REPORT (HONG KONG) – January 2011 to June 2012

1. Economic and financial background

2011

The Hong Kong economy sustained strong momentum on entering 2011. However, economic growth moderated progressively since the second quarter, as the external environment was increasingly plagued by the re-emergence of the eurozone sovereign debt crisis and faltering demand in the advanced economies. Yet, the domestic sector stayed resilient throughout the year, partially offsetting the drag from the weaker performance of merchandise exports. For 2011 as a whole, the economy still registered a notable 5.0% expansion, after a 7.0% growth in 2010.

2012 (first half)

The Hong Kong economy remained rather sluggish in the second quarter of 2012, expanding slowly by 1.1% over a year earlier, after the 0.7% growth in the first quarter. Merchandise exports continued to be the weakest spot amid the severe external headwinds. On the other hand, the domestic sector was still relatively resilient, thereby providing a buffer to the overall economic performance and maintaining the stability of the labour market.

The external trading environment worsened again in the second quarter after a brief period of positive developments early in the year. The escalation of the eurozone sovereign debt crisis again in May weighed on global economic sentiments and further hampered the already fragile EU economy. In the US, although economic growth still proceeded at a moderate pace, signs of weakness lingered. The lull in the US and EU economies had in turn sapped the Asian economies. As a result, Hong Kong's total exports of goods remained weak in the second quarter, posting a slight year-on-year decline even against a relatively low base of comparison.

The domestic sector continued to display resilience despite the difficult external environment. Private consumption expenditure was underpinned by stable job conditions and past income increase. Investment spending grew solidly further, marked by a further pick-up in private building activity and sustained expansion in public sector infrastructure works, as well as continued growth in machinery and equipment acquisition.

The labour market remained in a state of full employment, with total employment reaching another record high. The seasonally adjusted unemployment rate came down to 3.2% in the second quarter. Amid a tight labour market and with the additional boost of statutory minimum wage implementation since May 2011, wages and earnings saw further notable growth.

Inflation receded further in the second quarter. Price pressures from import sources eased amid softer global food and commodity prices as well as slower inflation in the region. Domestically, while wage costs remained elevated, office rentals moderated on a year-on-year basis in the second quarter. Although the increases in retail rentals were still rather notable, the concurrent solid expansion of retail sales volume helped alleviate the cost pressure reckoned on a unit cost basis.

Source: The Government of the Hong Kong Special Administrative Region

2. Data on funds under management

Number and asset size of SFC-authorized funds

Details on unit trusts and mutual funds authorized by the Hong Kong Securities and Futures Commission ("SFC"):

	Number of funds		**Net Asset Value ("NAV")** (US$ Million)	
	31-Mar-2012	**31-Mar-2011**	**31-Dec-2011**	**31-Dec-2010**
Bond	330	327	324,078	360,944
Equity	995	1,089	436,280	571,859

Diversified	78	78	32,345	43,005
Money Market	40	44	100,535	86,854
Fund of Funds	82	80	7,817	7,898
Index	111	99	105,118	106,192
Guaranteed	22	36	712	1,287
Hedge	6	11	704	920
Other Specialized*	17	8	6,284	9,106
Total	**1,681**	**1,772**	**1,013,873**	**1,188,065**
Umbrella Structure	182	172		
Grand total	**1,863**	**1,944**		

* Includes futures & options funds and leveraged funds.
Source: SFC (The data are published once a year)

The total number of SFC-authorized funds was at 1,863 at the end of March 2012, down by 4.2% from the end of March 2011. Some categories managed to enjoy an increase: other specialized funds (up by 112.5%); index funds (up by 12.1%); fund of funds (up by 2.5%) and bond funds (up by 0.9%). The following categories witnessed a drop in the number: hedge funds (down by 45.5%); guaranteed funds (down by 38.9%); money market funds (down by 9.1%) and equity funds (down by 8.6%). The number of funds for diversified funds remained unchanged.

