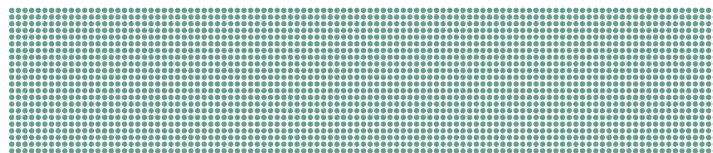
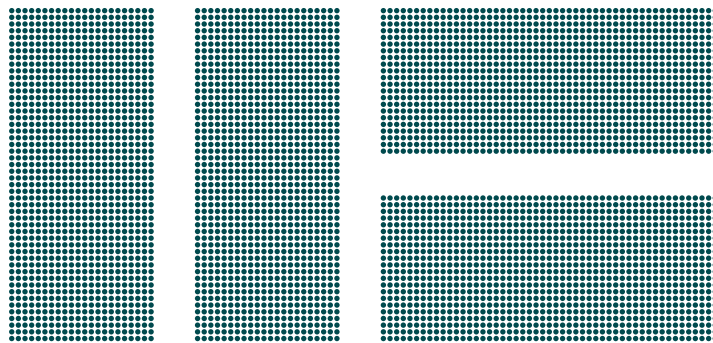
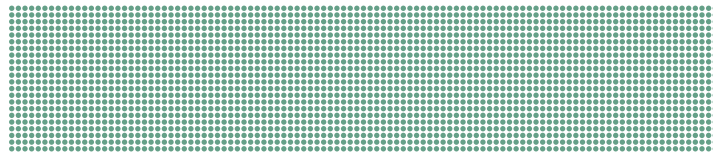




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會



Regulation for Quality Markets

Quarterly Report July - September 2016

This second Quarterly Report of the Securities and Futures Commission for financial year 2016-17 covers the period from 1 July to 30 September 2016.

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Highlights

Regulatory enhancements

- **Asset management review:** We launched a public consultation on proposals to enhance the regulations governing the asset management industry in Hong Kong.
- **Listing regulatory structure:** Our joint consultation with The Stock Exchange of Hong Kong Limited (SEHK) on proposed enhancements to the decision-making and governance structure for listing regulation ended in November following a two-month extension.
- **OTC derivatives:** With the Hong Kong Monetary Authority, we concluded an earlier consultation on introducing mandatory clearing and expanding mandatory reporting for the second stage of the over-the-counter (OTC) derivatives regulatory regime.
- **Position limit regime:** We launched a consultation on enhancements to expand the scope of the position limit regime for futures and options contracts.

Listings and takeovers

- **Listing applications:** Under the dual filing regime, we vetted 84 listing applications alongside SEHK during the quarter, up 37.7% year-on-year, a record high since the regime commenced in 2003.
- **Takeovers matters:** The Takeovers and Mergers Panel upheld the Takeovers Executive's¹ ruling that an offer for the shares of L&A International Holdings Limited complied with the Takeovers Code.

Intermediaries

- **Licensees and registrants:** As of 30 September, the total number of licensed corporations, individuals and registered institutions reached a record high of 42,571.
- **Intermediary inspection:** We conducted 81 risk-based on-site inspections of licensed corporations and shared our findings on breaches and instances of non-compliance identified during past inspections of introducing brokers.

Market development

- **Stock Connect:** In August, the SFC and the China Securities Regulatory Commission jointly announced the in-principle approval for Shenzhen-Hong Kong Stock Connect, which was launched on 5 December.

Enforcement

- **Disciplinary actions:** We disciplined four corporations and eight licensed representatives, resulting in total fines of \$25.8 million.
- **Market surveillance:** We made 2,168 requests for trading and account records from intermediaries following our surveillance of untoward price and turnover movements.

Global engagement

- **International collaboration:** With regulatory counterparts from Europe and Singapore, we organised the inaugural European Union-Asia Pacific Forum on Financial Regulation.

¹ This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

Intermediaries

Licensing applications

During this quarter, we received 2,278 licence applications¹, up 25.4% from the previous quarter and down 5.7% from the same quarter last year. As at 30 September, the total number of licensees and registrants reached 42,571. This is a record high since the implementation of the Securities and Futures Ordinance on 1 April 2003.

Monitoring

We conducted 81 risk-based on-site inspections of licensed corporations to review their compliance with relevant regulatory requirements in the quarter.

