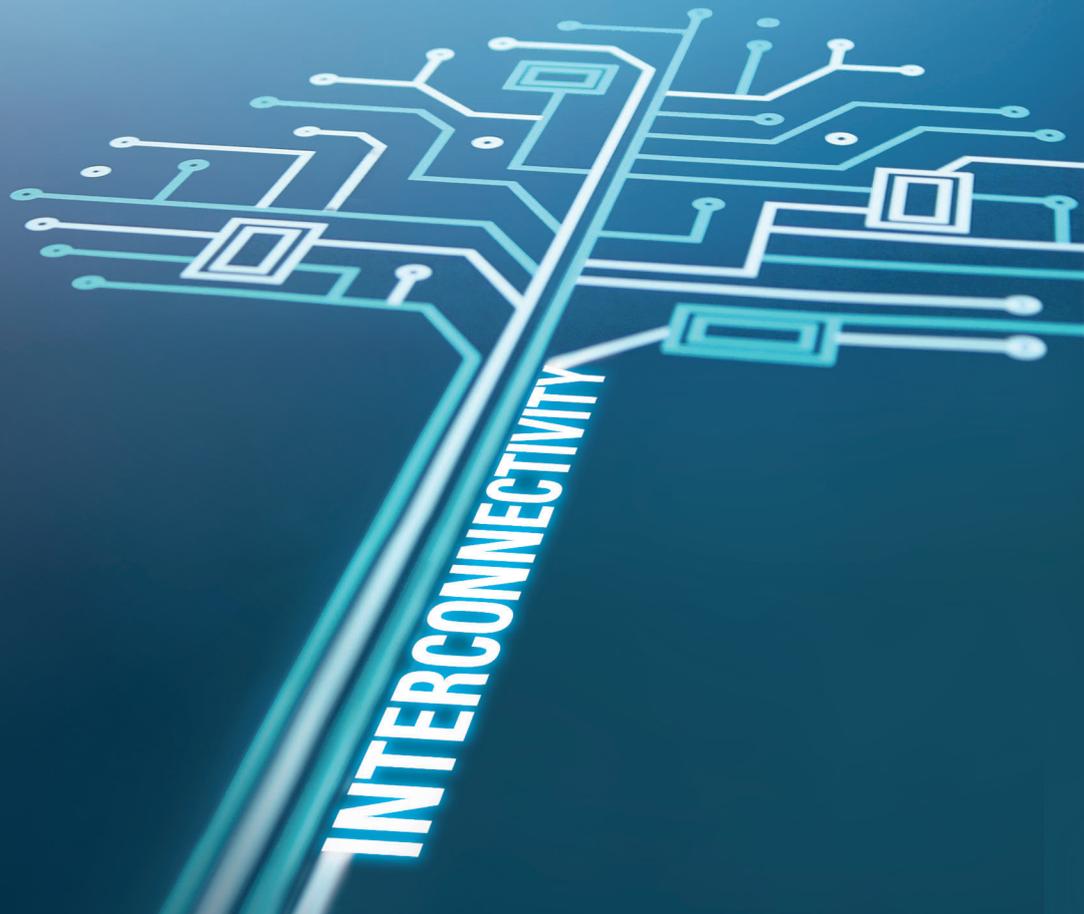




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

QUARTERLY REPORT

October - December 2012



This third Quarterly Report of the Securities and Futures Commission for financial year 2012-13 covers the period from 1 October to 31 December.

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Highlights

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

Regulatory enhancements

- **IPO sponsors:** We issued consultation conclusions on the proposed initial public offering (IPO) sponsor regime in December. The new requirements will apply to listing applications submitted on or after 1 October 2013.
- **OTC derivatives:** We continued with the work on legislative amendments to give effect to the over-the-counter (OTC) derivatives regulatory regime in Hong Kong.
- **Non-corporate listed entities:** In November, we issued a consultation on proposals to extend certain regulatory requirements for listed corporations to non-corporate entities listed on The Stock Exchange of Hong Kong Ltd (SEHK). The consultation ended in December.
- **Inside information disclosure:** The new statutory disclosure regime became effective on 1 January 2013, under which all Hong Kong-listed companies have a statutory duty to disclose inside information to the public.

International collaboration

- To facilitate the exchange of views about takeovers-related matters, we launched the Asia Pacific Takeovers Regulators Forum with the Securities Commission, Malaysia. In December, we co-hosted the HKMA-SFC-OECD Asian Seminar¹, which addressed key developments and challenges facing financial consumer protection and education in Asia.

Intermediaries

- **Providing guidance to intermediaries:** We issued a theme inspection report on the selling practices of licensed corporations to highlight deficiencies and shortcomings in certain areas, as well as a survey on the sale of non-exchange traded investment products. Through seminars and circulars, we enhanced intermediaries' understanding of compliance matters, including anti-money laundering and counter-terrorist financing.

Listing matters

- **Reviewing first B-share to H-share listing application:** We reviewed the H-share listing application of China International Marine Containers (Group) Co, Ltd (CIMC), the first company to convert its B shares into H shares for listing in Hong Kong.

Market infrastructure

- **Facilitating infrastructure development:** We worked with Hong Kong Exchanges and Clearing Ltd (HKEx) on the overseas regulatory approvals required to complete its acquisition of the London Metal Exchange.

Product development

- **Expanding renminbi product offerings:** In October, we authorized the first dual-counter Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded fund (ETF). We also approved applications for introducing Hong Kong dollar counters to three existing RQFII A-share ETFs.

Enforcement

- **Enforcing against market misconduct:** We successfully prosecuted six individuals and four corporations for insider dealing, price rigging, illegal short selling and provision of false or misleading information. In addition, we reprimanded and/or fined six licensees.

Investor education

- **Launching IEC:** Supported by the SFC and other financial regulators, the Investor Education Centre (IEC) was officially launched on 20 November.

