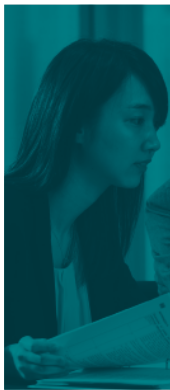




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會



Quarterly Report

July – September 2013

This second Quarterly Report of the Securities and Futures Commission for financial year 2013-14 covers the period from 1 July to 30 September 2013.

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Highlights

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

Regulatory enhancements

- **Listing of overseas companies:** A joint policy statement regarding the listing of overseas companies was issued together with The Stock Exchange of Hong Kong Limited (SEHK) to promote transparency about the listing process and provide regulatory certainty for overseas companies seeking listing in Hong Kong.
- **IPO sponsors:** Following our approval, SEHK published amendments to the Listing Rules concerning the requirements of the new initial public offering (IPO) sponsors regime, which took effect on 1 October.
- **OTC derivatives regulation:** In September, we published the joint supplemental consultation conclusions on the proposed over-the-counter (OTC) derivatives regime with the Hong Kong Monetary Authority setting out the proposed scope of new and expanded regulated activities in detail.
- **Principles for financial market infrastructures:** In August, we released Guidelines on the Application of the CPSS-IOSCO¹ Principles for Financial Market Infrastructures for recognised clearing houses.

International collaboration

- **Memoranda of understanding:** In September, we entered into memoranda of understanding with competent authorities of 28 European Union or European Economic Area countries regarding the supervision of alternative investment fund managers.

Product development

- **Renminbi product offerings:** We authorized the first two Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded funds tracking an index sponsored by a joint venture of the exchanges of Hong Kong, Shanghai and Shenzhen.

Enforcement

- In the quarter, we successfully prosecuted three individuals and two corporations for market misconduct and disciplined 12 licensees. Our prosecutions and disciplinary action resulted in total fines of over \$4.5 million.
- We presented a petition to the court to wind up China Metal Recycling (Holdings) Limited – this is the first time we have applied to wind up a listed company under section 212 of the Securities and Futures Ordinance.
- We directly instituted proceedings in the Market Misconduct Tribunal, also for the first time, against Tiger Asia Management LLC and three of its officers over their dealings in the securities of two listed companies.
- We have commenced legal proceedings to disqualify three former senior executives of China Best Group Holding Limited over their alleged breach of duties as directors in handling a proposed acquisition.

¹ CPSS refers to the Committee on Payment and Settlement Systems and IOSCO stands for the International Organization of Securities Commissions.

Operational Review

Intermediaries

Approving licensing applications

We received 1,937 licence applications this quarter¹, up 29.9% from the April-June quarter and up 15.8% compared with the same quarter last year. In the six months to 30 September, the total number of licensees and registrants remained stable at around 39,000.

Consulting on professional investor regime

The public consultation on proposals to enhance the professional investor regime and the client agreement requirements in the Code of Conduct² ended on 14 August. The consultation seeks to identify those investors who require full protection under the Code

of Conduct² and those who do not, and to align the contents of client agreements used by intermediaries with the services actually agreed to be provided to customers. Submissions from the public are being analysed.

Promoting compliance

We offered training seminars on anti-money laundering and counter-terrorist financing issues to members of the Hong Kong Securities Association and Hong Kong Securities & Futures Employees Union in August and September respectively to enhance their understanding of measures in this area.

Licensees and registrants

	As at 30.9.2013	As at 31.3.2013	Change (%)	As at 30.9.2012	YoY change (%)
Licensed corporations	1,927	1,905	1.2	1,874	2.8
Registered institutions	119	117	1.7	117	1.7
Licensed individuals	37,106	36,724	1	37,830	-1.9
Total	39,152	38,746	1	39,821	-1.7

Licensing applications

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
Applications to conduct new regulated activity received	6,070	10,439	9,707	7.5
Applications for SFC licences received ³	1,937	3,428	3,293	4.1

Intermediary inspection

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
Risk-based, on-site inspections conducted	67	139	145	-4.1

¹ The figure does not include the provisional licence applications received. During this quarter, we received 1,205 provisional licence applications compared with 1,044 in the same quarter last year.

² The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

³ The figures do not include the provisional licence applications received.

Investment products

Expanding range of renminbi products

In the quarter, we authorized two Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded funds (ETFs). These were the first ETFs to track an index sponsored by a joint venture of the exchanges of Hong Kong, Shanghai and Shenzhen. We also authorized one unlisted RQFII bond fund. There were eight SFC-authorized RQFII A-share ETFs and 22 authorized RQFII unlisted bond funds as at 30 September.

In July, we authorized three equity-linked investments (ELIs) with renminbi features. These were the first SFC-authorized unlisted structured investment products that may be denominated in renminbi and/or linked to reference assets denominated in renminbi. In August, we authorized three more ELIs and one equity-linked deposit with renminbi features.

Developing legal and regulatory framework for OEIC

Our work, alongside the Government, to introduce an open-ended investment company (OEIC) structure to complement Hong Kong's existing unit trust regime continued. We have been providing technical support

in developing the legal and regulatory framework for this new investment fund vehicle and assisting with the Government's public consultation on the proposal.

Releasing survey on fund management activities

In July, we released the *Fund Management Activities Survey 2012*, a survey conducted annually to collect information and data on the local fund management industry. The findings showed that the combined fund management business in Hong Kong rebounded significantly to a record high of \$12,587 billion as of the end of 2012, representing year-on-year growth of 39.3%. There was also overall growth in different types of fund management business activities from an increasing pool of market participants in Hong Kong.