In terms of NAV, at the end of December 2011, the industry saw a drop of 14.7% over December 2010. This was felt by most categories, including guaranteed funds (down by 44.7%); other specialized funds (down by 31%); diversified funds (down by 24.8%); equity funds (down by 23.7%); hedge funds (down by 23.5%); bond funds (down by 10.2%); index funds (down by 1%) and fund of funds (down by 1%). Only money market funds registered an increase in NAV (up by 15.8%).

Domicile of SFC-authorized funds

Offshore funds can be marketed in Hong Kong as long as they obtain SFC's authorization. At the end of March 2012, 14% of SFC-authorized funds were domiciled in Hong Kong. They accounted for 3.3% of total NAV of all SFC-authorized funds at the end of December 2011. Most funds are domiciled in offshore jurisdictions such as Luxembourg and Ireland.

	Number of funds March 31, 2012	**%**	**NAV** (US$ Million) December 31,2011	**%**
Hong Kong	261	14.01	33,408	3.30
Luxembourg	1,070	57.43	634,092	62.54
Ireland	282	15.14	217,853	21.49
Guernsey	3	0.16	0	0.00
United Kingdom	53	2.84	40,333	3.98
Other Europe	2	0.11	16	0.00
Bermuda	22	1.18	4,528	0.45
British Virgin Island	5	0.27	23	0.00
Cayman Islands	157	8.43	11,058	1.09
Others	8	0.43	72,562	7.15
Total	**1,863**	**100**	**1,013,873**	**100**

Source: SFC

3. Key trends in flows

Gross and net sales by HK investors (Note 1)

Note 1: Only retail transactions (including switches) are covered and sales attributed to institutional sources are excluded. Data covered HKIFA members only.

(i) 2011 (Appendix 1)

The fund industry registered gross and net sales of US$37,537 million and US$6,207 million respectively for the full year of 2011. Compared with 2010, gross sales went up by 30%, however, net sales marginally dropped by 1%.

Against a backdrop of extremely low interest rate and high inflation, fund sales were robust in the first half of the year. And most of the inflows of 2011 were registered in that period. However, following the heavy sell-off of global equity markets due to the escalation of the Eurozone sovereign debt crisis and concerns about the outlook of the U.S. economy in the third quarter, fund sales had dropped substantially after August. The fund industry witnessed net outflows in September and October (net outflows of US$469 million and US$290 million respectively). But the industry managed to return to net inflows, albeit modest, towards the end of the year.

Bond funds and equity funds came neck-and-neck in terms of gross sales: bond funds accounted for 44.3% of the industry gross total, while equity funds took up 43.6%. But on a net basis, similar to 2010, most of the inflows went into bond funds. They accounted for 78% of the industry total, whereas equity funds only contributed 8%.

In line with the trend since the global financial crisis (“GFC”), sales of bond funds had maintained much resilience. Compared with 2010, gross sales of bond funds went up by 39% to US$16,643 million in 2011. Although net inflows dropped by 9%, the net total still maintained at a robust level of US$4,814 million. Net inflows were recorded in every month in the year.

Amongst all bond fund categories, global bond funds came first in terms of gross sales, by posting inflows of US$6,115 million. But on a net basis, it was the Asian bond funds category which attracted the highest inflows, at US$2,476 million. This was followed by global bond funds which contributed US$1,055 million. However, inflows were not across the board – European bond funds witnessed net outflows of US$49 million.

Equity funds attracted huge inflows in the first half of 2011 but they saw net outflows in the second half. Compared with 2010, gross sales of equity funds went up 15% in the year 2011 to US$16,358 million but net sales plunged by 64% (to US$516 million).

Out of the 13 equity categories, seven suffered net outflows. Greater China Region equity funds, which had always been one of the most popular categories in the past, saw the highest net outflows, at US$563 million. This was followed by emerging markets equity funds which suffered outflows of US$295 million. Amongst the six categories that managed to register net inflows, Hong Kong equity funds came first by attracting US$522 million.