¹ The seminar was co-hosted by the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the Organisation for Economic Co-operation and Development (OECD).

Operational Review

Intermediaries

Licensing

We received 1,982 licence applications this quarter, down 27.1% from the previous quarter and down 28.9% from the same period in 2011. The total number of licensees and registrants as at 31 December was 39,236, slightly reduced by 1.5% from last quarter.

Supervision

Thematic inspection report

In October, we published a report on the latest round of thematic inspection of selling practices of licensed corporations. The report, attached to a circular to all licensed corporations, highlighted specific deficiencies and shortcomings that licensed corporations should watch out for, and outlined best practices adopted by some firms.

Providing guidance to the industry

During the quarter, we took the following action to raise intermediaries' awareness of compliance matters and remind them of regulatory requirements:

- A circular was issued to licensed corporations and registered institutions drawing their attention to the features and risks of high-yield bonds, funds investing in high-yield bonds and bonds with special features. It also reminded intermediaries to observe the selling practice requirements, including suitability obligations, set out in the Code of Conduct² and the Internal Control Guidelines³.
- We provided three training seminars on anti-money laundering and counter-terrorist financing to licensed corporations in collaboration with the Financial Services and the Treasury Bureau, Hong Kong Police and industry practitioners. The objectives of these seminars were to enhance the participants' understanding of some key aspects of anti-money laundering systems and controls from the regulatory as well as an industry perspective. We also published a self-assessment checklist on the SFC's website to assist licensed corporations to assess their compliance with the key requirements in these areas.

- We had a meeting with seven major broker associations in December to remind them of the risks of IT fraud and client asset misappropriation, and areas for improvement in the selling practices of intermediaries. We also briefed them on latest licensing statistics and licensing requirements relating to the solicitation of Hong Kong investors by overseas brokers.

Survey on sale of non-exchange traded investment products

In December, we published a survey on the sale of non-exchange traded investment products to individual investors by licensed corporations during the 12 months ended 31 March 2012. The survey describes an active market comprising a wide variety of players and products.

Market infrastructure and trading

Facilitating infrastructure development

We worked with HKEx on the overseas regulatory approvals required to complete its acquisition of the London Metal Exchange. We also worked with HKEx on its establishment of a new data centre at Tseung Kwan O Industrial Estate.

In addition, we:

- enabled Stock Exchange Participants to connect their trading systems to the cash market through Central Gateway⁴; and
- ensured that proper infrastructure (including trading, clearing and settlement) was in place for trading the first renminbi-traded equity security outside mainland China and the first dual-counter security.

ATS authorizations

Four Part III⁵ automated trading services (ATS) authorizations were granted in the fourth quarter, and as at the end of December we had granted a total of 30 Part III ATS authorizations since the enactment of the ATS regime in 2003, mainly to regulated overseas financial futures and commodity futures exchanges.

² Code of Conduct for Persons Licensed by or Registered with the SFC

³ Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC

⁴ A centralised access point of HKEx that enables Stock Exchange Participants to connect their Broker Supplied System to HKEx's securities trading system.

⁵ Entities who provide automated trading services solely should seek authorization under Part III of the SFO.

Listings and takeovers

Reviewing first B-share to H-share listing application

During the quarter, we reviewed the application of CIMC to convert all of its B shares into H shares for listing on the Main Board of SEHK by way of introduction. CIMC was the first company to convert its B shares into H shares for listing in Hong Kong.

To facilitate mainland China's domestic B shareholders (who are unable to open securities accounts in Hong Kong) in selling their converted H shares, the relevant brokers, trading and clearing facility providers in mainland China have upgraded their systems to allow these investors to place orders and access real-time trading information when the Hong Kong and Shenzhen stock exchanges are both open.

Enhancing IPO sponsors' regulatory regime

We issued consultation conclusions on our proposals concerning IPO sponsors on 12 December. Taking into account respondents' comments, we have refined a number of the original proposals while adopting most of the key reforms, which aim, in part, to ensure that sponsors thoroughly understand any company aspiring to access Hong Kong's securities market before making a listing application.

The consultation proposed early but comprehensive due diligence and a properly drafted prospectus to be submitted with an application. Overall, we aim to ensure that all sponsors are encouraged, and able to, play a responsible, proactive and constructive role when leading IPOs and, overall, maintain investor confidence in Hong Kong's IPO market.

The new requirements will apply to listing applications submitted on or after 1 October 2013.

Strengthening regulatory regime for non-corporate listed entities

We issued in November a public consultation on proposals to enhance the regulatory regime for non-corporate entities that are listed on SEHK. We proposed to extend the market misconduct and disclosure of interest requirements in Parts XIII to XV of the Securities and Futures Ordinance (SFO) to cover other organisations or vehicles, such as business trusts and partnerships, that may be listed on SEHK. This is to promote consistency of regulation and enhance market transparency for all listed entities. We have received 10 responses to the consultation, which ended on 24 December.

Providing consultation service on statutory disclosure regime

With effect from 1 January 2013, listed companies in Hong Kong have had a statutory duty to disclose inside information to the public in a timely manner. To assist listed corporations to comply with the statutory requirements, we commenced a consultation service on the application of these new provisions from 1 December.

Publishing review of SEHK's listing regulation work

In November, we issued our eighth annual review report on SEHK's performance in its regulation of listing matters for 2011. We are of the view that SEHK's operational procedures and decision-making processes were appropriate to enable the discharge of its statutory obligations to maintain an orderly, informed and fair market. We also identified certain areas where SEHK can continue its efforts to enhance its performance, primarily in relation to its processes and procedures when reviewing IPO and structured product listing applications.

Investment products

Expanding renminbi product offering

We authorized the first dual-counter RQFII A-share ETF on 5 October. In the same month, we approved three other RQFII A-share ETF applications to introduce Hong Kong dollar counters, in addition to their respective existing renminbi counters.