Authorized collective investment schemes

	As at 30.9.2013	As at 31.3.2013	Change (%)	As at 30.9.2012	YoY change (%)
Unit trusts and mutual funds	1,788	1,847	-3.2	1,850	-3.4
Investment-linked assurance schemes	262	258	1.6	259	1.2
Pooled retirement funds	35	35	-	35	-
MPF master trust schemes	40	40	-	40	-
MPF pooled investment funds ¹	301	299	0.7	299	0.7
Others ²	27	26	3.8	26	3.8
Total	2,453	2,505	-2.1	2,509	-2.2

¹ In this category, 116 of the funds were offered both as retail unit trusts and pooled investment funds for mandatory provident fund (MPF) purposes.

² Other schemes comprise 17 paper gold schemes and 10 real estate investment trusts.

Listings and takeovers

Raising standards of IPO sponsor work

We have been working closely with The Stock Exchange of Hong Kong Limited (SEHK), preparing for implementation of the new initial public offering (IPO) sponsors regime. In July, SEHK published amendments to the Listing Rules and guidance letters relating to the new requirements, effective on 1 October, for IPO sponsors and measures to streamline the regulatory commenting process for listing applications.

We also published the revised Code of Conduct¹, sponsor guidelines, licensing forms and FAQs on our website in respect of the enhanced sponsor regulatory regime.

Listing overseas companies

We issued a joint policy statement regarding the listing of overseas companies, together with SEHK, on 27 September to promote transparency about the listing process and to provide regulatory certainty for overseas companies seeking either primary or secondary listings in Hong Kong. The statement consolidates all relevant issues regarding listing of overseas companies into a single document and supersedes the joint policy statement issued in March 2007 and SEHK's guidance letter on streamlined procedures for listing overseas companies issued in September 2009.

Listing applications and takeovers activities

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
Listing applications filed under the dual filing regime	60	105	64	64.1
Takeovers and share repurchases transactions handled	56	130	146	-11

Alleged breach of Takeovers Code

In September, the Takeovers Executive² commenced disciplinary proceedings before the Takeovers and Mergers Panel against Wong Yuk Kwan (Wong), also known as Wong Kwan, Chairman of Pearl Oriental Oil Limited (Pearl Oriental), and four other people over an alleged breach of the Takeovers Code³.

The Takeovers Executive alleges that Wong and the four others actively co-operated so that he could consolidate control of Pearl Oriental in a share placement with shares secretly held on his behalf. This practice is commonly referred to as "warehousing". This enabled Wong to take up new shares issued by Pearl Oriental, while avoiding the obligation under the Takeovers Code³ to make a general offer for the shares of the company, which at the time was known as Pearl Oriental Innovation Limited.

¹ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

² The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

³ The Code on Takeovers and Mergers

Market infrastructure and trading

Making progress in OTC derivatives reform

Amendments to the over-the-counter (OTC) derivatives regime were made under the Securities and Futures (Amendment) Bill 2013, which was gazetted on 28 June and introduced to the Legislative Council on 10 July. The joint supplemental consultation conclusions on the OTC derivatives regime were jointly published with the Hong Kong Monetary Authority (HKMA) on 6 September, setting out in greater detail the proposed scope of new and expanded regulated activities and regulatory oversight of systemically important participants. Transitional arrangements will be introduced before implementing the extended licensing regime.

Meanwhile, the HKMA and the SFC are working on the detailed requirements under the new regime, which will be set out in subsidiary legislation. We plan to conduct a public consultation on the subsidiary rules later this year.

Adopting international principles for financial market infrastructures

In line with our commitment to adopt the principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements and the International Organization of Securities Commissions (IOSCO), we released Guidelines on the Application of the CPSS-IOSCO Principles for Financial Market Infrastructures on 9 August. Recognised clearing houses are expected to observe these principles, which incorporate new or higher standards. Existing recognised clearing houses may require a transitional period to implement these principles fully.

Launching CES China 120 Index futures and options contracts

In July, we approved Hong Kong Exchanges and Clearing's (HKEx) proposal to launch futures and options contracts based on the CES China 120 Index which tracks stocks listed in Hong Kong, Shanghai and Shenzhen. The index is owned and disseminated by China Exchanges Services Company Limited – a joint venture between HKEx, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. CES China 120 Index futures started trading on 12 August, and CES China 120 Index options are scheduled for trading next year.

Regulating ATS

During the quarter we granted one Part III automated trading services¹ (ATS) authorization. As at the end of September, there were 28 Part III ATS authorizations after taking into account three ATS withdrawals.

Six dark pool operators were licensed during the quarter, bringing the number of licensed dark pool operators to 19. As at 30 September, the number of corporations licensed under Part V to provide ATS was 27.

¹ As a general principle under the SFC's Guidelines for the Regulation of Automated Trading Services, ATS providers which also perform traditional dealer functions (eg, agency broking, holding of clients' securities or funds) are expected to be licensed under Part V of the SFO while those providing ATS solely are expected to be authorized under Part III of the SFO.

Application to wind up China Metal Recycling

In July, the SFC presented a petition to the court to wind up China Metal Recycling (Holdings) Limited (China Metal Recycling). This is the first time the SFC has applied to wind up a listed company under section 212¹ of the Securities and Futures Ordinance (SFO), to protect the interests of its shareholders, creditors, and the investing public. The SFC has also obtained orders to appoint provisional liquidators for China Metal Recycling.

The applications followed an SFC investigation suggesting that China Metal Recycling had overstated its financial position in its prospectus for initial public offering in 2009 and annual report for the same year. In particular, the investigation suggests that the size of the company's business and the amount of revenue generated by its major subsidiary were inflated. The SFC alleges that an overwhelming majority of the subsidiary's purported purchases from its three major suppliers for three financial years between 2007 and 2009 were fictitious.

Winding up order granted against Salisbury Securities

In June, the SFC filed a petition to the court to wind up Salisbury Securities Limited (Salisbury) under section 212 of the SFO to protect the interests of its clients and the investing public. Upon application of the SFC's petition, the court ordered in August that Salisbury be wound up.