(ii) First six months of 2012 (Appendix 2)

In the first six months of 2012, the fund industry registered gross and net sales of US$23,619 million and US$6,232 million respectively. Compared with the same period of 2011, gross sales went up by 12%, whereas net sales increased by 22%.

The industry had managed to register robust fund flows since the beginning of this year. Monthly gross sales hovered between US$3 and US$4 billion. Furthermore, the industry had been able to register net inflows in each of the six months, with four attracting net inflows of over US$1 billion.

However, sales varied substantially by sectors, with inflows into bond funds exceeding that of equity funds by a wide margin.

Inflows into bond funds had gone from strength to strength and on a YTD basis, they took up 68% of the industry gross total - far exceeding the 22% registered by equity funds. Sales of bond funds were already robust last year, but they did not take up such a sizeable portion: in 2011, their share of the investor wallet was similar to that of equity funds, with each accounting for about 44% of the industry gross total.

Amongst all bond fund categories, global bond funds came first in terms of both gross and net sales, at US$5,940 million and US$2,455 million respectively. In general, almost all bond fund categories had consistently attracted robust net inflows this year. The only exception was European bond funds. Plagued by the Eurozone debt crisis, European bond funds witnessed net outflows of US$25 million.

Gross sales of equity funds were at US$5,298 million, 49% lower than the same period of 2011. On a net basis, equity funds witnessed outflows of US$536 million (vs. net inflows of US$2,055 million registered in the same period of 2011). More than half of the equity fund categories registered net outflows with Asia Regional (excl. Japan) equity funds saw the highest outflows, at US$205 million. This was followed by Greater China funds which registered US$155 million of net outflows. For the few categories that managed to pull in new money, sector funds attracted the highest net inflows, at US$90 million. China equity funds also managed to register modest net inflows, at US$53 million. (Note: China equity funds had been taken out from the Greater China Region funds category to form a separate category since May 2012.)

4. Product development

Hong Kong has made significant achievements in expanding the range of investment products denominated in renminbi in 2011 and 2012.

- Further to the initial public offering and the listing of the world's first renminbi-denominated REIT in April 2011, around 20 unlisted Renminbi Qualified Foreign Institutional Investor ("RQFII") funds were authorized by the SFC for offer to the public after the rollout of the RQFII pilot scheme by the Mainland authorities in late 2011/early 2012. These funds, managed by the Hong Kong subsidiaries of qualified Mainland fund managers and securities companies, channelled renminbi raised in Hong Kong to the Mainland to invest directly in the Mainland bond and equity markets.

- In January 2012, the SFC authorized the world's first renminbi-denominated and traded gold exchange-traded fund (ETF), also the first renminbi ETF in Hong Kong.

- In June 2012, the SFC authorized the first RQFII A-share ETF denominated in renminbi to be listed on the Hong Kong Stock Exchange. This ETF uses the newly increased RQFII quota to invest directly in the A-share equities market (i.e. a physical A-share ETF) tracking the performance of an underlying A-share index. There are now 3 RQFII ETFs listed on the Hong Kong Stock Exchange and we expect more would be rolled out.

5. Legal and regulatory developments

HKIFA has made submissions to the following consultations:

- **Electronic trading**

  In July 2012, the SFC launched a two-month public consultation on proposals to enhance the regulatory framework for electronic trading, which includes internet trading, direct market access ("DMA") and algorithmic trading. In view of the increased use of electronic trading by intermediaries, the SFC proposed to build on the existing regulatory requirements by providing a more coherent and comprehensive regulatory framework for electronic trading. The proposals also aim to bring the regulation of DMA activities in line with the standards set by the International Organization of Securities Commissions ("IOSCO"). Key elements of the proposals include:
  - general requirements on all forms of electronic trading in respect of responsibility for orders, management and supervision, adequacy of system and record keeping;
  - specific requirements on the provision of Internet trading and DMA services, in particular, requiring that an intermediary put in place effective risk management and supervisory controls to monitor orders, including automated pre-trade controls and regular post-trade monitoring; and
  - specific requirements on algorithmic trading related to testing of the algorithmic trading system and trading algorithms, user qualification and risk management controls.