The four SFC-authorized RQFII A-share ETFs continued to show robust growth, with the total investment quota increased to RMB43 billion as at 31 December from the initial quota size of RMB14 billion.

Communicating with industry participants

We have continued to maintain regular dialogue with the industry. On 17 October, we met with representatives from the Hong Kong Investment Funds Association (HKIFA) to discuss disclosure requirements for SFC-authorized funds that may distribute dividends out of capital. Incorporating the HKIFA's comments, we then published a set of frequently asked questions (FAQ) for the fund industry on this topic on 8 November.

We conducted a briefing session for more than 150 industry participants on 3 December to provide further guidance and respond to queries on the disclosure requirements regarding distribution out of capital by SFC-authorized funds as set out in the FAQ.

On 28 December, we issued a circular to management companies of SFC-authorized funds, reminding them of the disclosure and other requirements concerning SFC-authorized funds with investments accounting for above 10% of the fund's net asset value in securities issued and/or guaranteed by a single sovereign issuer which is below investment grade.

Enforcement

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

Court varies interim injunction in SFC action against insider

In October, the Court of First Instance (CFI) varied an interim injunction obtained by the SFC against Du Jun (Du) in the civil proceedings it commenced in 2007 under section 213⁶ of the SFO.

The variation follows the Court of Appeal's decision which upheld Du's convictions for insider dealing in the shares of CITIC Resources Holdings Ltd and reduced the fine in order to increase the amount of money available for remedial orders.

As a result of the variation, the total amount frozen pending further order in the section 213 proceedings has been increased to about \$24 million.

Proceedings against company directors of First China

In November, we commenced civil proceedings under section 214⁷ of the SFO against three current and former directors of First China Financial Network Holdings Ltd (First China). We alleged that the directors had breached their duties to the company resulting in First China distributing a further dividend of RMB18.7 million to a third party, who was the seller in an acquisition made by First China in 2007.

The directors claimed the distribution was made pursuant to an oral agreement made by the parties to the acquisition. However, the SFC alleges that this did not exist and as such, the directors were not entitled to distribute the sum.

We sought court orders to disqualify the directors as company directors, and that First China and/or its relevant subsidiaries bring court proceedings to recover the dividend distributed.

⁶ Section 213 of the SFO gives the SFC the power to apply to the CFI for an injunction and/or other orders where a person has contravened the relevant provisions of the SFO or the Companies Ordinance, etc, aided and abetted another person to commit any such contravention or been involved in it indirectly, or where it appears to the SFC that any such contravention has occurred or may occur.

⁷ Section 214 of the SFO enables the court to make a range of orders including the disqualification of directors.

Action against Singapore-based senior staff of Titan for insider dealing

Granting the SFC's ex parte application under section 213 of the SFO, the CFI made an interim order against Augustine Cheong Kai Tjeh (Cheong), a director of business development of the Singapore-based Titan Petrochemicals Group Ltd (Titan), freezing assets of up to \$13.6 million.

The amount frozen represented the sales proceeds of the 52.5 million Titan shares allegedly sold by Cheong in January 2012 while in possession of non-public information. The interim freezing order was continued in late December, with a hearing scheduled on 25 January 2013. On 24 January, Cheong paid the full \$13.6 million covered by the interim freezing order, and the injunction was discharged by consent of both parties. Meanwhile, we are continuing with the section 213 proceedings, seeking injunction and restoration orders to reverse the alleged insider dealing transactions.

Combating market misconduct

This quarter, we successfully prosecuted six individuals and four corporations for, among other things, insider dealing, price rigging, illegal short-selling and provision of false or misleading information. (Please refer to Table 5 in the "Activity Data" section on page 13 for relevant statistics.)

Former CITIC Pacific senior executive jailed for insider dealing

Simon Chui Wing Nin (Chui), a former assistant director of finance at CITIC Pacific Ltd (CITIC), was sentenced to 15 months' imprisonment by the Eastern Magistracy following his conviction for insider dealing in the company's shares prior to a profit warning issued in 2008. In possession of inside information concerning the company's substantial mark-to-market loss, Chui sold most of his shares in CITIC to avoid losses.

In addition, Chui was also:

- fined \$1 million;
- disqualified from being a director of any corporation in Hong Kong for three years; and
- ordered to pay investigation costs to the SFC.

VST chairman jailed for price rigging

The District Court sentenced Li Jialin (Li), the chairman of VST Holdings Ltd (VST), to six months' imprisonment for price rigging in VST shares to support the company's share placement in October 2007 and year-end share-price performance. He was also fined \$240,000 for failing to disclose his interest in VST shares, and disqualified from being a director of any listed company for one year.

Other prosecutions

During this quarter, the Eastern Magistracy convicted and fined the following persons, and ordered them to pay the SFC's investigation costs:

- Finet Group Ltd (Finet) and its former chairman, Yu Gang (Yu), were fined for providing false or misleading information to SEHK and failing to disclose Yu's interests in Finet.
- Ng Kwok Wing, a licensed representative of Phillip Securities (Hong Kong) Ltd and Phillip Commodities (HK) Ltd, was fined for illegal short-selling in the shares of Pacific Plywood Holdings Ltd.

Disciplining licensees

During the quarter, we disciplined six licensees, including three corporations and three licensed representatives.

Resolutions under section 201⁸ of SFO

Under section 201 of the SFO, we entered into resolutions with three licensed corporations, which were fined and reprimanded:

- CIC Investor Services Ltd was fined \$4 million for its failure to comply with regulatory requirements in treating clients as professional investors and to keep adequate records of its investment advice to clients.
- Deutsche Securities Asia Ltd was fined \$2.5 million for regulatory breaches and internal control failings relating to position limit failures.
- President Securities (Hong Kong) Ltd was fined \$2 million for failing to comply with regulatory standards and to act in the best interests of clients when accepting subscriptions to a number of Lehman Brothers-related structured products by 21 Taiwanese clients in 2008.

