC) (Established in Hong Kong under the Securities and Futures Ordinance)

Introduction

We have reviewed the accompanying statement of financial position of the Unified Exchange Compensation Fund (the Fund) as of 30 September 2012, the statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on the interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at 30 September 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG

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

3 December 2012

Statement of comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Income		
Interest income	161	73
	161	73
Expenses		
Auditor's remuneration	11	11
Professional fees	8	8
	19	19
Surplus and total comprehensive income for the quarter	142	54

Statement of comprehensive income

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Income		
Interest income	332	126
	332	126
Expenses		
Auditor's remuneration	23	22
Professional fees	16	15
	39	37
Surplus and total comprehensive income for the period	293	89

The notes on page 39 form part of the condensed financial statements.

Statement of financial position

At 30 September 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited 30 September 2012 \$'000	Audited At 31 March 2012 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		84	103
Fixed and call deposits with banks		73,449	72,647
Cash at bank		529	273
		74,063	73,024
Current liabilities			
Creditors and accrued charges		10,293	10,297
Net current assets			
		63,770	62,727
Net assets			
		63,770	62,727
Representing :			
Compensation fund			
Contributions from SEHK	3	50,250	49,500
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		17,949	17,656
		1,058,488	1,057,445
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		63,770	62,727

The notes on page 39 form part of these financial statements.

Statement of changes in equity

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited	
	2012 \$'000	2011 \$'000
Compensation fund balance as at 1 April	62,727	61,566
Net contributions from SEHK	750	250
Total comprehensive income for the period	293	89
Compensation fund balance as at 30 September	63,770	61,905

The notes on page 39 form part of the condensed financial statements.

Statement of cash flows

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 September 2012 \$'000	30 September 2011 \$'000
Cash flows from operating activities		
Surplus for the period	293	89
Interest income	(332)	(126)
Decrease in creditors and accrued charges	(4)	(4)
Net cash used in operating activities	(43)	(41)
Cash flows from investing activities		
Interest received	351	113
Net cash generated from investing activities	351	113
Cash flows from financing activities		
Net Contributions from SEHK	750	250
Net cash generated from financing activities	750	250
Net increase in cash and cash equivalents	1,058	322
Cash and cash equivalents at beginning of the six-month period	72,920	71,839
Cash and cash equivalents at end of the six-month period	73,978	72,161

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	30 September 2012 \$'000	30 September 2011 \$'000
Fixed and call deposits with banks	73,449	71,988
Cash at bank	529	173
	73,978	72,161

Notes to the condensed financial statements

For the six months ended 30 September 2012 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2012 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2012 to this interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2012.

2. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the sale proceeds and the remaining shares at market value as of 30 September 2012 after deducting relevant processing fees and charges for collecting and selling the securities received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in IAS 39, *Financial Instruments: Recognition and Measurement*. According to International Financial Reporting Standards (IFRSs) 7, *Financial Instruments: Disclosures*, one of these subrogated shares shall be classified as level 3 financial instruments as its fair value was determined using a valuation technique in which any significant input is not based on observable market data, the remaining subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

3. Contributions from SEHK

During the six months, deposits of \$850,000 in respect of 17 new trading rights were received from SEHK and deposits of \$100,000 in respect of 2 relinquished trading rights were refunded to SEHK. As at 30 September 2012, there were 11 trading rights in total that have been relinquished but not yet refunded.

4. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. During the six months, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2012.

5. Contingent liabilities

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

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

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