The SFC's application was based on concerns regarding the whereabouts of nearly \$9 million worth of securities and sales proceeds belonging to Salisbury's clients and that Salisbury had misled the SFC about its liquid capital calculations and its holdings in its clients' securities accounts.

Market Misconduct Tribunal proceedings against Tiger Asia

The SFC instituted proceedings in the Market Misconduct Tribunal (MMT) against Tiger Asia Management LLC (Tiger Asia) and three of its officers, Bill Sung Kook Hwang, Raymond Park and William Tomita in relation to dealings in the securities of Bank of China Limited and China Construction Bank Corporation Limited during 2008 and 2009. This is the first time the SFC has ever directly instituted proceedings in the MMT.

The SFC's proceedings against Tiger Asia and three of its officers, under section 213² of the SFO, are continuing.

Disqualification orders against former senior executives of China Best

The SFC has commenced legal proceedings to disqualify three former senior executives of China Best Group Holding Limited (China Best) under section 214³ of the SFO. The action followed an investigation into a proposed acquisition in 2008 of 60% of the equity interest of a company with interests in a Mainland coal mine by a subsidiary of China Best.

The SFC alleged that the three senior executives had breached their duties as directors in handling the proposed acquisition. The SFC sought orders that proceedings against the seller be brought by China Best or its subsidiary to recover the interest accrued on the \$305 million cash deposit paid for the proposed acquisition.

¹ Generally, section 212 of the SFO permits the SFC to apply to the Court of First Instance under the Companies Ordinance for the winding up of a corporation on just and equitable ground if the SFC considers that it is in the public interest that the corporation be wound up.

² Generally, section 213 of the SFO gives the SFC the power to apply to the Court of First Instance for an injunction and/or other orders where a person has contravened the relevant provisions of the SFO or the Companies Ordinance, etc

³ Generally, if the affairs of a corporation have been conducted in a manner involving defalcation, fraud, misfeasance or other misconduct, then the court may make orders under section 214 of the SFO to disqualify the responsible person from being a director or being involved in the management of any corporation for up to 15 years.

Criminal proceedings

During this quarter, we successfully prosecuted three individuals and two corporations for false or misleading announcements, false trading, illegal short selling and unregistered dealing.

- PME Group Limited (PME), a listed company, was convicted of issuing announcements containing false or misleading information and fined. In February 2008, the price of PME shares rose by approximately 136% with increased turnover. Upon enquiry by The Stock Exchange of Hong Kong Limited, PME issued three announcements stating that it did not know of any matters which may be of price-sensitive nature requiring disclosure when it was actually taking steps to acquire control of another listed company. Ivy Chan Shui Sheung, a director of PME, was acquitted of making false or misleading announcements. The SFC is reviewing the decision with a view to appealing it.
- Au Wai Lok was convicted of false trading in the shares of Xi'an Haitian Antenna Technologies Limited. He placed a number of single board lot orders shortly before market close on five trading days to raise the nominal and closing price of the shares. He also placed buy and sell orders simultaneously for almost the same quantity of shares via two of his accounts but at different brokerages to create a false or misleading market.
- Law Kwong Shing and Premium Stars Investments Limited were convicted of illegal short selling in the shares of China Properties Investments Holdings Limited (CPI). They sold rights shares to be issued by CPI but the sale occurred before they received confirmation of the allocation of the shares. They were both fined.
- Ting Kwong Yau was convicted and fined for advising on futures contracts and issuing related advertisements on the internet without an SFC licence. Using the name "Aladdin", he placed advertisements on a website claiming to be able to advise on futures contracts and provide real-time "signals" to subscribers on trading Hang Seng Index futures.

Repurchase offer on Lehman Brothers ELNs

The Royal Bank of Scotland N.V., formerly known as ABN AMRO Bank N.V., agreed without admitting any liability to make a repurchase offer at full principle value to retail customers holding outstanding Lehman Brothers-related equity-linked notes (ELNs) sold by the bank. About 540 customers are eligible for the repurchase offer which, if accepted by all, will lead to payments totalling about \$513 million.

Disciplining licensees

We disciplined 12 licensees, including four corporations and eight licensed representatives.

- Sun On Tat Securities Company Limited was reprimanded and fined \$1.6 million for internal control failings and its responsible officer Kwong Suk Yee was also reprimanded and fined \$200,000 for managerial and supervisory failures. An SFC investigation revealed that the company, among other things, used one client's securities to settle another client's transactions and failed to promptly and properly deposit client securities that it received in appropriate segregated accounts.
- China Securities Holdings Limited was reprimanded and fined \$1.3 million for employing unlicensed dealing staff to handle clients' orders and failing to keep proper dealing records. The SFC also banned its responsible officer Stephanie Liu Suk Wai for 27 months and suspended its former responsible officer Wong Yip Chuen for eight months.
- A One Investment Company Limited was reprimanded and fined \$1.2 million for internal control failures relating to unauthorised sales of client securities and unauthorised transfers of more than \$7 million in client funds to third party accounts. The SFC also suspended the approval granted to Alysia Ann Lee to act as a responsible officer and suspended her licence for eight months for failing to properly discharge her managerial duties.
- Hampton Securities (Asia) Limited was reprimanded for window dressing the company's liquid capital position and other misconduct. The SFC also revoked the licence of its responsible officer Daniel Lam Ka Kuen who masterminded the misconduct.

- Mok Kin Hung was banned from re-entering the industry for life following his conviction for stealing \$280,000 from a client's bank account at Dah Sing Bank, Limited by forging the client's signature.
- Ching Yim Har was suspended for three years for conducting transactions in a client's account on a discretionary basis without written authorisation, and accepting performance fees from the client without her employer's knowledge and consent.
- Koo Yiu Chee was banned from re-entering the industry for eight months. As an account executive at China Everbright Securities (HK) Limited, Koo failed to perform proper account opening and know-your-client procedures, while falsely representing that he had explained the risk disclosure statements

and witnessed the execution of the account opening documents related to a number of Mainland clients.