⁸ Section 201 of the SFO allows the SFC to resolve disciplinary cases by making an agreement with the person concerned if it is in the interest of the public to do so.

Individual wrongdoers disciplined

Disciplinary actions were taken against the following individuals in the quarter:

- Wong Tang Chung (Wong), a former executive director of Mega Capital (Asia) Co Ltd (Mega Capital), was banned from re-entering the industry for three years for failing to discharge his duties. Mega Capital was the sole sponsor for the listing application of Hontex International Holdings Co Ltd. Wong was one of the two responsible officers and sponsor principals supervising Mega Capital's transaction team on the application.
- Chu Lai Sze, a former employee of Dah Sing Bank Ltd, was banned from re-entering the industry for three years. This decision followed her conviction of an offence for forging a customer's signature on documents relating to the purchase of a Minibond.
- Leung Kau Fung was banned from re-entering the industry for nine months for failing to act honestly. He accessed his employer's client information system with other staff members' usernames and passwords without permission, despite knowing he was not an authorized user.

Regulatory collaboration

Participating in global standard setting

IOSCO

We continued to contribute actively to the initiatives of the International Organization of Securities Commissions (IOSCO), including the work of its various committees and working groups.

- Our Chief Executive Officer (CEO) delivered two presentations on shadow banking in Asia and algorithmic trading at the IOSCO Asia-Pacific Regional Committee (APRC) meeting in Bangkok.
- We participated in IOSCO's APRC Enforcement Directors meeting at which our Director of Enforcement Division shared the SFC's experience of rendering assistance to and requesting assistance from other jurisdictions on cross-border investigations.

- We continued to co-chair the Working Group on Margining Requirements, a collaborative working group set up under the auspices of the Basel Committee on Banking Supervision and IOSCO, which aims at establishing internationally-consistent margin standards for non-centrally-cleared derivatives. Following the end of the first public consultation in September, we worked on the second consultation paper.
- We attended IOSCO's Committee 6 on credit rating agencies in November.

Financial Stability Board

Our CEO gave a presentation on shadow banking in Asia at the Financial Stability Board's (FSB) Regional Consultative Group for Asia. The SFC and Bank Negara Malaysia now co-chair a working group on this area.

In December, we hosted the FSB Standing Committee on Standards Implementation meeting in Hong Kong attended by member jurisdictions. The meeting included an industry outreach session involving a range of financial institutions.

OTC derivatives regulation

We attended the Global Markets Advisory Committee meeting hosted by the US Commodity Futures Trading Commission (CFTC) on 7 November together with other overseas regulators to discuss the extra-territorial impact of CFTC's proposed OTC derivatives regulations.

In November, we participated in a meeting between the leaders of authorities with responsibility for the regulation of the OTC derivatives markets to discuss cross-border OTC derivatives regulatory issues. A joint press statement setting out the understandings reached by the leaders and the issues identified for further exploration was issued on 4 December.

Strengthening cross-border collaboration

To support Hong Kong's development as an offshore renminbi centre, the State Council approved in November an additional investment quota of RMB200 billion for the RQFII scheme.

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 further implementation and expansion of the RQFII scheme and the development of offshore renminbi products in Hong Kong.

We continued to work closely with Mainland authorities to strengthen financial co-operation between the Mainland and Hong Kong this quarter:

- We met with the chairmen of the CSRC and the China Banking Regulatory Commission to hold high-level discussions on cross-border regulatory co-operation issues.
- In December, we attended the 44th Memorandum of Regulatory Co-operation meeting in Shenzhen to exchange views with the CSRC, Mainland and Hong Kong stock exchanges as well as the China Securities Depository and Clearing Corporation on various regulatory issues concerning Mainland-Hong Kong capital market co-operation.
- We attended the 16th Beijing-Hong Kong Economic Co-operation Symposium in Hong Kong.

In December, we organised the fourth Memorandum of Understanding meeting with the Taiwan Financial Supervisory Commission and held discussions on regulatory co-operation between Hong Kong and Taiwan.

Advancing CEPA initiatives

We worked closely with Mainland authorities to implement the measures under the Closer Economic Partnership Arrangement (CEPA). During the quarter, progress had been made on the implementation of two CEPA supplement IX measures:

- On 16 October, the CSRC issued amendments to the rules on the establishment of joint-venture securities companies, raising the upper limit of the stake that foreign shareholders can hold from 33% to 49%. The new rules provide more opportunities for Hong Kong securities companies to develop their businesses on the Mainland.

- On 20 December, the CSRC issued a new rule concerning the listing of Mainland enterprises in overseas markets. Relaxing certain eligibility requirements and simplifying the application process, the new rule would encourage more Mainland enterprises, especially small and medium-sized private enterprises, to get listed in Hong Kong.

Exchanging information, ideas

Asia Pacific Takeovers Regulators Forum

We launched the Asia Pacific Takeovers Regulators Forum, an e-platform jointly set up and hosted with the Securities Commission, Malaysia in November. The Forum is designed to facilitate the exchange of ideas and views regarding takeovers and related matters among regulators in the Asia-Pacific region. In addition to the securities regulators in Hong Kong and Malaysia, seven other takeovers regulators in the region have also signed up as members.

Financial consumer protection and education

Together with HKMA and the OECD, we co-hosted the HKMA-SFC-OECD Asian Seminar in December to discuss and review the key developments and challenges facing financial consumer protection and education in the region. The event was attended by officials from central banks, regulatory bodies, consumer and investor education organisations, as well as senior representatives from the private sector and academics from Asia and beyond.

The seminar was followed by the Asia Financial Consumer Protection Roundtable, which enabled exchanges of ideas among senior executives from a range of government financial authorities and regulators.