  The paper suggested to amend the Code of Conduct for Persons Licensed by or Registered with the SFC and the Fund Manager Code of Conduct to introduce the new requirements.

  In general, HKIFA supports the proposed principles and requirements for intermediaries to address the risks surrounding electronic trading. However, the proposals do not sit well with how fund managers trade and thus, we opine that it may not be appropriate to incorporate the proposals into the FMCC.

- **Professional Investor ("PI") regime**

  In the 4th quarter of 2011, there were discussions at the Legislative Council ("LegCo") on bringing certain requirements (e.g. not less than 40 transactions per annum, traded actively in the relevant market for at least 2 years) from the Code of Conduct to the Securities and Futures (Professional Investor) Rules. Though these proposed amendments were finally rejected by the LegCo, the SFC pledged to further review the professional investor regime and consult the industry in 2012.

  SFC has kickstarted this exercise in mid 2012 by doing some soft consultations with individual houses (banks, managers, etc). It has also recently done a brainstorming session with HKIFA and a few tentative proposals have been raised for discussion.

- **Regulatory regime for the over-the-counter derivatives market**

  In October 2011, to stay in line with the G20 commitments, the SFC and Hong Kong Monetary Authority ("HKMA") jointly launched a consultation on a proposed regulatory regime for the over-the-counter ("OTC") derivatives market in Hong Kong. The aims are to reduce systemic risk, improve transparency and prevent market abuse. The new regulatory regime supports the impending establishment of a trade repository by the HKMA and an OTC derivatives central counterparty clearing house by the Hong Kong Exchanges and Clearing Limited.

  The consultation conclusions paper was subsequently issued in July 2012. The paper confirmed the need to regulate persons who serve as intermediaries (i.e. as dealers, advisers or clearing agents) in the OTC derivatives market, and to have a degree of regulatory oversight in respect of systemically important players ("SIPs"), i.e. players in Hong Kong who are not licensed or registered with either the HKMA or SFC, but whose positions and activities in the OTC derivatives market may raise concerns of potential systemic risk.

  Two new regulated activities ("RAs") would need to be introduced under Schedule 5 to the Securities and Futures Ordinance ("SFO"), namely –
  (a) a new Type 11 RA to cover the activities of dealers and advisers, and
  (b) a new Type 12 RA to cover the activities of clearing agents.

  Additionally, the existing Type 9 RA (asset management) would need to be expanded to cover the management of portfolios of OTC derivatives transactions.

  A supplemental consultation was issued together with the conclusions paper to set out the HKMA's and SFC's proposals on how these new regulated activities relating to OTC derivatives should be cast, and how systemically important players in that market should be regulated.

  With respect to Type 9 RA, it should be expanded so that it also encompasses the management of portfolios of OTC derivatives transactions. The existing carve-outs that allow persons licensed/registered for Type 1 RA to manage portfolios of securities without being licensed/registered for Type 9 RA should be similarly expanded so that AIs, AMBs and persons licensed for Type 11 RA may manage portfolios of OTC derivatives transactions without a licence/registration for the expanded Type 9 RA if such management is incidental to their dealing in OTC derivatives.

- **Amendments to the Code of Conduct to facilitate establishing Financial Dispute Resolution Centre ("FDRC") and enhance regulatory framework**

  In February 2010, the Financial Services and the Treasury Bureau ("FSTB") published a consultation paper entitled "Proposed Establishment of an Investor Education Council ("IEC") and a FDRC. The proposals cover the establishment of an IEC to oversee the delivery of investor education and the establishment of an FDRC to help customers resolve monetary disputes with financial institutions ("FIs") in a speedy, affordable, independent and impartial way. The objective is to require FIs to resolve client complaints internally in the first instance. The FDRC will administer an independent external dispute resolution scheme when the complaints cannot be resolved internally.