- Law Kwan Ming, a licensed representative of UOB Kay Hian (Hong Kong) Limited, was reprimanded and fined \$50,000 for failing to make and keep a proper record of orders received by mobile phone.

Appeals

The Court of First Instance allowed the appeal by Simon Chui Wing Nin (Chui), a former assistant director of finance at CITIC Pacific Limited, against his convictions for insider dealing and ordered a re-trial. It was found that the trial Magistrate did not give adequate reasons in his decision when dismissing Chui's arguments concerning evidence given by an expert witness.

Enforcement activities

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY Change (%)
Number of trading inquiries issued under S181 ¹	946	1,994	2,938	-32.1
Number of investigations started	104	165	171	-3.5
Number of investigations completed	73	158	138	14.5
Number of investigations completed within seven months (%)	44 (60%)	86 (54%)	77 (56%)	12
Number of persons charged in criminal proceedings	12	19	20	-5
Number of criminal charges laid	95	124	53	134
Number of Notices of Proposed Disciplinary Action ²	9	16	13	23.1
Number of Decision Notices ³	16	31	15	106.7
Number of persons subject to ongoing civil proceedings	64	64	52	23.1
Compliance advice letters issued	168	221	200	10.5

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.

Regulatory collaboration

Participating in international standard-setting

IOSCO

Mr Ashley Alder, Chief Executive Officer (CEO), chaired the Asia-Pacific Regional Committee (APRC) meeting of the International Organization of Securities Commissions (IOSCO) in Luxembourg in September. He exchanged views with other APRC members on the key challenges regulators face and action plans. The APRC will be exploring ways to improve capacity building within APRC jurisdictions. These, together with a broad range of regulatory and market issues, will be discussed at the next APRC meeting, to be hosted by the SFC along with an inaugural public SFC Regulatory Forum in January 2014.

Mr Alder also updated members on the APRC letter sent to the European Commission (EC) and the European Securities Markets Authority (ESMA) in June on concerns about recognition of Asia-Pacific central counterparties (securities clearing houses, or CCPs) under the European Market Infrastructure Regulation which resulted in a meeting between EC and ESMA officials and eight Asia Pacific regulators hosted by the SFC. The APRC sent a follow-up letter to the EC in November.

Mr Alder also chaired the first meeting of the IOSCO Task Force on Cross Border Regulation in Luxembourg. The meeting discussed a survey that was subsequently circulated to IOSCO members in October to obtain a better understanding of the different approaches used to regulate cross-border securities market activities and what role IOSCO could play in this area. The Task Force aims to issue a consultation paper and hold industry round tables in the first half of 2014.

Mr Alder attended the IOSCO Board Meeting in his capacity as a Board member, reporting to the Board on the progress and activities of the APRC and the Task Force on Cross Border Regulation.



An IOSCO Board meeting in progress¹

Mr Stephen Po, Senior Director of Intermediaries Supervision, in the capacity of the chairperson of the IOSCO Committee on Regulation of Market Intermediaries, chaired a September meeting where the final report on *Recommendations Regarding the Protection of Client Assets* and the consultative report on *A Comparison and Analysis of Prudential Standards in the Securities Sector* were approved. These two projects had been developed in response to requests from the Financial Stability Board (FSB) and the Joint Forum² respectively. At the IOSCO Board meeting in Luxembourg in the same month, Mr Po briefed the IOSCO Board on the status of the committee's projects.

FSB

Mr Alder is the co-chair of the FSB's Working Group on Shadow Banking, an initiative of the FSB Regional Consultative Group for Asia. During the quarter, the working group completed the drafting of a report on shadow banking in Asia, which is based on survey responses from 15 jurisdictions in Asia. The report is the first regional collaborative effort between the FSB Regional Consultative Group for Asia and the IOSCO APRC. The report was subsequently approved and submitted to the FSB Plenary for discussion.

In the quarter, we participated in a number of implementation monitoring exercises under the FSB Standing Committee on Standards Implementation, including the global shadow banking monitoring exercise for 2013 and the national survey of implementation monitoring of financial regulatory reforms.

OTC derivatives

In August, we attended the Senior Staff meeting of the OTC Derivatives Regulators Group (ODRG) in Washington discussing cross-border issues stemming from the G20 mandated global OTC derivatives regulatory reform. We took part in the ODRG meeting for Principals in Paris in September.

¹ Source: OICV IOSCO 2013 Luxembourg website

² The Joint Forum was established under the support of the Basel Committee on Banking Supervision, IOSCO and the International Association of Insurance Supervisors to deal with issues common to the banking, securities and insurance sectors.

The Working Group on Margining Requirements, co-chaired by Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China, released the final margin framework for non-centrally-cleared derivatives in September. The working group is set up under the Basel Committee on Banking Supervision and IOSCO.

MOU on alternative investment fund managers

In July, we entered into memoranda of understanding (MOU) with competent authorities of 28 European Union or European Economic Area countries on the supervision of alternative investment fund managers³. The MOU provides a framework for mutual assistance in the supervision and oversight of managers of alternative investment funds that operate on a cross-border basis, and for exchange of information for supervisory and enforcement purposes in a manner consistent with and permitted by all applicable laws and requirements.

Strengthening cross-border collaboration

CEPA

We provided extensive support to the Government in formulating co-operation measures under the Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA X), which was signed on 29 August. We took part in the discussions with our Mainland counterparts to finalise new CEPA initiatives in the securities sector.

Under CEPA X, mutual recognition of fund products between the Mainland and Hong Kong will be actively studied by relevant authorities. There are also several measures to facilitate Hong Kong financial institutions' access to the Mainland securities market, which include:

- relaxing the eligibility requirements for Hong Kong-funded securities companies to become Qualified Foreign Institutional Investors (QFII) on the Mainland;

- allowing qualified Hong Kong-funded financial institutions to set up joint venture fund management companies in mainland China with over 50% shareholdings;
- allowing qualified Hong Kong-funded financial institutions to set up one full-licensed joint venture securities company each in Shanghai, Guangdong Province and Shenzhen, with a maximum of 51% shareholdings; and
- allowing Hong Kong-funded securities companies to hold more than 50% shareholdings in joint venture securities investment advisory companies in certain reform experiment zones.