Interacting with investors

During the quarter, investors' risk appetite grew with the rebound of global markets and a persistently low interest rate and inflationary environment, making investor education all the more important. We explained to investors the importance of financial planning and the nature and risks of various investment products (such as high-yield bonds and precious metal ETFs) through the mass media and community outreach programmes.

Following the enactment of the Securities and Futures (Amendment) Ordinance 2012 in May, this quarter saw the launch of the IEC, a new SFC subsidiary, in pursuit of the SFC's investor education mission to cover a broad range of financial products and services.

Highlighting importance of financial planning

In October, we aired a video interview series called "Put Your Assets in Order" on public buses. Hosted by singer Det Dik, this 12-episode series focused primarily on financial planning.

Building on the SFC's investor education work, the IEC has continued to raise public awareness of the importance of personal financial planning through the mass media.

The IEC's 10-episode one-minute radio drama entitled "Finance and Financial Planning Basics" began airing on Metro Finance in December. This drama covered wide-ranging topics such as the importance of financial planning, ways to set practical investment goals and create a comprehensive investment portfolio, risks and risk-diversification strategies, the role of insurance in financial planning, as well as the importance of reviewing and rebalancing one's portfolio.

We explained the essence of financial planning in our *Headline Daily* column, including the benefits of starting financial planning at an early age, ways to diversify risks of an investment portfolio, and how bonds work in a portfolio.

Enhancing investment knowledge

To keep investors abreast of their rights and responsibilities, as well as their understanding of popular financial products, we broadcast three interviews on Radio Television Hong Kong in October. We reminded investors of their rights and responsibilities and intermediaries' obligations during the sales process. We also explained the features and risks of high-yield bond funds and the operation of dual counter trading in the Hong Kong securities market. We also alerted investors in our *Headline Daily* column.

By providing an up-to-date list of FAQs on our InvestEd site, we also helped investors understand a number of newly listed precious metal ETFs, including platinum and silver ETFs.

Reaching out to the community

This quarter, we held five seminars for more than 2,500 attendees from various sectors, including general investors, university students and civil servants who were about to retire. This year's "Investor Education Series", our annual investor seminar co-organised with the Hong Kong Society of Financial Analysts (HKSFSA), attracted more than 300 attendees. During the full-day event, industry representatives shared insights on property stocks, forensic accounting, alternative investments and the risks of investing in technology stocks.



A wide variety of investment topics were covered in the joint SFC-HKSFA seminar

Targeting civil servants eligible to retire in two years, the Civil Service Bureau invited us to conduct a talk for 2,000 civil servants and their spouses on how to apply financial planning concepts and things to note when choosing investment products to meet different retirement objectives.

Launching IEC

Supported by the SFC and other financial regulators — the HKMA, the Office of the Commissioner of Insurance and the Mandatory Provident Fund Schemes Authority — the IEC was officially launched on 20 November.

The role of the IEC is to oversee investor education needs across the entire financial sector in Hong Kong. The IEC will collaborate with all financial regulators to develop public investor education projects and improve financial literacy.

Professor Leonard Cheng Kwok-Hon, a Non-Executive Director of the SFC, was appointed as Chairman of the IEC for a term of three years. Seven members have also been appointed to the IEC's governing body — the Executive Committee. They represent financial regulators, the financial industry and the Education



The new IEC site features investor education materials that could be useful for investors when making financial decisions

Bureau. The General Manager of the IEC also sits on the Executive Committee.

As the IEC came into operation in November, the SFC's InvestEd site and InvestEd app have been terminated. All investor education materials have now been relocated to the new IEC site (www.hkiec.hk).

Organisational Matters

Mr Carlson Tong succeeded Dr Eddy Fong as our Chairman from 20 October.

The Government re-appointed two Non-Executive Directors, Professor Leonard Cheng Kwok-Hon and Mr Anderson Chow Ka-Ming, SC for two-year terms with effect from 1 January 2013.

Regarding takeovers-related committees, Mr Carlson Tong was appointed as a member of the Nominations Committee⁹ from 1 November for a term of two years. Mr Chan Kin Keung, Anthony, SC stepped down as a member of the Disciplinary Chair Committee¹⁰ on 9 November.

Mr Lee Kam Wing, Bruno and Mr Pan San Kong, Terry, representing the Hong Kong Investment Funds Association, were appointed as a member and an alternate member respectively of the Investor Education Advisory Committee with effect from 1 November. Mr Pan replaces Ms Lam Po Yee who stepped down from the committee on 16 October.

During the quarter, we upgraded the PABX telephone system to pave the way for a unified telephone prefix for the whole organisation. In October, we relocated the backup computer centre as part of the business contingency plan. In December, we moved our primary computer centre to a newly equipped Data Centre at the Cheung Kong Centre along with the office relocation.

As at 31 December, we had 653 staff (588 as at 31 December 2011).

Under our regular secondment programme with the CSRC, seven colleagues from different divisions finished two- to four- week secondments in Beijing. In addition, we organised a short term secondment with the Financial Services Authority of the United Kingdom.

Our revenue for the quarter amounted to \$280 million, slightly higher than the \$269 million in the previous quarter but was lower than the \$338 million reported a year ago. Turnover in the Hong Kong securities market rose in the third quarter and our levy income increased by 13% to \$230 million from \$203 million last quarter. On the other hand, our expenditure was \$313 million, 25% higher than last quarter's but 15% below our approved budget. The higher expenditure was mainly due to increased rental costs following the commencement of the lease of the new office premises at Cheung Kong Centre starting in September. The result for the quarter was a deficit of \$33 million, compared with a surplus of \$19 million last quarter and \$109 million a year ago. As at 31 December, our reserves stood at \$7.5 billion.

