



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

# Quarterly Report



July - September 2014

This second Quarterly Report of the Securities and Futures Commission for financial year 2014-15 covers the period from 1 July to 30 September 2014.

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## Regulatory enhancements

- **IPO sponsors:** We issued supplemental consultation conclusions on initial public offering (IPO) sponsors reaffirming that they are subject to existing statutory civil and criminal liability for defective prospectuses.
- **REITs:** We published Consultation Conclusions on amendments to the Code on Real Estate Investment Trusts (REIT Code) which introduce greater flexibility for REITs to invest in property development activities and financial instruments.
- **Professional investors:** We issued consultation conclusions on proposed amendments to the professional investor regime and began a further consultation on client agreement requirements under the Code of Conduct<sup>1</sup>.
- **OTC derivatives:** We launched a joint consultation with the Hong Kong Monetary Authority on the proposed Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules.

## Product development

- **Renminbi product offerings:** We authorized 11 unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds and one RQFII exchange-traded fund this quarter.

## Listing matters

- **Corporate regulation:** We published the first issue of our *Corporate Regulation Newsletter* to inform market participants about disclosures by listing applicants and listed companies and to improve corporate behaviour in general.
- **Review of IPO applications:** Under the new IPO sponsor regime, two listing applications were returned because their application proofs were not substantially complete.

## Market infrastructure and trading

- **Shanghai-Hong Kong Stock Connect:** We worked closely with the China Securities Regulatory Commission and related parties to handle various regulatory and operational issues prior to the programme's launch.

## Enforcement

- We prosecuted six individuals for market misconduct and disciplined two licensed corporations for their serious internal control deficiencies, misappropriation of client assets and provision of false or misleading information to the SFC. Our prosecutions and disciplinary actions during the quarter resulted in total fines of over \$7 million.
- We commenced Court proceedings against CITIC Limited and five of its former executive directors to restore up to 4,500 CITIC shareholders to their pre-transaction positions or to compensate for their losses.
- We are seeking remedial orders for more than 1,300 minority shareholders who purchased shares of Greencool Technology Holdings Limited, which allegedly overstated its disclosed financial position.

## Global regulatory engagement

- Our Chief Executive Officer, Mr Ashley Alder, JP was re-elected as Chair of the International Organization of Securities Commissions' Asia-Pacific Regional Committee.

## Stakeholder communication

- In September, we held our first supervisory briefing for market intermediaries to share key findings noted from our recent inspections of a number of large international licensed firms.

<sup>1</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Licensing applications

We received 1,999 licence applications<sup>1</sup> this quarter. This was a 27.5% increase from the last quarter and a 3.2% increase from the same quarter last year. In the six months to 30 September, the total number of licensees and registrants rose 2.1% to 39,866.

## Professional investor regime

In September, we issued consultation conclusions on proposed amendments to the professional investor regime. Under the revised regime, intermediaries are not allowed to be exempt from various fundamental Code of Conduct<sup>2</sup> requirements<sup>3</sup> when serving individual professional investors; and intermediaries are to adopt principles-based criteria to assess whether exemptions to such fundamental Code of Conduct requirements apply when they serve corporate professional investors. These amendments come into effect on 25 March 2016.

Concurrently with the release of the consultation conclusions, we also began a further consultation on client agreement requirements under the Code of Conduct. This concerns the wording of a proposed new clause to be incorporated into all client agreements as a contractual term. The three-month consultation ends on 24 December.

## Interaction with the industry

At our first supervisory briefing for market intermediaries, held on 2 September, we shared key findings noted from our recent inspections of a number of larger international licensed firms. The briefing focused on senior management's responsibilities for implementing proper controls, maintaining appropriate standards of conduct



SFC Supervisory Briefing for market intermediaries

and adhering to proper procedures as well as the SFC's commitment to pursue criminal or civil actions against individuals or firms when material misconduct is detected. A number of senior business heads, chief risk, operating and compliance officers of different investment banks, and regulatory practice advisers attended the half-day event.

## Promoting compliance

In July we gave a presentation to an industry association on anti-money laundering and counter-terrorist financing to raise the industry's awareness and understanding of obligations on screening customers, monitoring transactions and reporting of suspicious activities. More than 280 participants attended.

During the quarter, we issued five advisory circulars to enhance industry participants' awareness about the latest developments in anti-money laundering and counter-terrorist financing.

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 1,218 provisional licence applications compared with 1,205 in the same quarter last year.

<sup>2</sup> The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

<sup>3</sup> Including the suitability requirement, which refers to the requirement to ensure that the suitability of a recommendation or solicitation for a client is reasonable in all circumstances.

## Intermediaries

### Licensees and registrants

	As at 30.9.2014	As at 31.3.2014	Change (%)	As at 30.9.2013	YoY change (%)
Licensed corporations	2,021	1,970	2.6	1,927	4.9
Registered institutions	119	120	-0.8	119	0
Licensed individuals	37,726	36,970	2.0	37,106	1.7
<b>Total</b>	<b>39,866</b>	<b>39,060</b>	<b>2.1</b>	<b>39,152</b>	<b>1.8</b>

### Licensing applications

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Applications to conduct new regulated activity received	5,768	10,299	10,439	-1.3
Applications for SFC licences received <sup>1</sup>	1,999	3,567	3,428	4.1

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 1,218 provisional licence applications compared with 1,205 in the same quarter last year.

### Intermediary inspection

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Risk-based, on-site inspections conducted	82	160	139	15.1

### More renminbi products

The number of Renminbi Qualified Foreign Institutional Investor (RQFII) products continued to grow. We authorized 11 unlisted RQFII funds and one RQFII exchange-traded fund (ETF) this quarter. This brought the total number of SFC-authorized RQFII unlisted funds and ETFs to 53 and 17, respectively, as of 30 September.

### Real estate investment trusts

In July, we published the Consultation Conclusions on Amendments to the Code on Real Estate Investment Trusts (REIT Code). These amendments introduced greater flexibility for real estate investment trusts to invest in property development activities and financial instruments. The proposals were generally supported by the market and the amendments were adopted after taking into account the comments received. Updated frequently asked questions (FAQs) and investor education materials were also released in August to provide further guidance to the industry and investors.

### Open-ended fund companies

During the period, we continued to provide technical support to the Government in developing a legal and regulatory framework for open-ended fund companies (OFCs) in Hong Kong. Further to the end of the Government's three-month consultation period on OFCs on 19 June, we have continued to work closely with the Government on the consultation conclusions and concomitant legislative process.

### Regulation and monitoring

During the quarter, we published various circulars and FAQs concerning:

- disclosure requirements regarding the ongoing charges figure<sup>1</sup> and past performance information for SFC-authorized funds;
- disclosure requirements for the tracking difference and tracking error of SFC-authorized ETFs and unlisted index funds;
- disclosure and SFC approval requirements for existing SFC-authorized funds which intend to invest in the Mainland market through Shanghai-Hong Kong Stock Connect;
- guidance on requirements relating to changes or proposed changes to key personnel of management company after a fund is authorized by the SFC; and
- disclosure requirements regarding investment options and cost of insurance charges in the offering documents of SFC-authorized investment-linked assurance schemes.