We will maintain close dialogue with the Mainland authorities on the implementation of CEPA X initiatives.

Other work

We met with senior officials of relevant Mainland authorities to discuss initiatives reinforcing Hong Kong's development as a major international financial centre and an offshore renminbi centre. We also attended the fifth Guangdong/Hong Kong Financial Co-operation Expert Group Meeting to discuss co-operation initiatives between Hong Kong and Guangdong in the securities sector.

³ Alternative investment fund managers are managers of collective investment schemes which do not require authorisation under the Directive on Undertakings for Collective Investment in Transferable Securities (UCITS).

Communication with stakeholders

In July, we attended two meetings at the Legislative Council Panel on Financial Affairs to discuss regulation of collective investment schemes and proposed amendments to the professional investor regime and the client agreement requirements.

In the quarter, we received two study groups – one from Capital Markets and Securities Authority of Tanzania and the other one, of university students, from Shanghai. The Tanzanian representatives were interested to learn from Hong Kong's experience in developing their own market for growth companies.

The Shanghai students participated in the Pilot Scheme for Cross-border Study Tour for Post-secondary Financial Talents, which was organised by the Financial Services and the Treasury Bureau and the Advisory Committee on Human Resources Development in the Financial Services Sector. The study tour aims to promote interaction and exchanges among aspiring young people in Hong Kong and the Mainland and strengthen the talent pool for Hong Kong's financial services sector.

We also spoke at a training programme, organised by the Hong Kong Institute of Chartered Secretaries, providing senior executives at Mainland-listed companies with an overview of the SFC's regulatory functions.

Industry-related publications published in the quarter included:

- *Financial Review of the Securities Industry* – a half-yearly review of the securities industry providing statistical and financial information about securities dealers and securities margin financiers as well as on the financial performance of each of the three categories of participants of The Stock Exchange of Hong Kong Limited;
- *Half Yearly Review of the Global and Local Securities Markets* – an overview of major financial markets in respect of stock market performance, key economic indicators, market risks and outlook, etc;
- *Takeovers Bulletin* – a quarterly newsletter to help industry participants better understand the Codes on Takeovers and Mergers and Share Repurchases. The September issue highlighted disciplinary proceedings against the Chairman of Pearl Oriental Oil Limited and others for alleged breach of the Takeovers Code; and
- *Fund Management Activities Survey 2012* (see Investment products on page 4).

Publications and other communications

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY Change (%)
Press releases issued	33	64	71	-9.9
Industry-related publications	5	7	12	-41.7
Corporate website average daily page views	43,569	43,530	N/A ¹	N/A
Public enquiries	1,845	3,858	4,034	-4.4

¹ The revamped corporate website was launched in August 2012.

Corporate Developments

As at 30 September, we had 721 staff, up from 647 a year ago, including 15 Graduate Trainees who were recruited in July as part of our future talent pipeline.

During the quarter, we launched enhancements to the SFC Online Portal and internal systems in preparation for the initial public offering sponsors regime which, taking effect on 1 October, introduces additional eligibility criteria for Sponsor Principals.

Our revenue for the quarter was \$277 million, 5% lower than \$291 million last quarter but comparable to the \$269 million reported a year ago. In the quarter, average daily turnover in Hong Kong's securities market was \$58 billion, 11% lower than the \$65 billion in the previous quarter. As a result, our levy income decreased to \$234 million in the quarter from last quarter's \$252 million. Our expenditure was \$319 million, 3% higher than last quarter's but 15% below our approved budget. We recorded a deficit of \$42 million this quarter, compared with a \$19 million deficit last quarter and a \$19 million surplus a year ago. As at 30 September, our reserves stood at \$7.4 billion.

Finances

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
Income (\$ million)	277	568	562	1.1
Expenses including depreciation (\$ million)	319	629	513	22.6

Activity Data

Table 1 Breaches noted during on-site inspections

No. of breaches	Quarter ended 30.9.2013	Six months ³ ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
Failure to comply with Financial Resources Rules	4	9	8	12.5
Failure to safekeep client securities	6	13	4	225
Failure to maintain proper books and records	1	2	11	-81.8
Failure to safekeep client money	4	11	6	83.3
Unlicensed dealing and other registration issues	1	3	3	-
Breach of licensing condition	0	0	2	-100
Breach of requirements of contract notes/statements of account/receipts	4	13	6	116.7
Failure to make filing/notification	1	2	0	N/A
Breach of margin requirements	1	3	3	-
Marketing malpractices	0	1	0	N/A
Illegal short selling of securities	4	5	0	N/A
Dealing malpractices	0	0	0	N/A
Breach of Code of Conduct ¹	42	99	67	47.8
Breach of Corporate Finance Adviser Code of Conduct	4	13	3	333.3
Breach of Fund Manager Code of Conduct	2	9	6	50
Non-compliance with anti-money laundering guidelines	9	25	0	N/A
Breach of other rules and regulations of the Exchanges ²	5	7	7	-
Internal control weaknesses	96	191	76	151.3
Others	46	64	34	88.2
Total	230	470	236	99.2

¹ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

² Comprise The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited

³ Adjustments have been made to take into account of revised June figures.