  The FDRC has commenced operations in June 2012 and the IEC is targeted to be launched in the fourth quarter of 2012.

In November 2011, the SFC launched a consultation on proposals to amend the Code of Conduct for Persons Licensed by or Registered with the SFC ("the Code of Conduct") to set out SFC's expectations of licensed and registered persons in connection with the FDRC. Besides, the SFC proposed to make a number of miscellaneous amendments to the Code of Conduct, including inter alia, recording of client orders, reporting of suspicious activities and providing expert evidence.

The consultation conclusions were issued in May 2012. The amendments re FDRC have come into effect on June 19, 2012 and the miscellaneous amendments will come into effect on December 1, 2012.

- **Enhanced Anti-Money Laundering regulatory regime**

  In July 2009, the FSTB launched a public consultation on the conceptual framework of the legislative proposal to enhance the Anti-Money Laundering ("AML") regulatory regime in respect of the financial sectors. The proposal aims at addressing the major deficiencies of the existing regime.

  FSTB introduced the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Bill into the LegCo in November 2010. It came into effect on April 1, 2012. In tandem, the SFC issues a set of guidelines which would give practical guidance as to how FIs could implement their own policies, systems and controls so as to meet the requirements under the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance ("AMLO").

- **Disclosure of Inside Information**

  In March 2010, the FSTB published a consultation paper entitled "Proposed Statutory Codification of Certain Requirements to Disclose Price Sensitive Information by Listed Corporations". The proposal aims to enforce listed corporations to make timely disclosure of "price-sensitive information". A key proposal is to include in the SFO a statutory requirement for a listed corporation to disclose to the public as soon as practicable "price-sensitive information" that has come to its knowledge.

  In June 2011, the SFC published the revised draft Guidelines, alongside the Government's issuance of the Legislative Council Brief on the Securities and Futures (Amendment) Bill 2011 (the Bill which codified the requirements on listed corporations to disclose inside information). Following the enactment of the Securities and Futures (Amendment) Ordinance 2012 (Amendment Ordinance), the SFC gazetted the Guidelines on Disclosure of Inside Information in May 2012, which will take effect upon implementation of the statutory disclosure regime on January 1, 2013.

- **Credit rating agencies**

  The SFC has introduced a new type of regulated activity under the SFO, Type 10: "providing credit rating services" - Hong Kong CRAs, and their Hong Kong based rating analysts, are required to obtain Type 10 licenses effective June 1, 2011. The SFC is responsible for licensing and regulating the CRAs and their rating analysts.

6. Other major issues and development

(a) Recent development of renminbi related initiatives

- During the visit in August 2011, Vice Premier Li Keqiang unveiled a series of policy initiatives that use Hong Kong as the platform to further the renminbi liberalization and capital market opening goals. These initiatives include the introduction of the RQFII scheme for investing in the Mainland's securities markets, expansion of issuance of renminbi bonds in Hong Kong by Mainland enterprises (including financial institutions and corporates) and the support for the use of renminbi for foreign direct investments in the Mainland. These policies will actively support the growth of the renminbi market in Hong Kong, expand renminbi circulation channels between Hong Kong and the Mainland, and will play an important role in the innovation and development of offshore renminbi financial products in Hong Kong.

- The renminbi bond market in Hong Kong continues to expand significantly. According to the HKMA, total issuance of renminbi bonds in Hong Kong reached approximately RMB108 billion in

2011, representing three times the total issuance of renminbi bonds of RMB36 billion in 2010. The range of issuers has also been diversified to include sovereigns, supranationals, and commercial banks and corporations from the Mainland, Hong Kong and overseas countries.