### Fund Management Activities Survey

In July, we released the Fund Management Activities Survey for 2013, an annual survey which collects information and data on the local fund management industry. The findings showed that Hong Kong's combined fund management business grew 27.2% year on year to a record high of \$16,007 billion as of 31 December 2013. There was also overall growth in all types of fund management activities involving a growing number of licensed market players.

<sup>1</sup> The ongoing charges figure represents generally the sum of the ongoing expenses chargeable to SFC-authorized funds expressed as a percentage of the fund's average net assets.

## Investment products

### Authorized collective investment scheme investment products<sup>1</sup>

	As at 30.9.2014	As at 31.3.2014	Change (%)	As at 30.9.2013	YoY change (%)
Unit trusts and mutual funds <sup>2</sup>	<b>1,983</b>	1,935	2.5	1,904	4.1
Investment-linked assurance schemes	<b>265</b>	264	0.4	262	1.1
Pooled retirement funds	<b>35</b>	35	0	35	0
MPF master trust schemes	<b>38</b>	40	-5	40	-5
MPF pooled investment funds <sup>2</sup>	<b>186</b>	186	0	185	0.5
Others <sup>3</sup>	<b>27</b>	27	0	27	0
<b>Total</b>	<b>2,534</b>	2,487	1.9	2,453	3.3

<sup>1</sup> Excluding unlisted structured investment products. This table represents a snapshot view as of the end of each reporting period.

<sup>2</sup> Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong. For comparison purposes, adjustments have been made to these categories to reflect that 116 retail APIFs as at 30 September 2013 have been reclassified accordingly.

<sup>3</sup> Other schemes comprise 16 paper gold schemes and 11 real estate investment trusts as of 30 September 2014.

### Authorized unlisted structured investment products

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Unlisted structured investment products	<b>52</b>	60	71	-15.5

### IPO sponsors' prospectus liability

In August, we published supplemental consultation conclusions reaffirming that initial public offering (IPO) sponsors are subject to existing statutory civil and criminal liability for defective prospectuses and, accordingly, legislative amendments are unnecessary. This followed our further discussions regarding possible legislative amendments to clarify sponsors' prospectus liability which were conducted with industry participants and other interested parties after the publication of consultation conclusions on the regulation of IPO sponsors in December 2012. We also carefully re-examined in more depth the scope and applicability of the existing statutory provisions to sponsors, concluding that sponsors authorize the issue of prospectuses and that they are already covered under the existing law.

### Corporate regulation

As part of our efforts to focus on corporate misconduct and disclosures, in July we published the first issue of our *Corporate Regulation Newsletter*, which aims to inform market participants about matters concerning disclosures by listing applicants and listed companies, and to improve corporate behaviour in general. To foster a more transparent disclosure culture, we encourage listed companies to make more meaningful disclosures of inside information<sup>1</sup>. The newsletter also reminds IPO sponsors to focus on meaningful disclosures rather than taking a mechanical box-ticking approach, to provide sufficient risk disclosure for investors to assess a company's prospects, and to assess the reasonableness of experts' opinions on technical matters.

### Review of IPO applications

Under the dual filing regime, we received 45 listing applications via The Stock Exchange of Hong Kong Limited (SEHK) during the quarter. Between 1 October 2013, when

the new IPO sponsor regime took effect, and 30 September 2014, a total of 12 listing applications were returned because their application proofs were not substantially complete and an eight-week moratorium<sup>2</sup> was imposed. Two<sup>3</sup> of these were returned during the quarter.

### Review of SEHK's listing regulation work

In September, we published an annual review report on SEHK's performance in its regulation of listing matters during 2013. Based on our review, SEHK's operational procedures and decision-making processes were appropriate to enable it to discharge its statutory obligations to maintain an orderly, informed and fair market. We also identified areas where SEHK can continue to enhance its performance, including its handling of transfers of listings from the Growth Enterprise Market to the Main Board, waiver applications, and listing applications of debt offered to professional investors only.

### Takeovers matters

In September 2014, the Takeovers and Mergers Panel reviewed the Takeovers Executive's<sup>4</sup> ruling in respect of China Oriental Holdings Limited after the company's independent non-executive directors submitted a review application to the Panel. In August 2014, the Takeovers Executive ruled that ArcelorMittal, a substantial shareholder of China Oriental, had not triggered a mandatory general offer for the shares of China Oriental as a result of certain transactions between ArcelorMittal and a number of banks at the end of April 2014. The Panel agreed with the Takeovers Executive that the transactions did not give rise to a mandatory general offer obligation under the Code on Takeovers and Mergers, and was of the view that ArcelorMittal and the banks had been acting in concert all along with combined total holdings of 47%. The Panel's decision was published on 15 October 2014.

<sup>1</sup> Including profit alerts and warnings.

<sup>2</sup> The respective applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

<sup>3</sup> Including one listing application that was received by us in the previous quarter and returned in this quarter subsequent to the issue of principal comments by SEHK and the SFC.

<sup>4</sup> The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director.



## Process efficiency

From 1 July 2014, the Takeovers Executive has now focused its comments<sup>5</sup> on substantive Takeovers Code-related issues and away from the Schedule disclosure requirements<sup>6</sup> in all drafts of shareholder's documents submitted to the Executive. This change of approach should help promote self-discipline among market practitioners in

submitting draft documents in an advanced form and assist their compliance with the Codes on Takeovers and Mergers and Share Buy-backs while enhancing process efficiency. To date, we note that market practitioners have complied with the new measure without difficulty.

## Listing applications and takeovers activities

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Listing applications filed under the dual filing regime	45	94	105	-10.5
Takeovers and share repurchases transactions handled	78	193	130	48.5

<sup>5</sup> Rule 12.1 of the Takeovers Code requires all "documents" (other than those appearing in the Post-Vet List) to be filed with the Takeovers Executive for comment.

<sup>6</sup> These refer to the disclosure requirements set out in Schedules I, II, III and VI of the Codes on Takeovers and Mergers and Share Buy-backs.

### Shanghai-Hong Kong Stock Connect

During the quarter, we worked closely with the China Securities Regulatory Commission, Hong Kong Exchanges and Clearing Limited, Shanghai Stock Exchange and China Securities Depository and Clearing Corporation Limited to examine and deal with various regulatory and operational issues in preparation for the launch of Shanghai-Hong Kong Stock Connect<sup>1</sup> on 17 November 2014.

As part of these preparations, we monitored the system connectivity test and two market rehearsals conducted in August and September. Overall test results were satisfactory.

In August, we concluded a public consultation exercise and published revised Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests). The revised guidelines, which came into effect on 5 September, provide a level playing field for market participants involved in Stock Connect whose roles are similar to those who are currently eligible for an exemption from disclosure obligations.

### OTC derivatives market

In July, we published a joint consultation paper with the Hong Kong Monetary Authority on the proposed Securities and Futures (OTC Derivative Transactions - Reporting and Record Keeping) Rules. The one-month consultation focused on detailed requirements relating to the mandatory reporting and related record keeping obligations, such as the type of transactions to be reported, reporting timeframes and applicable grace periods. We will issue consultation conclusions by end-2014 and expect to submit the final draft of the Reporting Rules to the Legislative Council (LegCo) for negative vetting in the first quarter of 2015.