⁹ The primary role of the Nominations Committee is to nominate members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

¹⁰ The role of members of the Disciplinary Chair Committee is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers or of the Takeovers Appeal Committee on a case-by-case basis.

Activity Data

Table 1 Authorized collective investment schemes

	As at 31.12.2012	As at 31.3.2012	Change (%)
Unit trusts and mutual funds	1,842	1,863	-1.1
Investment-linked assurance schemes	258	254	1.6
Pooled retirement funds	35	35	-
MPF master trust schemes	40	39	2.6
MPF pooled investment funds	300 ¹	297	1
Others	26 ²	25	4
Total	2,501	2,513	-0.5

¹ In this category, 126 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 31.12.2012	As at 31.3.2012	Change (%)
Bond	331	330	0.3
Equity	971	995	-2.4
Diversified	79	78	1.3
Money market	39	40	-2.5
Fund of funds	78	82	-4.9
Index	119	111	7.2
Guaranteed	15	22	-31.8
Hedge	5	6	-16.7
Other specialised ¹	16	17	-5.9
Subtotal	1,653	1,681	-1.7
Umbrella structures	189	182	3.8
Total	1,842	1,863	-1.1

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 31.12.2012	As at 31.3.2012	Change (%)
Hong Kong	306	261	17.2
Luxembourg	1,032	1,070	-3.6
Ireland	279	282	-1.1
Guernsey	1	3	-66.7
United Kingdom	53	53	-
Other Europe	0	2	N/A
Bermuda	7	22	-68.2
British Virgin Islands	5	5	-
Cayman Islands	151	157	-3.8
Others	8	8	-
Total	1,842	1,863	-1.1

Table 4 Unlisted structured products¹ offered to the public

	Quarter ended 31.12.2012	Nine months ended 31.12.2012	Nine months ended 31.12.2011	YoY change (%)
Structured products ² authorized	21	101	62	62.9
Offering documents authorized	15	96	109	-11.9
Advertisements authorized	0	1	0	-

¹ Comprise 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 31.12.2012	Nine months ended 31.12.2012	Nine months ended 31.12.2011	YoY change (%)
Number of trading inquiries issued under S181 ¹	1,230	4,209	3,074	36.9
Number of investigations started	51	222	213	4.2
Number of investigations completed	85	229	156	46.8
Number of investigations completed within seven months (%)	44 (52%)	124 (54%)	109 (70%)	-16
Number of persons charged in criminal proceedings	9	29	27	7.4
Number of criminal charges laid	38	91	158	-42.4
Number of Notices of Proposed Disciplinary Action ²	7	20	32	-37.5
Number of Decision Notices ³	3	18	33	-45.5
Number of persons subject to ongoing civil proceedings	37	37	42	-11.9
Compliance advice letters issued	79	279	173	61.3

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 31.12.2012	Nine months ended 31.12.2012	Nine months ended 31.12.2011	YoY change (%)
Risk-based, on-site inspections conducted	77	222	216	2.8

Table 7 Listing applications and takeovers activities

	Quarter ended 31.12.2012	Nine months ended 31.12.2012	Nine months ended 31.12.2011	YoY change (%)
Listing applications filed under the dual filing regime	31	95	160 ¹	-40.6
Takeovers and share repurchases transactions handled	58	204	232	-12.1

¹ Certain cases in prior periods have been reclassified to conform with the current period presentation.

Table 8 Licensees and registrants

	As at 31.12.2012	As at 31.12.2011	Change (%)
Licensed corporations	1,897	1,804	5.2
Registered institutions	117	110	6.4
Licensed individuals	37,222	37,492	-0.7
Total	39,236	39,406	-0.4

Table 9 Public enquiries and complaints

	Quarter ended 31.12.2012	Nine months ended 31.12.2012	Nine months ended 31.12.2011	YoY change (%)
Public enquiries ¹	1,748	5,782	6,933	-16.6
Nature of complaints ²				
Conduct of licensed intermediaries and registered institutions	60	186	355	-47.6
Listing-related matters and disclosure of interests	82	352	309	13.9
Market misconduct	61	208	392	-46.9
Products	2	5	4	25
Other financial activities	100	296	341	-13.2
Miscellaneous	0	0	16	N/A
Subtotal	305	1,047	1,417	-26.1
Complaints related to Lehman Brothers	1	9	136	-93.4
Total	306	1,056	1,553	-32.4

¹ Comprise written and phone enquiries.

² The complaint figures reflect the number of complainants.

Securities and Futures Commission

Consolidated statement of comprehensive income

For the nine months ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2012 \$'000	31 December 2011 \$'000	31 December 2012 \$'000	31 December 2011 \$'000
Income					
Levies		644,863	835,372	230,010	250,956
Fees and charges		123,823	170,821	28,765	55,935
Investment income		69,825	91,397	20,239	29,771
Less: custody and advisory expenses		(2,029)	(2,117)	(670)	(711)
Investment income net of third party expenses		67,796	89,280	19,569	29,060
Recoveries from Investor Compensation Fund		3,697	3,212	1,223	1,065
Other income		1,949	2,077	757	572
		842,128	1,100,762	280,324	337,588
Expenses					
Staff costs and directors' emoluments	7b	564,623	488,668	194,217	165,280
Premises rent		113,389	52,563	61,353	20,742
other		31,450	21,609	14,633	8,331
Other expenses		85,554	61,196	27,998	22,396
Depreciation		31,252	27,271	14,890	11,855
		826,268	651,307	313,091	228,604
Surplus / (deficit) and total comprehensive income / (loss) for the period		15,860	449,455	(32,767)	108,984