Table 2 Authorized unit trusts and mutual funds – by type

	As at 30.9.2013	As at 31.3.2013	Change (%)
Bond	318	338	-5.9
Equity	920	970	-5.2
Diversified	79	82	-3.7
Money market	38	39	-2.6
Fund of funds	80	72	11.1
Index	135	124	8.9
Guaranteed	12	14	-14.3
Hedge	3	5	-40
Other specialised ¹	16	16	-
Subtotal	1,601	1,660	-3.6
Umbrella structures	187	187	-
Total	1,788	1,847	-3.2

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 30.9.2013	As at 31.3.2013	Change (%)
Hong Kong	328	305	7.5
Luxembourg	972	1,045	-7
Ireland	271	277	-2.2
Guernsey	1	1	-
United Kingdom	52	53	-1.9
Other Europe	0	0	N/A
Bermuda	6	7	-14.3
British Virgin Islands	0	0	N/A
Cayman Islands	150	151	-0.7
Others	8	8	-
Total	1,788	1,847	-3.2

Table 4 Unlisted structured products¹ offered to the public

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
Structured products authorized	54	71	80	-11.3
Offering documents authorized	35	59	81	-27.2
Advertisements authorized	0	5	1	400

¹ Comprise common structured products such as equity linked investments and equity linked deposits

Table 5 Takeovers activities¹

	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
General and partial offers	7	15	12	25
Privatisations	0	0	3	-100
Whitewash waiver applications	4	11	14	-21.4
Off-market and general offer repurchases	0	2	5	-60
Other applications	45	102	112	-8.9
Total	56	130	146	-11

¹ All these transactions are under/regulated by the Codes on Takeovers and Mergers and Share Repurchases.

Table 6 Stock market – Main Board

	As at 30.9.2013	As at 31.3.2013	Change (%)
No. of listed companies on The Stock Exchange of Hong Kong Limited	1,399	1,378	1.5
Market capitalisation (\$ billion)	22,698	21,866	3.8

Table 7 Complaints¹

Nature of complaints	Quarter ended 30.9.2013	Six months ended 30.9.2013	Six months ended 30.9.2012	YoY change (%)
Conduct of licensed intermediaries and registered institutions	71	171	134	27.6
Listing-related matters and disclosure of interests	100	228	270	-15.6
Market misconduct	75	158	147	7.5
Products	1	5	3	66.7
Other financial activities	151	269	196	37.2
Miscellaneous	0	1	0	N/A
Total	398	832	750	10.9

¹ The complaint figures reflect the number of complainants.

Independent Auditors' Report on Review of Interim Financial Information To the board of directors of the Securities and Futures Commission

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

Introduction

We have reviewed the accompanying condensed consolidated and the condensed statement of financial position of Securities and Futures Commission (the SFC) as at 30 September 2013, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information on pages 19 to 26 (the condensed consolidated interim financial information). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the 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 inquiries, 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 condensed consolidated interim financial information as at 30 September 2013 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

6 December 2013

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended 30 September 2013 \$'000	Unaudited and unreviewed three months ended 30 September 2012 \$'000
Income		
Levies	234,438	203,210
Fees and charges	22,445	41,399
Investment income	18,615	23,552
Less: custody and advisory expenses	(529)	(678)
Investment income net of third party expenses	18,086	22,874
Recoveries from Investor Compensation Fund	1,260	1,237
Other income	558	186
	276,787	268,906
Expenses		
Staff costs and directors' emoluments	223,917	185,399
Premises		
rent	43,766	32,173
rates, management fees and others	8,736	9,323
Other expenses	30,385	14,205
Depreciation	12,063	8,938
	318,867	250,038
(Loss)/surplus and total comprehensive (loss)/income for the quarter	(42,080)	18,868

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Note	Unaudited six months ended 30 September 2013 \$'000	Unaudited six months ended 30 September 2012 \$'000
Income			
Levies		486,634	414,853
Fees and charges		41,496	95,059
Investment income		36,535	49,586
Less: custody and advisory expenses		(1,145)	(1,359)
Investment income net of third party expenses		35,390	48,227
Recoveries from Investor Compensation Fund		2,530	2,474
Other income		1,859	1,192
		567,909	561,805
Expenses			
Staff costs and directors' emoluments	7(b)	438,214	370,406
Premises			
rent		89,111	52,036
rates, management fees and others		18,234	16,817
Other expenses		60,882	57,557
Depreciation		22,142	16,362
		628,583	513,178
(Loss)/surplus and total comprehensive (loss)/income for the period		(60,674)	48,627

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 30 September 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2013 \$'000	Audited At 31 March 2013 \$'000
Non-current assets			
Fixed assets		105,343	112,725
Held-to-maturity debt securities	2	2,030,425	2,935,841
		2,135,768	3,048,566
Current assets			
Held-to-maturity debt securities	2	1,874,085	2,808,214
Debtors, deposits and prepayments		123,575	139,759
Fixed and call deposits with banks		3,431,282	1,602,208
Cash at bank and in hand		10,165	2,909
		5,439,107	4,553,090
Current liabilities			
Fees received in advance		7,233	8,262
Creditors and accrued charges		150,932	114,854
		158,165	123,116
Net current assets		5,280,942	4,429,974
Total assets less current liabilities		7,416,710	7,478,540
Non-current liabilities	3	21,755	22,911
Net assets		7,394,955	7,455,629
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated Surplus		7,352,115	7,412,789
		7,394,955	7,455,629

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 30 September 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2013 \$'000	Audited At 31 March 2013 \$'000
Non-current assets			
Fixed assets		105,134	112,625
Held-to-maturity debt securities	2	2,030,425	2,935,841
		2,135,559	3,048,466
Current assets			
Held-to-maturity debt securities	2	1,874,085	2,808,214
Debtors, deposits and prepayments		127,455	139,502
Fixed and call deposits with banks		3,431,282	1,602,208
Cash at bank and in hand		3,576	1,857
		5,436,398	4,551,781
Current liabilities			
Fees received in advance		7,233	8,262
Creditors and accrued charges		148,014	113,445
		155,247	121,707
Net current assets		5,281,151	4,430,074
Total assets less current liabilities		7,416,710	7,478,540
Non-current liabilities	3	21,755	22,911
Net assets		7,394,955	7,455,629
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated Surplus		7,352,115	7,412,789
		7,394,955	7,455,629