This was the first of a series of consultations on the rules for implementing the new over-the-counter (OTC) derivatives regulatory regime set out under the Securities and Futures (Amendment) Ordinance 2014 which was gazetted on 4 April. The new regime aims to meet the relevant G20 commitments to improve transparency, reduce counterparty risk and prevent market abuse in the OTC derivatives market. It will allow regulators to better assess, mitigate and manage systemic risk, thus helping to enhance financial market stability.

### Uncertificated securities market

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014 was introduced to LegCo for consideration. The Bill will enable the implementation of an uncertificated securities regime which will bring Hong Kong in line with global standards as well as enhance market efficiency and corporate governance. The proposed regime will abolish the need for share certificates and also allow greater certainty and efficiency in post-trade processing and in corporate actions such as dividend payment and voting.

The first meeting of LegCo's Bills Committee took place on 18 July. In addition to briefing the committee on the Bill and on the proposed framework for the uncertificated securities market system, we explained various operational issues and the timetable for the implementation of the proposed regime.

### Automated trading services

As of the end of September, the number of automated trading services<sup>2</sup> (ATS) authorizations under Part III of the Securities and Futures Ordinance (SFO) was 28, while under Part V of the SFO a total of 26 corporations, including 16 dark pool operators, were licensed to provide ATS.

<sup>1</sup> Shanghai-Hong Kong Stock Connect, a pilot scheme launched on 17 November, enables mutual stock market access between Shanghai and Hong Kong.

<sup>2</sup> 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 solely providing ATS are expected to be authorized under Part III of the SFO.

## Redress for investors

During the quarter, we continued to take action to remediate investors.

- In September, we commenced proceedings in the Court of First Instance (CFI) under section 213<sup>1</sup> of the Securities and Futures Ordinance (SFO) against CITIC Limited and five of its former executive directors to restore up to 4,500 CITIC shareholders to their pre-transaction positions or to compensate for their losses.

CITIC issued a circular on 12 September 2008 stating that its directors were not aware of any adverse material change in the financial or trading position of the Group since 31 December 2007. However, in a profit warning issued on 20 October 2008, CITIC disclosed that it suffered a massive loss arising from a number of leveraged foreign exchange contracts. The profit warning revealed that CITIC had become aware of the exposure arising from those contracts before the circular. The price of CITIC shares, which were suspended from trading before the profit warning, fell 55% when trading resumed the next day.

We alleged that CITIC and the five former directors engaged in market misconduct by disclosing false or misleading information in the circular and that they were aware of the huge financial exposure before the circular was issued. We are also seeking that they be sanctioned by the Market Misconduct Tribunal.

- The CFI granted an interim freezing order over 107 million shares in Hisense Kelon Electrical Holdings Limited up to a sum of \$1.2 billion, which are allegedly held for the benefit of Gu Chujun, the former Chairman and Chief Executive Officer (CEO) of Greencool Technology Holdings Limited. The order will preserve assets pending a trial in the proceedings in which we are seeking remedial orders for more than 1,300 minority shareholders who purchased Greencool shares during the period when Greencool's disclosed financial position was allegedly overstated.

## Market Misconduct Tribunal proceedings

We commenced proceedings in the Market Misconduct Tribunal against Yu Lai Si Salina, the former CEO of Water Oasis Group Limited, for alleged insider dealing. We alleged that on 20 January 2012, H2O Plus LLC told Yu information which was not publicly known and was material to Water Oasis' share price. Shortly later that day, Yu sold all her Water Oasis shares in one of her securities trading accounts and avoided a loss of around \$281,000.

## Criminal proceedings

During the quarter, we successfully prosecuted six individuals in the Eastern Magistrates' Courts.

- Wong Pok Wang was convicted of manipulating the indicative equilibrium price for derivative warrants and callable bull/bear contracts during pre-opening sessions.
- Tam Kwok Pui was convicted of providing asset management services, which included managing a portfolio of securities and futures contracts, whilst unlicensed.
- Wong Yuk Han Grace and Wong Yuk Wah Lonna were convicted of dealing in securities whilst unlicensed. Both directly handled customers' securities trading order instructions and confirmed execution of trades with customers.

## Disciplinary actions

We disciplined three corporations and 12 licensed representatives:

- Ping An of China Securities (Hong Kong) Company Limited was reprimanded and fined \$6 million for serious internal control deficiencies, including failure to establish anti-money laundering internal control procedures and procedures to protect client assets in effecting payments.

<sup>1</sup> Section 213 of the SFO gives the SFC the power to apply to the CFI for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance, etc.

- The licences of Union Securities Limited and its two responsible officers, Ma Kin Chung and Cheng Tai Ha, were revoked. Ma and Cheng were also prohibited from re-entering the industry for life. Union Securities, with the involvement of Ma and Cheng, misappropriated about \$400,000 from two clients who thought they were depositing the funds for settlement of orders. In addition, Union Securities provided false or misleading information to the SFC by omitting an overdraft in its submitted financial returns.
  - Bright Smart Securities International (H.K.) Limited was reprimanded and fined \$700,000 for allowing a false or misleading advertisement to be published. The advertisement gave a false impression that the gold bullion business of Bright Smart Securities and Commodities Group Ltd is regulated and that Bright Smart Global Bullion Limited is regulated by the SFC.
  - Three persons were disciplined following their criminal convictions:
    - Yip Wan Fung was prohibited from re-entering the industry for life and her licence was revoked following convictions of four criminal offences, including conspiracy to defraud and publishing a false statement. She was sentenced to six years' imprisonment and disqualified from becoming a director of companies for eight years without permission of the court;
    - Chan Yuk Hing was banned from re-entering the industry for three years following conviction of false trading. He was ordered to serve 80 hours of community service;
    - Tsui Chi Fung Roger was banned from re-entering the industry for nine months following conviction
- of providing false or misleading information to the SFC after he failed to disclose the disciplinary action taken against him by a US authority in two annual returns that he provided to the SFC.
- Manesh Vijaykumar Samtani was banned from re-entering the industry for life for providing clients with false information to conceal trading losses, misleading them on the transactions conducted and their actual account balances, as well as conducting unauthorised trades.
  - Shum Kam Chi Eric, previously a sponsor principal of Sun Hung Kai International Limited, was suspended for three years for serious deficiencies in the sponsor work relating to the listing of Sino-Life Group Limited. We also withdrew approval for him to act as a responsible officer for the same period of time.
  - Three persons were banned from re-entering the industry or suspended for various periods for operating a client's account on a discretionary basis without written authorisation, failing to properly safeguard client assets and other misconduct.
  - Two other individuals were reprimanded and fined for supervisory failures and for negligently handling a client's trade orders, respectively.