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

Consolidated statement of financial position

At 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2012 \$'000	At 31 March 2012 \$'000
Non-current assets			
Fixed assets		71,106	49,364
Held-to-maturity debt securities	2	3,585,509	4,802,488
		3,656,615	4,851,852
Current assets			
Held-to-maturity debt securities	2	2,327,578	1,567,623
Debtors, deposits and prepayments		131,305	168,160
Fixed and call deposits with banks		1,548,497	1,035,893
Cash at bank and in hand		3,964	3,348
		4,011,344	2,775,024
Current liabilities			
Fees received in advance		9,161	73,835
Creditors and accrued charges		158,033	67,888
		167,194	141,723
Net current assets		3,844,150	2,633,301
Total assets less current liabilities		7,500,765	7,485,153
Non-current liabilities	3	15,184	15,432
Net assets		7,485,581	7,469,721
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,442,741	7,426,881
		7,485,581	7,469,721

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

Statement of financial position

At 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2012 \$'000	At 31 March 2012 \$'000
Non-current assets			
Fixed assets		71,100	49,358
Held-to-maturity debt securities	2	3,585,509	4,802,488
		3,656,609	4,851,846
Current assets			
Held-to-maturity debt securities	2	2,327,578	1,567,623
Debtors, deposits and prepayments		131,136	167,959
Fixed and call deposits with banks		1,548,497	1,035,893
Cash at bank and in hand		3,346	3,026
		4,010,557	2,774,501
Current liabilities			
Fees received in advance		9,161	73,835
Creditors and accrued charges		157,240	67,359
		166,401	141,194
Net current assets		3,844,156	2,633,307
Total assets less current liabilities		7,500,765	7,485,153
Non-current liabilities	3	15,184	15,432
Net assets		7,485,581	7,469,721
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,442,741	7,426,881
		7,485,581	7,469,721

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

Consolidated statement of changes in equity

For the nine months ended 31 December 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	–	449,455	449,455
Balance at 31 December 2011	42,840	7,332,243	7,375,083
Balance at 1 April 2012	42,840	7,426,881	7,469,721
Total comprehensive income for the period	–	15,860	15,860
Balance at 31 December 2012	42,840	7,442,741	7,485,581

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

Consolidated statement of cash flows

For the nine months ended 31 December 2012 (Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2012 \$'000	31 December 2011 \$'000
Cash flows from operating activities		
Surplus for the period	15,860	449,455
Adjustments for:		
Depreciation	31,252	27,271
Investment income	(69,825)	(91,397)
Gain on disposal of fixed assets	(34)	(4)
	(22,747)	385,325
Decrease in debtors, deposits and prepayments	19,259	42,881
Increase in creditors and accrued charges	90,145	66,020
(Decrease) / increase in fees received in advance	(64,674)	11,838
Decrease in non-current liabilities	(248)	(3,690)
Net cash generated from operating activities	21,735	502,374
Cash flows from investing activities		
Interest received	124,116	148,069
Held-to-maturity debt securities bought	(1,043,311)	(1,821,355)
Held-to-maturity debt securities redeemed	1,463,640	1,667,420
Fixed assets bought	(52,960)	(32,392)
Net cash used in investing activities	491,485	(38,258)
Net increase in cash and cash equivalents	513,220	464,116
Cash and cash equivalents at beginning of the nine-month period	1,039,241	605,416
Cash and cash equivalents at end of the nine-month period	1,552,461	1,069,532

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2012 \$'000	At 31 December 2011 \$'000
Fixed and call deposits with banks	1,548,497	1,066,120
Cash at bank and in hand	3,964	3,412
	1,552,461	1,069,532

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 31 December 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 operation of the SFC for the nine months ended 31 December 2012.

2. Held-to-maturity debt securities

As of 31 December 2012, the total market value of held-to-maturity debt securities amounted to \$5,973,706,000 (31 March 2012: \$6,426,213,000), which was above the total carrying cost of \$5,913,087,000 (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 31 December 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 nine months ended 31 December 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. On 20 November 2012, the SFC launched the Investor Education Centre (IEC) as a company limited by guarantee and not having a share capital. All of the three companies 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.

The objective of IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

All of the three companies are wholly owned subsidiaries of the SFC. As at 31 December 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 and IEC as at 31 December 2012 were immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet and IEC in the Group's financial statements.

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

7. Related party transactions

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

- (a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$3,697,000 (2011: \$3,212,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- (b) Remuneration for key management personnel (including all non-executive directors) comprised :

	Unaudited nine months ended	
	31 December 2012 \$'000	31 December 2011 \$'000
Short-term employee benefits	22,026	18,687
Post employment benefits	1,814	1,624
	23,840	20,311

The total remuneration is included in "staff costs and directors' emoluments" on page 15. Discretionary pay is not included above as the decision to pay is not determinable at this point in time.

- (c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$431,000 (31 March 2012: \$85,000).

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

For the nine months ended 31 December 2012 (Expressed in Hong Kong dollars)

(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 31 December 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 31 December 2012 \$'000	At 31 March 2012 \$'000
Payable next year	198,175	178,563
Payable in one to five years	661,394	736,774
Payable in more than five years	–	75,158
	859,569	990,495

During the period, \$113,389,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011: \$52,563,000).

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 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 24 to 28.

3. Members of the Committee

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

On behalf of the Committee

Keith Lui

Chairman

18 February 2013

Statement of comprehensive income

For the nine months ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended		Unaudited three months ended	
		31 December 2012 \$'000	31 December 2011 \$'000	31 December 2012 \$'000	31 December 2011 \$'000
Income					
Net investment income		86,120	10,666	22,907	23,171
Exchange difference		(1,914)	(1,551)	(357)	(2,536)
		84,206	9,115	22,550	20,635
Expenses					
Investor Compensation Company Limited expenses	2	3,697	3,212	1,223	1,065
Auditor's remuneration		82	77	27	25
Bank charges		610	594	211	196
Professional fees		2,679	2,537	904	822
		7,068	6,420	2,365	2,108
Surplus and total comprehensive income for the period		77,138	2,695	20,185	18,527

The notes on page 28 form part of the condensed financial statements.