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
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
Balance at 1 April 2013	42,840	7,412,789	7,455,629
Total comprehensive loss for the period	–	(60,674)	(60,674)
Balance at 30 September 2013	42,840	7,352,115	7,394,955

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited six months ended 30 September 2013 \$'000	Unaudited six months ended 30 September 2012 \$'000
Cash flows from operating activities		
(Loss)/surplus for the period	(60,674)	48,627
Adjustments for:		
Depreciation	22,142	16,362
Investment income	(36,535)	(49,586)
Exchange loss on revaluation of debt securities	4,495	-
Gain on disposal of fixed assets	(3)	(21)
	(70,575)	15,382
Decrease in debtors, deposits and prepayments	1,489	21,709
Increase in creditors and accrued charges	35,307	43,993
Decrease in fees received in advance	(1,029)	(53,757)
(Decrease)/increase in non-current liabilities	(1,156)	10,670
Increase in fixed deposits other than cash and cash equivalents	(49,832)	-
Net cash (used in)/generated from operating activities	(85,796)	37,997
Cash flows from investing activities		
Interest received	69,662	94,286
Held-to-maturity debt securities bought	-	(861,575)
Held-to-maturity debt securities redeemed	1,817,388	1,001,900
Fixed assets bought	(14,759)	(13,673)
Fixed assets disposed	3	-
Net cash generated from investing activities	1,872,294	220,938
Net increase in cash and cash equivalents	1,786,498	258,935
Cash and cash equivalents at beginning of the six months period	1,605,117	1,039,241
Cash and cash equivalents at end of the six months period	3,391,615	1,298,176

Analysis of the balance of cash and cash equivalents:

	Unaudited At 30 September 2013 \$'000	Unaudited At 30 September 2012 \$'000
Fixed and call deposits with banks	3,381,450	1,295,502
Cash at bank and in hand	10,165	2,674
	3,391,615	1,298,176

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2013 (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 2013 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) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 30 September 2013. 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 2013 to the interim financial report.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2013.

2. Held-to-maturity debt securities

As of 30 September 2013, the total market value of held-to-maturity debt securities amounted to \$3,940,317,000 (31 March 2013: \$5,798,306,000), which was above the total carrying value of \$3,904,510,000 (31 March 2013: \$5,744,055,000).

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 2013. 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

For the six months ended 30 September 2013 (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. On 20 November 2012, the SFC launched the 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 companies are wholly owned subsidiaries of the SFC. As at 30 September 2013, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 30 September 2013 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

The financial statements of ICC and IEC 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, we have 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 \$2,530,000 (2012: \$2,474,000), 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 2013 \$'000	30 September 2012 \$'000
Directors' fees and salaries, allowances and benefits in kind	15,183	13,308
Retirement scheme contributions	1,364	1,192
	16,547	14,500

The total remuneration is included in "staff costs and directors' emoluments" on page 19. 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

For the six months ended 30 September 2013 (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 \$654,000 (At 31 March 2013: \$291,000).
- 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 \$360,000 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 2013 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017 is as follows:

	Unaudited At 30 September 2013 \$'000	Audited At 31 March 2013 \$'000
Payable next year	180,874	183,148
Payable in one to five years	526,706	617,143
Payable in more than five years	-	-
	707,580	800,291

During the period, \$89,111,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2012 : \$52,036,000).

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half yearly report and the unaudited condensed financial statements for the quarter ended 30 September 2013.

1. Establishment of the Investor Compensation Fund

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

2. Financial results

The deficit of the Fund for the reporting period ended 30 September 2013 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 29 to 34.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 2013 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

6 December 2013

Investor Compensation Fund

Independent Auditors' Report on Review of Interim Financial Information to the board of directors of the Securities and Futures Commission

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

Introduction

We have reviewed the accompanying condensed statement of financial position of Investor Compensation Fund (the Fund) as at 30 September 2013, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information on pages 30 to 34 (the condensed interim financial information). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with the 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 inquiries, 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 condensed interim financial information as at 30 September 2013 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

6 December 2013

Condensed statement of profit or loss and other comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended 30 September 2013 \$'000	Unaudited and unreviewed three months ended 30 September 2012 \$'000
Income		
Net investment income	18,419	47,532
Exchange difference	(207)	(533)
	18,212	46,999
Expenses		
Investor Compensation Company Limited expenses	1,260	1,238
Auditor's remuneration	28	27
Bank charges	207	205
Professional fees	911	886
	2,406	2,356
Surplus and total comprehensive income for the quarter	15,806	44,643

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Note	Unaudited six months ended 30 September 2013 \$'000	Unaudited six months ended 30 September 2012 \$'000
Income			
Net investment (loss)/income		(18,010)	63,213
Exchange difference		(1,327)	(1,557)
		(19,337)	61,656
Expenses			
Investor Compensation Company Limited expenses	2	2,530	2,474
Auditor's remuneration		56	55
Bank charges		410	399
Professional fees		1,866	1,775
		4,862	4,703
(Deficit)/Surplus and total comprehensive (loss)/income for the period		(24,199)	56,953

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

Condensed statement of financial position

At 30 September 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2013 \$'000	Audited At 31 March 2013 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities		1,759,050	1,707,975
– Pooled Fund		269,114	286,653
Interest receivable		12,592	14,350
Due from Investor Compensation Company Limited		654	292
Fixed and call deposits with banks		121,891	169,130
Cash at bank		7,816	16,525
		2,171,171	2,194,925
Current liabilities			
Provision for compensation	3	150	150
Creditors and accrued charges		1,956	1,665
Fair value adjustment on unsettled trades		100	-
		2,206	1,815
Net current assets		2,168,911	2,193,110
Net assets		2,168,911	2,193,110
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		1,065,270	1,089,469
		2,168,911	2,193,110