### Surveillance work

We made 2,244 requests for trading and account records from intermediaries in the quarter. In addition, we posted on our website six high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

## Enforcement activities

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Trading inquiries issued under S181 <sup>1</sup>	<b>2,244</b>	5,149	1,994	158.2
Investigations started	<b>144</b>	282	165	70.9
Investigations completed	<b>81</b>	140	158	-11.4
Investigations completed within seven months (%)	<b>60 (74%)</b>	104 (74%)	86 (54%)	20
Persons charged in criminal proceedings	<b>3</b>	10	19	-47.4
Criminal charges laid	<b>5</b>	20	124	-83.9
Notices of Proposed Disciplinary Action <sup>2</sup>	<b>12</b>	20	16	25
Decision Notices <sup>3</sup>	<b>16</b>	31	31	0
Persons subject to ongoing civil proceedings	<b>79</b>	79	64	23.4
Compliance advice letters issued	<b>92</b>	143	221	-35.3

<sup>1</sup> Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

<sup>2</sup> A Notice, issued by the SFC to regulated persons, that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

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

### IOSCO

In September, we attended the board meeting and annual conference of the International Organization of Securities Commissions (IOSCO) in Rio de Janeiro, where the SFC was re-elected as a member of the Board.

During the IOSCO annual conference, a meeting of IOSCO's Asia-Pacific Regional Committee (APRC) was held to discuss capacity-building initiatives and intra-regional collaboration. Our Chief Executive Officer (CEO) Mr Ashley Alder, JP was re-elected as Chair of the APRC at the meeting.

In his capacity as chairperson of IOSCO's committee on the regulation of market intermediaries, Mr Stephen Po, Senior Director of Intermediaries Supervision, spoke on the SFC's regulatory framework and philosophy on market intermediaries supervision at a workshop held during the annual conference. Mr Po was re-elected as the chairperson of the committee until 2016.

Members of the IOSCO Task Force on Cross Border Regulation, which our CEO also chairs, met in Rio de Janeiro as well as in Zürich in September to discuss a draft consultation report on cross-border regulatory techniques and related issues. The report was published for public consultation on 27 November 2014. The Task Force also prepared a progress report for the G20 Brisbane Summit in November.

Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China, co-chairs the Working Group on Margining Requirements for Non-centrally Cleared Derivatives (WGMR), as well as the Monitoring Group under WGMR. The Monitoring Group will submit a progress report on its work to the boards of both the Basel Committee on Banking Supervision and IOSCO for approval and further consideration by the end of 2014.

Members of IOSCO's committee on the regulation of market intermediaries, chaired by Mr Stephen Po, met in September and agreed on the final draft of a Prudential Standard Comparison and Analysis Report which compares different approaches to assessing the sufficiency of

intermediaries' capital requirements. Mr Po also attended an IOSCO workshop in July where he discussed the current practices of global intermediaries regarding alternative assessment of creditworthiness.

In September we attended a meeting in Washington, DC of the IOSCO Assessment Committee, of which we are a member, to discuss thematic reviews covering the regulation of derivatives market intermediaries, periodic disclosures by issuers and collective investment schemes, money markets funds and incentive alignment regimes for securitisation.

### Financial Stability Board

In August, we attended the meeting of the Standing Committee on Standards Implementation under the Financial Stability Board (FSB) in London to discuss the logistics of the thematic review of trade reporting of over-the-counter derivatives transactions and the review of resolution regimes.

We also attended the meeting of the Regional Consultative Group for Asia (RCGA) where we discussed topics including shadow banking and long-term investment in Asia. The report on shadow banking in Asia produced by the RCGA shadow banking working group, which our CEO co-chaired with Muhammad bin Ibrahim, Deputy Governor of Bank Negara Malaysia, was published by the FSB in the same month.

### Mainland China

During the quarter, we met with senior officials from the China Securities Regulatory Commission (CSRC), People's Bank of China, State Administration of Foreign Exchange, Shanghai Stock Exchange, Hong Kong and Macao Affairs Office of the State Council and other Mainland authorities to discuss how to deepen financial cooperation between Hong Kong and the Mainland through various initiatives including the Shanghai-Hong Kong Stock Connect pilot programme<sup>1</sup>, mutual recognition of funds, the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme, and the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

<sup>1</sup> Please refer to the Market infrastructure and trading section for details.

## Global regulatory engagement

To foster closer working relationships with Mainland regulators, we organised a training programme on the regulation of investment-linked assurance schemes in Hong Kong for a delegation from the China Insurance Regulatory Commission. We also arranged a secondment programme which helps CSRC executives gain hands-on experience in the regulation of the Hong Kong fund management industry.

We attended the Shenzhen Qianhai-Hong Kong Cooperation Proposal briefing in July and the Sixth Working Meeting of the Hong Kong-Guangdong Financial Cooperation Expert Group in August to explore potential cooperation opportunities. We also provided strategic input to the Government of the Hong Kong Special Administrative Region on Mainland-related issues to enhance the role of Hong Kong in the national development strategy.

## Stakeholder communication

To carry out our statutory duties effectively, we maintain close communications with stakeholders on a variety of regulatory issues. For instance, we regularly attend meetings of the Legislative Council's Panel on Financial Affairs. In July, we attended a Panel meeting to discuss the Financial Services and the Treasury Bureau's proposals to implement a stamp duty waiver in respect of exchange-traded funds.

In September, we held our first supervisory briefing for market intermediaries to share key findings noted from our recent inspections of a number of large international licensed firms.

In July, we issued a joint consultation paper with the Hong Kong Monetary Authority on the mandatory reporting and related record-keeping obligations under the new over-the-counter derivatives regime<sup>1</sup>.

We issued four consultation conclusions papers during the quarter:

- consultation conclusions on amendments to the Code on Real Estate Investment Trusts in July<sup>2</sup>;
- consultation conclusions on the proposed amendments to the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests) in August<sup>3</sup>;
- supplemental consultation conclusions on the prospectus liability of initial public offering sponsors in August<sup>3</sup>; and

- consultation conclusions on the proposed amendments to the professional investor regime together with the launch of a further consultation on client agreement requirements in September<sup>4</sup>.

We also produced a wide range of industry-related publications, including:

- our first *Corporate Regulation Newsletter*, which aims to help the public better understand disclosures by listing applicants and listed companies, in July;
- the annual *Fund Management Activities Survey* of asset management activities conducted by licensed corporations, registered institutions and insurance companies, in July;
- the September issue of *Takeovers Bulletin*, a quarterly newsletter which covers aspects of the Codes on Takeovers and Mergers and Share Buy-backs; and
- our biannual reviews of the global and local securities markets and of the local securities industry.

Our senior management spoke at 10 industry conferences during the period to share insights about our regulatory priorities and approach. We received various visitors and briefed them on the SFC's regulatory work, including a cross-border study tour from Shanghai as well as groups of students from local and overseas universities.

### Publications and other communications

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Press releases issued	35	73	64	14
Consultation papers issued	2	4	1	300
Consultation conclusions issued	4	4	1	300
Industry-related publications	6	8	7	14.3
Codes and guidelines issued	4	5	6	-17
Corporate website average daily page views <sup>1</sup>	45,927	45,357	43,530	4.2
General enquiries	1,576	3,177	3,858	-11.4

<sup>1</sup> The average number of web pages browsed per day during the reporting period.

<sup>2</sup> For more information, please refer to the Market infrastructure and trading section.

<sup>3</sup> See the Investment products section for details.