On 30 September, we issued an advisory circular to share findings of past inspections conducted on licensed corporations engaging in the introducing broker business², which identified various breaches and instances of non-compliance with the SFC's licensing, Code of Conduct³ and Anti-Money Laundering (AML) Guideline⁴ requirements. We also reminded licensed firms to implement adequate controls to ensure compliance.

Licensees and registrants

	As at 30.9.2016	As at 31.3.2016	Change (%)	As at 30.9.2015	YoY change (%)
Licensed corporations	2,318	2,208	5	2,125	9.1
Registered institutions	120	119	0.8	118	1.7
Licensed individuals	40,133	39,207	2.4	39,008	2.9
Total	42,571	41,534	2.5	41,251	3.2

Promoting compliance

During the quarter, we issued 10 advisory circulars to enhance the industry's awareness of the latest developments in AML and counter-terrorist financing (CTF).

As part of our ongoing effort to promote compliance with AML and CTF requirements, we gave two presentations in July to around 500 industry participants, including management and compliance personnel from licensed corporations.

Financial resolution regime

The Financial Institutions (Resolution) Ordinance, which establishes a regime for the resolution of financial institutions in Hong Kong, was gazetted on 30 June. The Government of the Hong Kong Special Administrative Region, the Hong Kong Monetary Authority, the Insurance Authority and the SFC are preparing for the new regime and will launch a public consultation on the draft subsidiary legislation.

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 4 for details.

² Referring to the introduction of clients to other brokers (execution broker) with which the clients open accounts for trading in securities, futures and/or leveraged foreign exchange contracts, with or without providing the service of relaying trade orders of the client to the execution broker.

³ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

⁴ Guideline on Anti-Money Laundering and Counter-Terrorist Financing.

Intermediaries

Licensing applications

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Applications to conduct new regulated activity	6,644	11,625	12,211	-4.8
Applications for SFC licences [#]	2,278	4,094	4,221	-3

[#] Figures do not include applications for provisional licences. During the quarter, we received 1,283 provisional licence applications compared with 1,477 in the same quarter last year.

Intermediary inspection

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Risk-based on-site inspections conducted	81	152	156	-2.6

Investment products

Authorizations

As of 30 September 2016, there were 2,751 SFC-authorized collective investment schemes (CIS) on offer to the public. During the quarter, we authorized 33 CIS, comprising 32 unit trusts and mutual funds and one investment-linked assurance scheme.

For the quarter ended 30 September 2016, we authorized 52 unlisted structured investment products for public offering.

Renminbi products

As of 30 September 2016, the total number of SFC-authorized RQFII¹/Stock Connect unlisted funds and exchange-traded funds (ETFs)² were 68 and 25 respectively.

Suitability, platforms and advice

We are reviewing and will provide additional guidance to clarify our expectations on the suitability requirement, including how it should be implemented across different business models such as in the context of exchange and online fund distribution platforms and robo-advice, as well as in the more traditional broker channel.

Enhancing asset management regulations

On 23 November 2016, we issued a consultation paper on proposals to enhance asset management regulations and point-of-sale transparency. The consultation paper's proposals have been formulated following a review of major international regulatory developments in the asset management industry, and taking into account comments received from the SFC's soft consultation meetings with industry stakeholders.

The proposals cover topics including commissions and independent advice, securities lending and repurchase agreements, safe custody of fund assets and liquidity management. The consultation will end on 22 February 2017.

Mainland-Hong Kong Mutual Recognition of Funds

As of 30 September 2016, we authorized a total of 45 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission approved six Hong Kong funds.

Industry guidance

We published frequently asked questions (FAQs) on the disclosure and approval requirements for an existing SFC-authorized fund that intends to make investments in the mainland China interbank bond market (CIBM) after the People's Bank of China's announcement on investment in CIBM without any quota restriction. We also published another FAQ to clarify the requirement for the adoption of additional trading counters for an ETF.

Fund Management Activities Survey

In July, we released the annual *Fund Management Activities Survey* for 2015. The findings showed that Hong Kong's combined fund management business decreased slightly by 1.6% year-on-year to \$17,393 billion as of 31 December 2015.

¹ Renminbi Qualified Foreign Institutional Investor.

² The RQFII/Stock Connect unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through either the RQFII quota, Stock Connect or both.

Investment products

Authorized collective investment schemes (CIS)^a

	As at 30.9.2016	As at 31.3.2016	Change (%)	As at 30.9.2015	YoY change (%)
Unit trusts and mutual funds	2,183	2,133	2.3	2,090	4.4
Investment-linked assurance schemes	300	301	-0.3	295	1.7
Pooled retirement funds	34	34	0	35	-2.9
MPF schemes	37	37	0	37	0
MPF pooled investment funds	171	173	-1.2	171	0
Others ^b	26	26	0	26	0
Total	2,751	2,704	1.7	2,654	3.7

^a Excluding unlisted structured investment products.

