G.N. 4425

SECURITIES AND FUTURES ORDINANCE (Chapter 571)

Pursuant to section 240(9*b*) of the Securities and Futures Ordinance, the audited financial statements of the Investor Compensation Fund for the financial year ended 31 March 2012 are set out on pages 13848 to 13862.

Keith LUI *Chairman of*
Investor Compensation Fund Committee

INVESTOR COMPENSATION FUND (the Fund)
REPORT OF THE INVESTOR COMPENSATION FUND COMMITTEE
(the Committee)

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

ESTABLISHMENT OF THE FUND

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

FINANCIAL STATEMENTS

The surplus of the Fund for the financial year ended 31 March 2012 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 13850 to 13862.

MEMBERS OF THE COMMITTEE

The members of the Committee during the year ended 31 March 2012 and up to the date of this report were:—

Mr. Keith LUI	(Chairman)
Mrs. Alexa LAM	
Mr. CHOW Ka Ming, Anderson, S.C.	
Mr. TAI Chi Kin	(appointed on 1 April 2011)

INTERESTS IN CONTRACTS

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

AUDITORS

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

4 June 2012

By order of the Committee
Keith LUI
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SECURITIES AND FUTURES COMMISSION (the SFC)

We have audited the financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 13850 to 13862, which comprise the statement of financial position as at 31 March 2012 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The SFC's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

4 June 2012

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

INVESTOR COMPENSATION FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2012

(Expressed in Hong Kong dollars)

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

The notes on pages 13854 to 13862 form part of these financial statements.

INVESTOR COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2012

(Expressed in Hong Kong dollars)

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

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

Eddy C. FONG
Chairman of the SFC

Ashley ALDER
Chief Executive Officer of the SFC

The notes on pages 13854 to 13862 form part of these financial statements.

INVESTOR COMPENSATION FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2012

(Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund	Contributions from Commodity Exchange Compensation Fund	Accumulated surplus	Total
	$'000	$'000	$'000	$'000
Balance at 1 April 2010	994,718	108,923	861,494	1,965,135
Total comprehensive income for the year	—	—	87,058	87,058
Balance at 31 March 2011 and 1 April 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the year	—	—	42,992	42,992
Balance at 31 March 2012	994,718	108,923	991,544	2,095,185

The notes on pages 13854 to 13862 form part of these financial statements.

INVESTOR COMPENSATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012

(Expressed in Hong Kong dollars)

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

Analysis of the balance of cash and cash equivalents:—

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

(Expressed in Hong Kong dollars)

1. *PURPOSE, LIMITATION AND PRINCIPAL ACTIVITY*

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

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

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

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

2. *MONEY CONSTITUTING THE FUND*

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

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

3. *SIGNIFICANT ACCOUNTING POLICIES*

(*a*) *Statement of compliance*

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

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

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

(*b*) *Basis of preparation*

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

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

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

(*c*) *Recognition of income*

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

(*d*) *Translation of foreign currencies*

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

(*e*) *Financial instruments*

(i) *Initial recognition*

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

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

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

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

(ii) *Fair value measurement principles*

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

(iii) *Derecognition*

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

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

(iv) *Offsetting*

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

(*f*) *Impairment*

(i) *Recognition of impairment loss*

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

(ii) *Calculation of impairment loss*

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

(iii) *Reversals of impairment loss*

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

(*g*) *Cash and cash equivalents*

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

(*h*) *Other receivables*

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

(*i*) *Provision for compensation*

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

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

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

(*j*) *Creditors and accrued charges*

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

(*k*) *Contingent liabilities*

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

(*l*) *Related parties*

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

(*a*) A person, or a close member of that person's family, is related to the Fund if that person:—

(i) has control or joint control over the Fund;

(ii) has significant influence over the Fund; or

(iii) is a member of the key management personnel of the Fund or the Fund's parent.

(*b*) An entity is related to the Fund if any of the following conditions applies:—

(i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(vi) The entity is controlled or jointly controlled by a person identified in (*a*).

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

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

(*m*) *Changes in accounting policies*

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

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

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

4. *TAXATION*

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

5. *NET INVESTMENT INCOME*

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

6. *LEVY FROM SEHK / HKFE*

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

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

7. *ICC EXPENSES*

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

8. *PROVISION FOR COMPENSATION*

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

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 and Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for this case is set at $150,000 per claimant. As at 31 March 2012 all provisions were expected to be paid within one year.

9. *FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS*

	2012 $'000	*2011* $'000
(*a*) *Debt securities*		
(i) Listing status		
Listed—outside Hong Kong at quoted market prices	499,550	535,919
Listed—outside Hong Kong based on valuation techniques	112,595	109,436
Listed—in Hong Kong	167,820	143,605
Unlisted	884,921	819,623
	1,664,886	1,608,583
(ii) Maturity profile		
Within one year	664,820	552,995
After one year but within two years	246,059	443,101
After two years but within five years	607,328	484,958
After five years	146,679	127,529
	1,664,886	1,608,583

(iii) The weighted average effective interest rate of debt securities on 31 March 2012 was 1.9% (2011: 1.7%).

(*b*) *Pooled fund*		
Unlisted	232,304	224,824

The pooled fund comprises mainly listed equity securities.

10. *DEPOSITS WITH BANKS AND CASH AT BANK*

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

11. *CONTRIBUTIONS FROM UECF AND CECF*

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

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

12. *MATERIAL RELATED PARTY TRANSACTIONS*

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

13. *FINANCIAL RISK MANAGEMENT AND FAIR VALUES*

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

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

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

(*a*) *Credit risk*

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

(*b*) *Liquidity risk*

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

(*c*) *Interest rate risk*

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

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

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

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

(*d*) *Foreign currency risk*

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

(*e*) *Market risk*

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

The Fund invests in units of a pooled fund, which mainly comprises listed equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase/decrease of 24.8% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately

$50,410,000 (2011: a general increase/decrease of 24.9% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately $48,337,000).

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

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

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

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

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

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

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

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

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

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

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

14. *CONTINGENT LIABILITIES*

As at the date of this report, in addition to the provision made, as described in note 8, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is $525,000 (2011: $600,000). This is determined based on the lower of the maximum compensation limit of $150,000 per claimant or the amount claimed.

15. *POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2012*

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

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements—* *Presentation of items of other comprehensive income*	1 July 2012
IFRS 9, *Financial Instruments*	1 January 2015

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