<sup>4</sup> See the Listings and takeovers section for details.



# Corporate Developments

In September, the Government of the Hong Kong Special Administrative Region (HKSAR) re-appointed Mr Ashley Alder, JP as the Chief Executive Officer for a three-year term effective 1 October.

In July, the HKSAR Government appointed Dr William Wong Ming-fung, SC and re-appointed Ms Teresa Ko Yuk-yin, JP as Non-Executive Directors (NEDs) for two-year terms effective 1 August. Mr Anderson Chow Ka-ming, SC (now the Hon Mr Justice Chow) stepped down as NED.

During the quarter there were changes to the memberships of the following Board committees:

- Mr Anderson Chow Ka-ming, SC and Mr Chan Ping Keung stepped down as members of both the Securities Compensation Fund Committee<sup>1</sup> and the Investor Compensation Fund Committee<sup>2</sup>. Subsequently, Ms Teresa Ko Yuk-yin, JP and Mr Lee Kwok Keung were appointed as members of these two committees effective 29 August.

- Mr Anderson Chow Ka-ming, SC also stepped down as a member of the Nominations Committee<sup>3</sup>. Dr William Wong Ming-fung, SC was appointed as a member of this committee effective 12 September.

As of 30 September, we had 763 staff members, up from 721 a year ago. This includes 10 Graduate Trainees recruited in July as part of our initiative to develop young talent.

Our income for the quarter was \$346 million, 21% higher than the previous quarter and 25% higher than the same quarter last year. Average daily turnover in Hong Kong's securities market during the quarter was \$73 billion, 22% higher than the previous quarter. Our levy income therefore increased to \$293 million from \$231 million last quarter. Expenditure for the quarter was \$352 million, 4% higher than the previous quarter. We recorded a deficit of \$6 million this quarter, compared to a deficit of \$52 million last quarter and \$42 million a year ago. As at 30 September, our reserves stood at \$7.3 billion.

## Finances

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Income (\$ million)	346	634	568	12
Expenses including depreciation (\$ million)	352	691	629	10

<sup>1</sup> The primary role of the Securities Compensation Fund Committee is to administer the Unified Exchange Compensation Fund, which applies in respect of claims arising before 1 April 2003.

<sup>2</sup> The primary role of the Investor Compensation Fund Committee is to administer the Investor Compensation Fund, which applies in respect of claims arising on or after 1 April 2003.

<sup>3</sup> 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.

# Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013 <sup>1</sup>	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	8	11	9	22.2
Failure to safekeep client securities	8	21	16	31.3
Failure to maintain proper books and records	5	8	3	166.7
Failure to safekeep client money	5	10	11	-9.1
Unlicensed dealing and other registration issues	4	6	3	100
Breach of licensing condition	2	2	0	N/A
Breach of requirements of contract notes/statements of account/receipts	16	34	15	126.7
Failure to make filing/notification	2	3	2	50
Breach of margin requirements	0	2	3	-33.3
Marketing malpractices	0	1	1	0
Illegal short selling of securities	0	0	5	-100
Dealing malpractices	1	2	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	67	93	100	-7
Breach of Corporate Finance Adviser Code of Conduct	0	4	13	-69.2
Breach of Fund Manager Code of Conduct	12	28	9	211.1
Breach of regulation of on-line trading	16	97	0	N/A
Non-compliance with anti-money laundering guidelines	27	54	29	86.2
Breach of other rules and regulations of the Exchanges <sup>2</sup>	0	0	7	-100
Internal control weaknesses	65	142	203	-30
Others	12	30	86	-65.1
<b>Total</b>	<b>250</b>	<b>548</b>	<b>515</b>	<b>6.4</b>

<sup>1</sup> Adjustments have been made for the period.

<sup>2</sup> Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

Table 2 Authorized unit trusts and mutual funds<sup>1</sup> - by type

	As at 30.9.2014	As at 31.3.2014	Change (%)	As at 30.9.2013	YoY change (%)
Bond	382	355	7.6	342	11.7
Equity	985	976	0.9	975	1
Diversified	101	91	11	84	20.2
Money market	46	46	0	46	0
Fund of funds	88	91	-3.3	93	-5.4
Index	142	140	1.4	135	5.2
Guaranteed	7	12	-41.7	12	-41.7
Hedge	3	3	0	3	0
Other specialised <sup>2</sup>	15	15	0	16	-6.3
<b>Sub-total</b>	<b>1,769</b>	<b>1,729</b>	<b>2.3</b>	<b>1,706</b>	<b>3.7</b>
Umbrella structures	214	206	3.9	198	8.1
<b>Total</b>	<b>1,983</b>	<b>1,935</b>	<b>2.5</b>	<b>1,904</b>	<b>4.1</b>

<sup>1</sup> Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

<sup>2</sup> Includes futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds<sup>1</sup> - by origin

	As at 30.9.2014	As at 31.3.2014	Change (%)	As at 30.9.2013	YoY change (%)
Hong Kong	548	469	16.8	444	23.4
Luxembourg	985	969	1.7	972	1.3
Ireland	280	284	-1.4	271	3.3
Guernsey	0	1	-100	1	-100
United Kingdom	52	52	0	52	0
Other Europe	0	0	0	0	0
Bermuda	6	6	0	6	0
British Virgin Islands	0	0	0	0	0
Cayman Islands	103	146	-29.5	150	-31.3
Others	9	8	12.5	8	12.5
<b>Total</b>	<b>1,983</b>	<b>1,935</b>	<b>2.5</b>	<b>1,904</b>	<b>4.1</b>

<sup>1</sup> Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

Table 4 Unlisted structured investment products

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Unlisted structured investment products <sup>1</sup> authorized	52	60	71	-15.5
Authorizations granted under section 105 of the SFO <sup>2</sup>	35	54	64	-15.6

<sup>1</sup> Comprising mostly equity-linked investments and equity-linked deposits. The number is on a "one product per key facts statement" basis.

<sup>2</sup> Comprising offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

Table 5 Takeovers activities

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>				
General and partial offers under the Code on Takeovers and Mergers	12	28	15	86.7
Privatisations	0	3	0	N/A
Whitewash waiver applications	7	14	11	27.3
Other applications under the Code on Takeovers and Mergers	55	143	99	44.4
Off-market and general offer share buy-backs	1	1	2	-50
Other applications under the Code on Share Buy-backs	3	4	3	33.3
<b>Total</b>	<b>78</b>	<b>193</b>	<b>130</b>	<b>48.5</b>
<b>Executives Statements</b>				
Sanctions imposed with parties' agreement <sup>1</sup>	0	0	0	0
<b>Takeovers and Mergers Panel</b>				
Meetings for review of the Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	1	1	0	N/A
Statements issued by the Panel <sup>2</sup>	0	1	0	N/A

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

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

## Activity Data

Table 6 Stock market<sup>1</sup>

	As at 30.9.2014	As at 31.3.2014	Change (%)	As at 30.9.2013	YoY change (%)
<b>Number of listed companies on the Stock Exchange</b>	<b>1,721</b>	1,666	3.3	1,585	8.6
Main Board	<b>1,521</b>	1,471	3.4	1,399	8.7
Growth Enterprise Market	<b>200</b>	195	2.6	186	7.5
<b>Market capitalisation (\$ billion)</b>	<b>24,428</b>	23,065	5.9	22,817	7.1
Main Board	<b>24,248</b>	22,892	5.9	22,698	6.8
Growth Enterprise Market	<b>180</b>	173	4	119	51.3
<b>Average daily market turnover (\$ million)</b>	<b>64,380</b>	63,093	2	58,671	9.7
Main Board	<b>63,837</b>	62,366	2.4	58,396	9.3
Growth Enterprise Market	<b>543</b>	727	-25.3	275	97.5

<sup>1</sup> Source: The Stock Exchange of Hong Kong Limited.