^b Comprising 15 paper gold schemes and 11 real estate investment trusts as of 30 September 2016.

Unlisted structured investment products

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Unlisted structured investment products ^a	52	59	59	0
Authorizations granted under section 105 of the SFO ^b	34	48	49	-2

^a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorized during the period, most of which were equity-linked investments and deposits.

^b Offering documents and advertisements for unlisted structured investment products offered to the Hong Kong public.

Listings and takeovers

Listing regulatory structure

On 17 June, we launched a two-month joint consultation with Hong Kong Exchanges and Clearing Limited on proposed enhancements to The Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation. To give all interested parties further time to file their responses, the consultation period was extended by two months to 18 November.

IPO applications

Under the dual filing regime, we received 84 listing applications via SEHK during the quarter, up 18.3% from 71 in the previous quarter and 37.7% from 61 in the same period last year. This was a record high since the regime commenced in 2003. Two listing applications were returned and an eight-week moratorium¹ was imposed because the respective application proofs were not substantially complete.

Takeovers matters

On 15 September, we gazetted a new filing form for all applications for rulings by the Takeovers Executive² made under section 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Listing applications and takeovers activities

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Listing applications filed under the dual filing regime	84	155	123	26
Takeovers and share buy-backs transactions	108	221	228	-3.1

In the September issue of the *Takeovers Bulletin*, we reminded industry participants that all applications for rulings must be submitted together with the duly completed filing form effective from 16 September.

In September, the Takeovers and Mergers Panel upheld the Takeovers Executive's ruling that the consideration offered by Favourite Number Limited for shares of L&A International Holdings Limited already complied with the Takeovers Code and that there was no basis to alter it as requested by L&A. The Panel's written decision was published on 12 October.

Corporate regulation

During the quarter, we continued to conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. In 27 cases, we felt it appropriate to issue section 179³ directions to gather additional information. The underlying concerns were varied and included whether any information that may meet the tests for inside information had been disclosed in a timely manner.

¹ The applicant can only submit a new listing application with a new application proof no less than eight weeks after the return.

² This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

³ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Market infrastructure and trading

Shenzhen-Hong Kong Stock Connect

In August, the SFC and the China Securities Regulatory Commission (CSRC) issued a joint announcement on the in-principle approval for Shenzhen-Hong Kong Stock Connect, which enables mutual stock market access between the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited. Trading commenced on 5 December. Over the past few months, we worked closely with the CSRC, Shenzhen Stock Exchange, China Securities Depository and Clearing Corporation Limited and Hong Kong Exchanges and Clearing Limited (HKEX) on regulatory and operational issues to prepare for the launch.

Position limit regime

In September, we launched a public consultation on enhancements to the position limit regime for futures and options contracts. The proposals aim to expand the scope of the existing regime and make it more responsive to developments in the financial market.

OTC derivatives

In July, the SFC and the Hong Kong Monetary Authority published conclusions to an earlier consultation on introducing mandatory clearing and expanding mandatory reporting for the second stage of the over-the-counter (OTC) derivatives regulatory regime. We implemented mandatory clearing of certain standardized OTC derivatives and designated four central counterparties for the purpose of mandatory clearing in September.

ATS

	As at 30.9.2016	As at 30.6.2016	Change (%)	As at 30.9.2015	YoY change (%)
ATS authorizations under Part III	44	39	12.8	35	25.7
Corporations provide ATS under Part V	24	24	0	28	-14.3

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

Enforcement

Market Misconduct Tribunal

- We started proceedings in the Market Misconduct Tribunal (MMT) against Samantha Keung Wai Fun, former CEO of China AU Group Holdings Limited¹, Wu Hsiu Jung and Chen Kuo-chen for false trading in China AU shares. Wu and Chen used 14 securities accounts to trade substantial amounts of China AU shares, with Keung providing a majority of the funds.
- We started proceedings in the MMT against Cheng Chak Ngok, former senior executive of ENN Energy Holdings Limited, for alleged insider dealing in the shares of China Gas Holdings Limited. We alleged that Cheng purchased China Gas shares in late 2011 upon knowing the details of the pre-conditional voluntary general offer for China Gas.
- The MMT ruled that Lo Hang Fong, a former company secretary of Warderly International Holdings Limited, and Luu Hung Viet Derrick, a lender and potential investor of Warderly, had not engaged in insider dealing in Warderly shares in 2007.