- According to HKMA, renminbi deposits in Hong Kong reached approximately RMB588.5 billion as at the end of 2011, representing a year-on-year increase of more than 80% and an increase of around 840% from the deposit size as at the end of 2009. As the Mainland is prepared to accelerate the pace of promoting the wider use of renminbi outside the Mainland, with this sizeable liquidity pool, the range of renminbi-denominated retail investment products managed by Mainland-related licensed firms is expected to grow.

- The Qualified Domestic Institutional Investor ("QDII") programme has continued to expand. According to statistics published by the State Administration of Foreign Exchange ("SAFE"), QDII quotas reached US$76.4 billion in mid-April 2012, up from US$68.4 billion at the end of 2010, allowing more Mainland capital to invest in overseas markets.

(b) <u>Latest survey on the fund management industry</u>

- In July 2012, the SFC released the findings of its Fund Management Activities Survey ("FMAS") 2011. The FMAS has been conducted on an annual basis since 1999. Key findings of this survey include:
  - Combined fund management business(Note 2) of licensed corporations, registered institutions and insurance companies registered a year-on-year decline of 10.4% to HK$9,038 billion at the end of 2011;
  - Of the total non-REIT fund management business (HK$8,914 billion), 63.3% of the assets, or HK$5,643 billion, were sourced from non-Hong Kong investors; Of the total non-REIT assets under management (HK$5,762 billion) by licensed corporations, registered institutions and insurance companies, 66.8% or HK$3,851 billion was managed in Hong Kong; and
  - Of the total non-REIT assets managed in Hong Kong (HK$3,851 billion), 77.9% (HK$2,999 billion) was invested in Asia. Of this, HK$1,860 billion was invested in Hong Kong and the Mainland.

(c) <u>Recent development of Mandatory Provident Fund ("MPF")</u>

- Withdrawal of benefits:
  - At present, according to the Mandatory Provident Fund Schemes Ordinance ("MPFSO"), scheme members reaching age 65 may withdraw their Mandatory Provident Fund ("MPF") benefits immediately or on a later date, but the withdrawal must be made in a lump sum. Before reaching 65, MPF benefits may only be withdrawn under the following circumstances: early retirement; permanent departure from Hong Kong; death; total incapacity; or small balance account.
  - In December 2011, the Mandatory Provident Fund Schemes Authority ("MPFA") launched a public consultation on the withdrawal of MPF benefits. The consultation focused on two aspects: the mode of payment of MPF benefits on retirement, as well as grounds for early withdrawal of benefits. Re the mode of payment, the MPFA proposes to allow flexibility and leave the choice to scheme members - members would be able to choose to withdraw their benefits in a lump sum or gradually. For grounds of early withdrawal, an additional ground is introduced to allow early withdrawal where a scheme member is certified to have an illness that would likely reduce the person's remaining life expectancy. The consultation period ends on March 31, 2012.

- Employee choice arrangement ("ECA"):

Note 2: "Combined fund management business" comprises fund management business and SFC-authorized real estate investment trusts ("REITs") management business. Due to the alternative investment nature of REITs, they have been excluded from the detailed analysis in the report.

"Fund management business" comprises asset management, fund advisory business and other private banking business.

"Asset management" refers to (i) the provision of services which constitute type 9 regulated activity as defined in Schedule 5 of the SFO carried out by licensed corporations and registered institutions (excluding assets from clients who are also licensed by or registered with the SFC); and (ii) the management of financial assets arising from the provision of services which constitutes classes of long term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance (Chapter 41) (excluding assets sub-contracted or delegated to other licensed corporations/registered institutions in Hong Kong for management), but excludes REIT management, fund advisory business and other private banking business, and "assets managed" shall be construed in the same manner.