Table 7 Public complaints<sup>1</sup>

	Quarter ended 30.9.2014	Six months ended 30.9.2014	Six months ended 30.9.2013	YoY change (%)
Conduct of licensees and registered institutions	<b>81</b>	153	171	-10.5
Listing-related matters and disclosure of interests	<b>159</b>	329	228	44.3
Market misconduct	<b>91</b>	169	158	7
Products	<b>1</b>	1	5	-80
Other financial activities	<b>182</b>	310	269	15.2
Miscellaneous	<b>0</b>	0	1	-100
<b>Total</b>	<b>514</b>	962	832	15.6

<sup>1</sup> This table shows the number of complainants by subject.

## 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 Commission Ordinance)

### Introduction

We have reviewed the accompanying condensed consolidated and the condensed statement of financial position of the Securities and Futures Commission (SFC) as at 30 September 2014, 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 23 to 30 (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 2014 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

9 December 2014

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

For the three months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2014 \$'000	Unaudited and unreviewed Three months ended 30 September 2013 \$'000
<b>Income</b>		
Levies	293,244	234,438
Fees and charges	24,774	22,445
Investment income	23,389	18,615
Less: custody and advisory expenses	(292)	(529)
Investment income net of third party expenses	23,097	18,086
Recoveries from the Investor Compensation Fund	1,304	1,260
Other income	3,937	558
	<b>346,356</b>	276,787
<b>Expenses</b>		
Staff costs and directors' emoluments	253,042	223,917
Premises		
Rent	46,732	43,766
Rates, management fees and others	9,589	8,736
Other expenses	28,663	30,385
Depreciation	13,698	12,063
	<b>351,724</b>	318,867
<b>Loss and total comprehensive loss for the quarter</b>	<b>(5,368)</b>	(42,080)

## Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2014 \$'000	Unaudited Six months ended 30 September 2013 \$'000
<b>Income</b>			
Levies		524,611	486,634
Fees and charges		55,835	41,496
Investment income		46,936	36,535
Less: custody and advisory expenses		(619)	(1,145)
Investment income net of third party expenses		46,317	35,390
Recoveries from the Investor Compensation Fund		2,611	2,530
Other income		4,228	1,859
		633,602	567,909
<b>Expenses</b>			
Staff costs and directors' emoluments	8(b)	502,452	438,214
Premises			
Rent		91,570	89,111
Rates, management fees and others		18,523	18,234
Other expenses		53,662	60,882
Depreciation		25,065	22,142
		691,272	628,583
<b>Loss and total comprehensive loss for the period</b>		<b>(57,670)</b>	<b>(60,674)</b>

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.



## Condensed consolidated statement of financial position

At 30 September 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Non-current assets</b>			
Fixed assets		102,127	100,510
Held-to-maturity debt securities	2	734,946	1,119,967
		<b>837,073</b>	1,220,477
<b>Current assets</b>			
Held-to-maturity debt securities	2	1,280,759	1,792,313
Debtors, deposits and prepayments		141,262	129,499
Fixed and call deposits with banks		5,201,752	4,313,927
Cash at bank and in hand		13,194	6,852
		<b>6,636,967</b>	6,242,591
<b>Current liabilities</b>			
Fees received in advance		7,890	8,543
Creditors and accrued charges		185,980	115,854
		<b>193,870</b>	124,397
<b>Net current assets</b>			
		<b>6,443,097</b>	6,118,194
<b>Total assets less current liabilities</b>			
		<b>7,280,170</b>	7,338,671
<b>Non-current liabilities</b>			
	4	20,864	21,695
<b>Net assets</b>			
		<b>7,259,306</b>	7,316,976
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
		42,840	42,840
<b>Accumulated surplus</b>			
		<b>7,216,466</b>	7,274,136
		<b>7,259,306</b>	7,316,976

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

## Condensed statement of financial position

At 30 September 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Non-current assets</b>			
Fixed assets		101,991	100,313
Held-to-maturity debt securities	2	734,946	1,119,967
		<b>836,937</b>	1,220,280
<b>Current assets</b>			
Held-to-maturity debt securities	2	1,280,759	1,792,313
Debtors, deposits and prepayments		144,291	129,112
Fixed and call deposits with banks		5,201,752	4,313,927
Cash at bank and in hand		6,068	2,695
		<b>6,632,870</b>	6,238,047
<b>Current liabilities</b>			
Fees received in advance		7,890	8,543
Creditors and accrued charges		181,747	111,113
		<b>189,637</b>	119,656
<b>Net current assets</b>			
		<b>6,443,233</b>	6,118,391
<b>Total assets less current liabilities</b>			
		<b>7,280,170</b>	7,338,671
<b>Non-current liabilities</b>			
	4	20,864	21,695
<b>Net assets</b>			
		<b>7,259,306</b>	7,316,976
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
		42,840	42,840
<b>Accumulated surplus</b>			
		<b>7,216,466</b>	7,274,136
		<b>7,259,306</b>	7,316,976

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
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
Balance at 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive loss for the period	-	(57,670)	(57,670)
Balance at 30 September 2014	42,840	7,216,466	7,259,306

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

Note	Unaudited Six months ended 30 September 2014 \$'000	Unaudited Six months ended 30 September 2013 \$'000
<b>Cash flows from operating activities</b>		
	(57,670)	(60,674)
Loss for the period		
Adjustments for:		
Depreciation	25,065	22,142
Investment income	(46,936)	(36,535)
Exchange (gain)/loss on revaluation of debt securities	(1,264)	4,495
Gain on disposal of fixed assets	-	(3)
	(80,805)	(70,575)
(Increase)/decrease in debtors, deposits and prepayments		
	(15,031)	1,489
Increase in creditors and accrued charges		
	70,126	35,307
Decrease in fees received in advance		
	(653)	(1,029)
Decrease in non-current liabilities		
	(831)	(1,156)
<i>Net cash used in operating activities</i>		
	(27,194)	(35,964)
<b>Cash flows from investing activities</b>		
Increase in fixed deposits other than cash and cash equivalents		
	(403,408)	(49,832)
Interest received		
	59,352	69,662
Held-to-maturity debt securities redeemed		
	888,691	1,817,388
Fixed assets bought		
	(26,682)	(14,759)
Fixed assets disposed		
	-	3
<i>Net cash generated from investing activities</i>		
	517,953	1,822,462
Net increase in cash and cash equivalents		
	490,759	1,786,498
Cash and cash equivalents at beginning of the six-month period		
	4,270,947	1,605,117
<b>Cash and cash equivalents at end of the six-month period</b>		
3	4,761,706	3,391,615

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

	Unaudited At 30 September 2014 \$'000	Unaudited At 30 September 2013 \$'000
Fixed and call deposits with banks	4,748,512	3,381,450
Cash at bank and in hand	13,194	10,165
	4,761,706	3,391,615

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2014  
(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 2014 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 2014. 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 2014 to the interim financial report.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2014.