Statement of financial position

At 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2012 \$'000	At 31 March 2012 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities		1,614,522	1,664,886
– Pooled fund		273,080	232,304
Interest receivable		16,780	18,579
Due from Investor Compensation Company Limited		431	85
Fixed deposits with banks		266,701	153,839
Cash at bank		2,311	26,652
		2,173,825	2,096,345
Current liabilities			
Provision for compensation	3	150	150
Creditors and accrued charges		1,352	1,010
		1,502	1,160
Net current assets		2,172,323	2,095,185
Net assets		2,172,323	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		1,068,682	991,544
		2,172,323	2,095,185

The notes on page 28 form part of the condensed financial statements.

Statement of changes in equity

For the nine months ended 31 December 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	–	–	2,695	2,695
Balance at 31 December 2011	994,718	108,923	951,247	2,054,888
Balance at 1 April 2012	994,718	108,923	991,544	2,095,185
Total comprehensive income for the period	–	–	77,138	77,138
Balance at 31 December 2012	994,718	108,923	1,068,682	2,172,323

The notes on page 28 form part of the condensed financial statements.

Statement of cash flows

For the nine months ended 31 December 2012 (Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2012 \$'000	31 December 2011 \$'000
Cash flows from operating activities		
Surplus for the period	77,138	2,695
Net investment income	(86,120)	(10,666)
Exchange loss	1,914	1,551
Increase in amount due from Investor Compensation Company Limited	(346)	(34)
Increase / (Decrease) in creditors and accrued charges	342	(20)
Net cash used in operating activities	(7,072)	(6,474)
Cash flows from investing activities		
Purchase of debt securities	(538,497)	(397,975)
Sale or maturity of debt securities	592,721	426,590
Sale of equity securities	897	844
Interest received	40,472	42,980
Net cash generated from investing activities	95,593	72,439
Net increase in cash and cash equivalents	88,521	65,965
Cash and cash equivalents at beginning of the nine-month period	180,491	201,953
Cash and cash equivalents at end of the of the nine-month period	269,012	267,918

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2012 \$'000	At 31 December 2011 \$'000
Fixed deposits with banks	266,701	264,902
Cash at bank	2,311	3,016
	269,012	267,918

Notes to the condensed financial statements

For the nine months ended 31 December 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 the interim financial report.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 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 nine months ended 31 December 2012, ICC incurred \$3,697,000 for its operation (For the nine months ended 31 December 2011 : \$3,212,000).

3. Provision for compensation

We maintained provision for liabilities arising from claims received resulting from one default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for this case is set at the lower of \$150,000 per claimant or the amount claimed. The provision for compensation at 31 December 2012 was \$150,000 (31 March 2012: \$150,000). As at 31 December 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 nine 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 \$956,946 (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 quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 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. Upto 31 December 2012, the Fund has 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 30 to 34.

3. Members of the Committee

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

On behalf of the Committee

Keith Lui
Chairman

25 February 2013

Statement of comprehensive income

For the nine months ended 31 December 2012 (Expressed in Hong Kong dollars)

	Unaudited nine months ended		Unaudited three months ended	
	31 December 2012 \$'000	31 December 2011 \$'000	31 December 2012 \$'000	31 December 2011 \$'000
Income				
Interest income	471	239	139	113
Expenses				
Auditor's remuneration	34	33	11	11
Professional fees	16	15	–	–
	50	48	11	11
Surplus and total comprehensive income for the period	421	191	128	102

The notes on page 34 form part of the condensed financial statements.

Statement of financial position

At 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Unaudited	Audited
		At 31 December 2012 \$'000	At 31 March 2012 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		58	103
Fixed and call deposits with banks		74,013	72,647
Cash at bank		279	273
		74,351	73,024
Current liabilities			
Creditors and accrued charges		10,303	10,297
Net current assets		64,048	62,727
Net assets		64,048	62,727
Representing :			
Compensation fund			
Contributions from SEHK	3	50,400	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		18,077	17,656
		1,058,766	1,057,445
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		64,048	62,727

The notes on page 34 form part of the condensed financial statements.

Statement of changes in equity

For the quarter ended 31 December 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 the SEHK	900	600
Total comprehensive income for the period	421	191
Compensation fund balance as at 31 December	64,048	62,357

The notes on page 34 form part of the condensed financial statements.

Statement of cash flows

For the nine months ended 31 December 2012 (Expressed in Hong Kong dollars)

	Unaudited nine months ended	
	31 December 2012 \$'000	31 December 2011 \$'000
Cash flows from operating activities		
Surplus for the period	421	191
Interest income	(471)	(239)
Increase / (decrease) in creditors and accrued charges	6	(8)
Net cash used in operating activities	(44)	(56)
Cash flows from investing activities		
Interest received	516	202
Net cash generated from investing activities	516	202
Cash flows from financing activities		
Net Contributions from SEHK	900	600
Net cash generated from financing activities	900	600
Net increase in cash and cash equivalents	1,372	746
Cash and cash equivalents at beginning of the nine-month period	72,920	71,839
Cash and cash equivalents at end of the nine-month period	74,292	72,585

Analysis of the balance of cash and cash equivalents:

	Unaudited	
	At 31 December 2012 \$'000	31 December 2011 \$'000
Cash at bank	279	175
Fixed and call deposits with banks	74,013	72,410
	74,292	72,585

Notes to the condensed financial statements

For the nine months ended 31 December 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 the interim financial report.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 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 31 December 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 nine months, deposits of \$1,050,000 in respect of 21 new trading rights were received from SEHK and deposits of \$150,000 in respect of 3 relinquished trading rights were refunded to SEHK. As at 31 December 2012, there are 13 trading rights in total that have been relinquished but not yet refunded.

4. Material related party transactions

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

Securities and Futures Commission

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