- In July 2009, the LegCo approved the MPF Schemes (Amendment) Bill 2009, which seeks to increase employees' control over their MPF investments and allows employees to transfer accrued benefits derived from their employees' mandatory contributions from a contribution account under a registered scheme on a lump-sum basis to another MPF scheme of their own choice at least once per calendar year.
- In September 2010, the MPFA announced that to enhance protection of the interests of employees, it aimed to reinforce the existing regulatory regime of MPF intermediaries through legislation.
- In April 2011, FSTB launched a consultation which sets out legislative proposals to (a) enhance the regulation of the sales and marketing activities of MPF intermediaries; (b) provide for the establishment and operation of a platform by the MPFA to ensure accuracy and enhance efficiency of transfers of benefits among approved trustees through electronic means ("E-platform"); and (c) enhance the deterrent against default contributions by employers.
- In July 2011, the conclusions paper was issued. FSTB and MPFA introduced the Mandatory Provident Schemes (Amendment) (no. 2) Bill into LegCo in December 2011. With the passage of the legislation in June 2012, ECA will be implemented starting from November 1, 2012.

- Amendment of minimum and maximum level of relevant income for MPF contributions:
  - According to the MPFSO, an employer and employee must each contribute 5% of the employee's relevant income ("RI") to an MPF scheme as mandatory contributions unless exempted. If the RI is less than the minimum RI level ("Min RI"), he/she is not required to make MPF contributions himself, although the employer still has to make contributions for him/her.
  - For a relevant employee whose relevant income is above the maximum RI level ("Max RI"), both he/she and the employer are not required to make mandatory contributions in respect of the excess RI. The Min RI has been set at HK$5,000 per month since 2002 and the Max RI at HK$20,000 per month since the implementation of the MPF System in 2000.
  - In 2011, the LegCo passed the amendments, with the Min RI being raised to HK$6,500 monthly; and the Max RI to HK$25,000 monthly. Consequently, the Financial Secretary of the HKSAR proposed in his 2012/13 Budget that the maximum tax deduction for MPF mandatory contributions will be increased from HK$12,000 to HK$15,000, starting from the 2012-13 year of assessment.

- **Data on MPF (Appendix 3):** Aggregate NAV of all schemes remained stable, at HK$384,329 million as at Jun 2012, similar to Jun 2011 (at HK$384,475 million).

(End)

Appendix 1 – Retail Sales & Redemptions by Hong Kong Investors, Jan – Dec 2011

TYPE OF FUND	Gross Sales (US$ million)	Net Sales (US$ million)
Equity Funds		
Asia Regional (excl. Japan)	2,902.60	241.58
Asia Regional (incl. Japan)	183.98	-106.83
Greater China Region	3,625.39	-562.82
Japan	74.19	-20.06
Hong Kong	1,112.27	522.47
Asian Single Market (non Japan/ non HK)	1,891.44	-98.70
International Equity	331.31	-64.72
European Regional Market	594.90	40.53
European Single Market	1,020.53	340.02
North American Equity	388.77	98.97
Emerging Markets	1,856.01	-295.25
Sector Funds	2,341.14	448.93
REITs-related	35.10	-28.07
Equity total	**16,357.63**	**516.05**
Balanced/Managed Funds	**2,026.33**	**969.15**
Bond Funds		
Global	6,114.84	1,055.78
US	972.34	334.44
Europe	171.86	-48.73
Asia	5,504.82	2,476.23
Emerging Markets	3,878.82	995.81
Bond total	**16,642.68**	**4,813.53**
Money Market Funds/Liquidity Funds	**1,309.90**	**228.46**
Guaranteed Funds	**4.08**	**-198.29**
Equity Index Funds	**450.40**	**64.41**
Fund of Funds (Traditional Long-only product)	**50.12**	**-73.24**
Hedge Funds	**26.50**	**-115.34**
Warrants, Futures and Options Funds	**158.26**	**-4.40**
Other Funds	**511.01**	**6.46**
Total	***37,536.91***	***6,206.79***

Source: HKIFA (The sales and redemptions data only cover funds managed by HKIFA members.)