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

As of 30 September 2014, the total market value of held-to-maturity debt securities amounted to \$2,028,516,000 (31 March 2014: \$2,934,007,000), which was above the total carrying value of \$2,015,705,000 (31 March 2014: \$2,912,280,000).

### 3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 30 September 2014 \$'000	Audited At 31 March 2014 \$'000
Cash at bank and in hand	13,194	6,852
Fixed and call deposits with banks	5,201,752	4,313,927
Amounts shown in the condensed consolidated statement of financial position	5,214,946	4,320,779
Less : Amounts with an original maturity of beyond three months	(453,240)	(49,832)
Cash and cash equivalents in the condensed consolidated statement of cash flows	4,761,706	4,270,947

### 4. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our condensed consolidated statement of comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of rental expense.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

### 5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance or creditor balance included in “debtors, deposits and prepayments” and “creditors and accrued charges” respectively as at 30 September 2014. Therefore we do not provide an ageing analysis of debtors and creditors.

### 6. Exchange fluctuation

The SFC’s investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, United States dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either United States dollars or Hong Kong dollars which are closely pegged, we do not consider we are exposed to significant exchange rate risk.

### 7. Investment in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an issued share capital of \$2 and ICC on 11 September 2002 with an issued share capital of \$0.2. 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 wholly owned subsidiaries of the SFC and 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. FinNet has not commenced business since incorporation and has been deregistered on 25 July 2014.

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.

As at 30 September 2014, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (At 31 March 2014 : \$2.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

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

### 8. 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 entered into the following material related party transactions :

- a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC’s expenses amounting to \$2,611,000 (2013: \$2,530,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

- b) Remuneration for key management personnel comprised :

	<b>Unaudited six months ended 30 September 2014 \$'000</b>	Unaudited six months ended 30 September 2013 \$'000
Directors' fees and salaries, allowances and benefits in kind	16,220	15,183
Retirement scheme contributions	1,483	1,364
	<b>17,703</b>	16,547

The total remuneration is included in "staff costs and directors' emoluments" on page 23. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

- c) Included in creditors and accrued charges is an amount due to the Investor Compensation Fund amounting to \$540,000 (At 31 March 2014: \$304,000).
- d) Legal services provided by key management personnel

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 \$30,000 (2013 : \$360,000) under normal commercial terms and conditions. The Non-Executive Director has resigned with effect from 1 August 2014.

### 9. Commitment to pay rents for offices

At 30 September 2014 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017, being the rent review date as set out in the lease agreement, are as follows :

	<b>Unaudited At 30 September 2014 \$'000</b>	Audited At 31 March 2014 \$'000
Payable next year	208,146	185,453
Payable in one to five years	398,102	447,334
Payable in more than five years	-	-
	<b>606,248</b>	632,787

During the period, \$91,570,000 net of lease incentives, was recognised as an expense in the condensed consolidated statement of comprehensive income in respect of operating leases (2013 : \$89,111,000).

### 10. Non-adjusting event after the end of the reporting period

The Securities and Futures (Levy) (Amendment) Order 2014 has come into operation on 1 November 2014. The levy payable by a seller or a purchaser in respect of the sale and purchase of securities and futures and options contracts have been reduced by 10% thereafter.

# Investor Compensation Fund

## 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 six months ended 30 September 2014.

### 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.

### Financial results

The surplus of the Fund for the reporting period ended 30 September 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 33 to 38.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2014 and up to the date of this report were :

Mr Keith Lui	(Chairman)
Mrs Alexa Lam	
Mr Chow Ka Ming, Anderson, SC	(resigned with effect from 1 August 2014)
Mr Chan Ping Keung	(appointed on 1 April 2014 and resigned with effect from 29 August 2014)
Ms Teresa Ko Yuk-yin, JP	(appointed on 29 August 2014)
Mr Lee Kwok Keung	(appointed on 29 August 2014)

### 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

9 December 2014



## 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 2014, 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 34 to 38 ("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 2014 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

9 December 2014

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

For the three months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2014 \$'000	Unaudited and unreviewed Three months ended 30 September 2013 \$'000
<b>Income</b>		
Net investment income	811	18,419
Exchange difference	2,795	(207)
	<b>3,606</b>	18,212
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,303	1,260
Compensation expenses	198	-
Auditor's remuneration	29	28
Bank charges	229	207
Professional fees	963	911
	<b>2,722</b>	2,406
<b>Surplus and total comprehensive income for the quarter</b>	<b>884</b>	15,806

## Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2014 \$'000	Unaudited Six months ended 30 September 2013 \$'000
<b>Income</b>			
Net investment income/(loss)		30,977	(18,010)
Exchange difference		1,597	(1,327)
		<b>32,574</b>	<b>(19,337)</b>
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	2,611	2,530
Compensation expenses		198	-
Auditor's remuneration		59	56
Bank charges		438	410
Professional fees		1,942	1,866
		<b>5,248</b>	<b>4,862</b>
<b>Surplus/ (deficit) and total comprehensive income/ (loss) for the period</b>		<b>27,326</b>	<b>(24,199)</b>

The notes on page 38 form part of the condensed financial statements.

## Condensed statement of financial position

At 30 September 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,825,815	1,680,755
- Pooled fund		294,880	284,131
Interest receivable		10,908	13,705
Due from Investor Compensation Company Limited		540	304
Fixed and call deposits with banks		83,330	180,533
Cash at bank		14,994	43,126
		<b>2,230,467</b>	<b>2,202,554</b>
<b>Current liabilities</b>			
Provision for compensation	3	348	150
Creditors and accrued charges		1,747	1,358
		<b>2,095</b>	<b>1,508</b>
<b>Net current assets</b>		<b>2,228,372</b>	<b>2,201,046</b>
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,124,731	1,097,405
		<b>2,228,372</b>	<b>2,201,046</b>

The notes on page 38 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the six months ended 30 September 2014

(Expressed in Hong Kong dollars)

	Unaudited Contributions from Unified Exchange Compensation Fund \$'000	Unaudited Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 Apr 2013	994,718	108,923	1,089,469	2,193,110
Total comprehensive loss for the period	-	-	(24,199)	(24,199)
Balance at 30 Sep 2013	994,718	108,923	1,065,270	2,168,911
Balance at 1 Apr 2014	994,718	108,923	1,097,405	2,201,046
Total comprehensive income for the period	-	-	27,326	27,326
Balance at 30 Sep 2014	994,718	108,923	1,124,731	2,228,372

The notes on page 38 form part of the condensed financial statements.