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

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2013 (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 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
Balance at 1 April 2013	994,718	108,923	1,089,469	2,193,110
Total comprehensive loss for the period	–	–	(24,199)	(24,199)
Balance at 30 September 2013	994,718	108,923	1,065,270	2,168,911

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

Condensed statement of cash flows

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited six months ended 30 September 2013 \$'000	Unaudited six months ended 30 September 2012 \$'000
Cash flows from operating activities		
(Deficit)/Surplus for the period	(24,199)	56,953
Net investment loss/(income)	18,010	(63,213)
Exchange difference	1,327	1,557
Increase in amount due from Investor Compensation Company Limited	(362)	(532)
Increase in creditors and accrued charges	291	541
Net cash used in operating activities	(4,933)	(4,694)
Cash flows from investing activities		
Purchase of debt securities	(416,201)	(302,585)
Sale or maturity of debt securities	339,568	350,316
Sale of equity securities	374	577
Interest received	25,244	29,069
Net cash (used in)/generated from investing activities	(51,015)	77,377
Net (decrease)/increase in cash and cash equivalents	(55,948)	72,683
Cash and cash equivalents at beginning of the six-month period	185,655	180,491
Cash and cash equivalents at end of the six-month period	129,707	253,174

Analysis of the balance of cash and cash equivalents:

	Unaudited At 30 September 2013 \$'000	Unaudited At 30 September 2012 \$'000
Fixed and call deposits with banks	121,891	234,083
Cash at bank	7,816	19,091
	129,707	253,174

Notes to the condensed financial statements

For the six months ended 30 September 2013 (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 2013 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 2013 to this interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2013.

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 2013, ICC incurred \$2,530,000 for its operation and was reimbursed by the Fund (For the six months ended 30 September 2012 : \$2,474,000).

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 2013 was \$150,000 (31 March 2013: \$150,000). As at 30 September 2013 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 2013.

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 \$1,734,000 (31 March 2013: \$957,000). 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

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their half yearly report and the unaudited condensed financial statements for the quarter ended 30 September 2013.

1. Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (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 2013, the Fund has transferred \$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 surplus of the Fund for the reporting period ended 30 September 2013 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 37 to 42.

3. Members of the Committee

The members of the Committee during the six months ended 30 September 2013 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

2 December 2013

Unified Exchange Compensation Fund

Independent Auditors' Report on Review of Interim Financial Information to the board of directors of the Securities and Futures Commission

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

Introduction

We have reviewed the accompanying condensed statement of financial position of Unified Exchange Compensation Fund (the Fund) as at 30 September 2013, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information on pages 38 to 42 (the condensed interim financial information). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with the 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 inquiries, 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 condensed interim financial information as at 30 September 2013 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

2 December 2013

Condensed statement of profit or loss and other comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited and unreviewed three months ended 30 September 2013 \$'000	Unaudited and unreviewed three months ended 30 September 2012 \$'000
Income		
Interest income	108	161
Expenses		
Auditor's remuneration	12	11
Professional fee	8	8
	20	19
Surplus and total comprehensive income for the quarter	88	142

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited six months ended 30 September 2013 \$'000	Unaudited six months ended 30 September 2012 \$'000
Income		
Interest income	209	332
Expenses		
Auditor's remuneration	24	23
Professional fee	16	16
	40	39
Surplus and total comprehensive income for the period	169	293

The notes on page 42 form part of the condensed financial statements

Condensed statement of financial position

At 30 September 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2013 \$'000	Audited At 31 March 2013 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		43	46
Fixed and call deposits with banks		74,630	73,939
Cash at bank		231	456
		74,905	74,442
Current liabilities			
Relinquished trading rights payable to SEHK	3	1,600	-
Creditors and accrued charges		10,293	10,299
		11,893	10,299
Net current assets		63,012	64,143
Net assets		63,012	64,143
Representing:			
Compensation fund			
Contributions from SEHK		49,100	50,400
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		18,341	18,172
		1,057,730	1,058,861
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		63,012	64,143

The notes on page 42 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited six months ended 30 September 2013 \$'000	Unaudited six months ended 30 September 2012 \$'000
Compensation fund balance as at 1 April	64,143	62,727
Net contributions (to)/from SEHK	(1,300)	750
Total comprehensive income for the period	169	293
Compensation fund balance as at 30 September	63,012	63,770

The notes on page 42 form part of the condensed financial statements.

Condensed statement of cash flows

For the six months ended 30 September 2013 (expressed in Hong Kong dollars)

	Unaudited six months ended 30 September 2013 \$'000	Unaudited six months ended 30 September 2012 \$'000
Cash flows from operating activities		
Surplus for the period	169	293
Interest income	(209)	(332)
Increase in relinquished trading rights payable to SEHK	1,600	-
Decrease in creditors and accrued charges	(6)	(4)
Net cash generated from/(used in) operating activities	1,554	(43)
Cash flows from investing activities		
Interest received	212	351
Net cash generated from investing activities	212	351
Cash flows from financing activities		
Net contributions from SEHK	(1,300)	750
Net cash (used in)/generated from financing activities	(1,300)	750
Net increase in cash and cash equivalents	466	1,058
Cash and cash equivalents at beginning of the six-month period	74,395	72,920
Cash and cash equivalents at end of the six-month period	74,861	73,978

Analysis of the balance of cash and cash equivalents:

	Unaudited At 30 September 2013 \$'000	Unaudited At 30 September 2012 \$'000
Fixed and call deposits with banks	74,630	73,449
Cash at bank	231	529
	74,861	73,978

Notes to the condensed financial statements

For the six months ended 30 September 2013 (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 2013 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 2013 to this interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2013.

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 2013 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 \$450,000 in respect of 9 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 30 September 2013, there were 32 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 2013.

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.

Securities and Futures Commission

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