Appendix 2 - Retail Sales & Redemptions by Hong Kong Investors, Jan – Jun 2012

TYPE OF FUND	*Gross Sales (US$ million)*	*Net Sales (US$ million)*
Equity Funds		
Asia Regional (excl. Japan)	988.16	-204.69
Asia Regional (incl. Japan)	65.72	-27.28
Greater China Region	1,095.23	-154.88
China (since May 2012)*	363.16	53.18
Japan	17.92	-14.03
Hong Kong	316.77	-0.64
Asian Single Market (non Japan/ non HK)	545.68	-130.89
International	140.68	-8.34
European Regional Market	39.07	-40.58
European Single Market	120.01	-19.10
North America	160.78	30.56
Emerging Markets (up to April 2012)*	408.58	-116.67
Global Emerging Markets (since May 2012)*	104.92	-18.19
Eastern Europe Emerging Markets (since May 2012)*	62.73	18.86
Latin America Emerging Markets (since May 2012)*	56.64	10.20
Sector Funds	800.10	89.91
REITs-related	12.20	-3.70
Equity total	**5,298.35**	**-536.28**
Balanced/Managed Funds	**1,453.80**	**439.35**
Bond Funds		
Global	5,939.88	2,455.36
US	1,993.82	1,304.56
Europe	130.39	-25.42
Asia	3,396.3	919.63
Emerging Markets	2,290.74	823.87
High Yield (since May 2012)*	2,200.27	1,004.58
Bond total	**15,951.40**	**6,482.58**
Money Market Funds/Liquidity Funds	**402.71**	**-60.59**
Guaranteed Funds (up to April 2012)*	**0.18**	**-8.07**
Equity Index Funds	**292.00**	**5.19**
Fund of Funds (Traditional Long-only product)	**21.82**	**-20.67**
Hedge Funds (up to April 2012)*	**0.00**	**-5.67**
Warrants, Futures and Options Funds	**68.42**	**-7.75**
Other Funds	**130.79**	**-55.84**
Total	***23,619.47***	**6,232.25**

*HKIFA reviewed the fund categorization in May 2012. Changes are as follows:

1. Replace “Emerging Market Equity Funds” category by the below three new ones:
   - Eastern Europe Emerging Market(s) Equity Funds – including regional Eastern Europe and single countries
   - Latin America Emerging Market(s) Equity Funds - including regional Latin America and single countries
   - Global Emerging Markets Equity Funds - including Global EM, BRIC, Middle East etc.
2. Take China Equity Funds out from Greater China Region Equity Funds and put them under a separate category.

3. Add a new category (high yield) under bond funds.
4. Group Hedge Funds and Guaranteed Funds under "Others", i.e. there will not be any single categories for each of them.

Source: HKIFA (The sales and redemptions data only cover funds managed by HKIFA members. At the end of July 2012, HKIFA members managed about 1,270 SFC-authorized funds with asset size of about US$990 billion.)

Appendix 3 - Data on MPF

	30-Jun-2012	30-Jun-2011
MPF Schemes	Number	Number
Registered Schemes	40	41
Approved Constituent Funds	451	424
Approved Pooled Investment Funds	298	303
Approved Index-tracking Collective Investment Schemes	109	105
MPF Enrollment Rate*		
Employers	100%	98%
Employees	100%	99%
Self-employed persons	68%	77%
Aggregate Net Asset Values of All Schemes (including assets transferred from ORSO schemes [Note3])	HK$384,329 million	HK$384,475 million

Source: MPFA

***** End *****

(Prepared: October 2012)

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Note [3] ORSO schemes are voluntary private occupational retirement schemes registered under the Occupational Retirement Schemes Ordinance ("ORSO"), which has been in operation since 1993. With the introduction of MPF, legislation has been introduced to set out arrangements for the interface of the existing voluntary ORSO schemes with the new MPF System. The arrangement is intended to minimize the interference with existing schemes and avoid upsetting the contractual relationship between employers and employees. An ORSO registered scheme may be MPF-exempted if it meets certain criteria.