## Condensed statement of cash flows

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Unaudited Six months ended 30 September 2014 \$'000	Unaudited Six months ended 30 September 2013 \$'000
<b>Cash flows from operating activities</b>		
Surplus/(deficit) for the period	27,326	(24,199)
Net investment (income)/loss	(30,977)	18,010
Exchange (gain)/loss	(1,597)	1,327
Increase in amount due from Investor Compensation Company Limited	(236)	(362)
Increase in provision for compensation	198	-
Increase in creditors and accrued charges	389	291
Net cash used in operating activities	(4,897)	(4,933)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(440,220)	(416,201)
Sale or maturity of debt securities	294,085	339,568
Sale of equity securities	382	374
Interest received	25,315	25,244
Net cash used in from investing activities	(120,438)	(51,015)
Net decrease in cash and cash equivalents	(125,335)	(55,948)
Cash and cash equivalents at beginning of the six-month period	223,659	185,655
<b>Cash and cash equivalents at end of the six-month period</b>	<b>98,324</b>	<b>129,707</b>

## Analysis of the balance of cash and cash equivalents

	Unaudited At 30 September 2014 \$'000	Unaudited At 30 September 2013 \$'000
Fixed and call deposits with banks	83,330	121,891
Cash at bank	14,994	7,816
	<b>98,324</b>	<b>129,707</b>

## Notes to the condensed financial statements

For the six months ended 30 September 2014  
(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 2014 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 2014 to this interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2014.

### 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 2014, ICC incurred \$2,611,000 for its operation and was reimbursed by the Fund (For the six months ended 30 September 2013 : \$2,530,000).

### 3. Provision for compensation

We maintained provision for liabilities arising from three claims received resulting from two default cases. The maximum liability of the Fund to claims for these cases is set at the lower of \$150,000 per claimant or the amount claimed. The provision for compensation at 30 September 2014 was \$348,000 (31 March 2014: \$150,000). As at 30 September 2014 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 2014.

### 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 \$1,951,000 (31 March 2014: \$2,208,000). 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

The members of the Securities Compensation Fund Committee (the Committee) present their half yearly report and the unaudited condensed financial statements for the six months ended 30 September 2014.

### 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 2014, the Fund has transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

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

### Financial results

The surplus of the Fund for the reporting period ended 30 September 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 41 to 47.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2014 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Mrs Alexa Lam	
Mr Chow Ka Ming, Anderson, SC	(resigned with effect from 1 August 2014)
Mr Chan Ping Keung	(appointed on 1 April 2014 and resigned with effect from 29 August 2014)
Ms Mak Po Shuen	(appointed on 1 April 2014)
Ms Teresa Ko Yuk-yin, JP	(appointed on 29 August 2014)
Mr Lee Kwok Keung	(appointed on 29 August 2014)

### Interests in contracts

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

On behalf of the Committee

**Keith Lui**  
Chairman

26 November 2014



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

### Introduction

We have reviewed the accompanying condensed statement of financial position of Unified Exchange Compensation Fund (the Fund) as at 30 September 2014, 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 42 to 47 ("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 2014 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  
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Central, Hong Kong

26 November 2014

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

For the three months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2014 \$'000	Unaudited and unreviewed Three months ended 30 September 2013 \$'000
<b>Income</b>		
Interest income	169	108
<b>Expenses</b>		
Auditor's remuneration	13	12
Professional fees	8	8
	21	20
<b>Surplus and total comprehensive income for the quarter</b>	<b>148</b>	<b>88</b>

## Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Unaudited Six months ended 30 September 2014 \$'000	Unaudited Six months ended 30 September 2013 \$'000
<b>Income</b>		
Interest income	313	209
<b>Expenses</b>		
Auditor's remuneration	25	24
Professional fees	17	16
Sundry expenses	1	-
	43	40
<b>Surplus and total comprehensive income for the period</b>	<b>270</b>	169

The notes on pages 46 to 47 form part of the condensed financial statements.

## Condensed statement of financial position

At 30 September 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	1	1
Interest receivable		55	58
Fixed and call deposits with banks		74,567	74,562
Cash at bank		87	24
		<b>74,710</b>	74,645
<b>Current liabilities</b>			
Creditors and accrued charges		10,296	10,301
Relinquished trading rights payable to SEHK	4	1,650	1,450
		<b>11,946</b>	11,751
<b>Net current assets</b>			
		<b>62,764</b>	62,894
<b>Net assets</b>			
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK		48,350	48,750
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		18,843	18,573
		<b>1,057,482</b>	1,057,612
Contributions to Investor Compensation Fund		<b>(994,718)</b>	(994,718)
		<b>62,764</b>	62,894

The notes on pages 46 to 47 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	<b>Unaudited Six months ended 30 September 2014 \$'000</b>	Unaudited Six months ended 30 September 2013 \$'000
Compensation fund balance as at 1 April	62,894	64,143
Net contributions repaid to SEHK	(400)	(1,300)
Total comprehensive income for the period	270	169
Compensation fund balance as at 30 September	62,764	63,012

The notes on pages 46 to 47 form part of the condensed financial statements.

## Condensed statement of cash flows

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2014 \$'000	Unaudited Six months ended 30 September 2013 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		270	169
Interest income		(313)	(209)
Decrease in creditors and accrued charges		(5)	(6)
Increase in relinquished trading rights payable to SEHK		200	1,600
Net cash generated from operating activities		152	1,554
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(40,809)	-
Interest received		316	212
Net cash (used in)/generated from investing activities		(40,493)	212
<b>Cash flows from financing activities</b>			
Net contributions repaid to SEHK		(400)	(1,300)
Net cash used in financing activities		(400)	(1,300)
Net (decrease)/increase in cash and cash equivalents		(40,741)	466
Cash and cash equivalents at beginning of the six-month period		74,586	74,395
<b>Cash and cash equivalents at end of the six-month period</b>	3	<b>33,845</b>	<b>74,861</b>

## Analysis of the balance of cash and cash equivalents

	Note	Unaudited At 30 September 2014 \$'000	Unaudited At 30 September 2013 \$'000
Fixed and call deposits with banks		33,758	74,630
Cash at bank		87	231
	3	<b>33,845</b>	<b>74,861</b>

## Notes to the condensed financial statements

For the six months ended 30 September 2014  
(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. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2014 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 2014 to this interim financial report.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2014.

### 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 2014 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in IAS 39, *Financial Instruments: Recognition and Measurement*. According to 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. Cash and cash equivalents

Reconciliation with the condensed statement of financial position

	Unaudited At 30 September 2014 \$'000	Audited At 31 March 2014 \$'000
Cash at bank	87	24
Fixed and call deposits with banks	74,567	74,562
Amounts shown in the condensed statement of financial position	74,654	74,586
Less : Amounts with an original maturity of beyond three months	(40,809)	-
Cash and cash equivalents in the condensed statement of cash flows	33,845	74,586

## Notes to the condensed financial statements

For the six months ended 30 September 2014  
(Expressed in Hong Kong dollars)

### 4. Contributions from SEHK

During the six months, deposits of \$200,000 in respect of 4 new trading rights were received from SEHK and deposits of \$400,000 in respect of 8 relinquished trading rights were refunded to SEHK. As at 30 September 2014, there were 33 trading rights in total that have been relinquished but not yet refunded.

### 5. 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 2014.

### 6. 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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