Restriction Notice

We issued a Restriction Notice to BOCI Securities Limited in September prohibiting it from processing shares and money held in two client accounts which hold the proceeds of suspected insider dealing. BOCI is not a suspect of the investigation.

Disciplinary actions

We disciplined four corporations and eight licensed representatives:

- Morgan Stanley Hong Kong Securities Limited was reprimanded and fined² \$18.5 million for internal control failures in a number of areas.
- The Hongkong and Shanghai Banking Corporation Limited (HSBC) was reprimanded and fined \$2.5 million for regulatory breaches and internal control failings related to position limit failures.
- BNP Paribas Wealth Management was reprimanded and fined \$4 million for taking monetary benefits in excess of the levels stated in its client documentation.

¹ Now known as Skynet Group Limited.

² Fines paid to or recovered by the SFC go into the general revenue of the Government.

³ Now known as Food Idea Holdings Limited.

⁴ Now known as Huarong International Securities Limited.

- Quam Capital Limited was fined \$800,000 for failing to discharge its duties as a sponsor when preparing the listing prospectus of Gayety Holdings Limited³ on the Growth Enterprise Market.
- Chan Hau Wing, a former employee of Yue Xiu Futures Company Limited, was banned from re-entering the industry for two years for conducting unauthorised trades in a client's account.
- Wong Lap Yin was prohibited from re-entering the industry for three years for manipulating the share price of China Nonferrous Metals Company Limited and carrying out unauthorised trades in a client's account.
- Ko Cho Ting was suspended for two years for executing suspicious client orders and operating a secret securities account.
- Lam Chun Yin and Yeung Chok Cheong, two former representatives of United Simsen Securities Limited⁴ were fined and banned from re-entering the industry for 36 months and 30 months respectively for failing to take all reasonable steps to avoid conflicts of interest and for trading on non-public information.
- Ku Yuen Leung, a former account executive of BOCOM International Securities Limited, was suspended for 18 months for creating a false or misleading appearance in the market for shares of Agricultural Bank of China Limited to drive up the prices of five related call warrants.
- Chau Hang Yu and Steve Chow Chun Yin, both former employees of HSBC, were banned from re-entering the industry for life following their criminal convictions for fraud under the Theft Ordinance.

Market surveillance

We made 2,168 requests for trading and account records from intermediaries in the quarter. In addition, we posted five high shareholding concentration announcements on our website to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Enforcement

Enforcement activities

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
S179 ^a inquiries commenced	10	14	13	7.7
S181 ^b inquiries commenced (number of letters sent)	60 (2,168)	141 (4,404)	131 (3,931)	7.6
S182 ^c directions issued	88	246	251	-2
Investigations started	91	251	255	-1.6
Investigations completed	129	294	238	23.5
Investigations completed within seven months (%)	66 (51%)	141 (48%)	127 (53%)	11
Individuals/corporations charged in criminal proceedings	4	4	4	0
Criminal charges laid	15	15	19	-21.1
Notices of Proposed Disciplinary Action ^d issued	9	25	15	66.7
Notices ^e of decision issued	13	23	17	35.3
Individuals/corporations subject to ongoing civil proceedings	108	108	88	20.5
Compliance advice letters issued	181	268	230	16.5
Cases with search warrants executed	11	19	18	5.6

^a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

^b 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.

^c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

^d 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.

^e A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Global regulatory engagement

IOSCO

Following the May appointment of Mr Ashley Alder, our Chief Executive Officer, as Chairman of the Board of the International Organization of Securities Commissions (IOSCO), he formulated measures to streamline IOSCO Board priorities and processes, work closely with the Financial Stability Board (FSB) and enhance collaboration between emerging and developed markets.

Mr Alder also chairs the IOSCO Task Force on Market Conduct which examines the regulatory approaches and tools related to the conduct of traders and other professionals in wholesale markets.

We participated in the work of the IOSCO Asia-Pacific Regional Committee on monitoring extraterritorial rulemaking, strengthening regional enforcement and supervisory cooperation, and mapping regional regulatory frameworks for collective investment schemes.

We worked closely with the European Commission and the Monetary Authority of Singapore to organise the inaugural European Union (EU)-Asia Pacific Forum on Financial Regulation. The Forum will be held on a regular basis to enhance information exchange and cross-border cooperation between regulators from the EU and the Asia Pacific region.

FSB

In July, Mr Alder attended the meeting of the FSB Plenary to discuss, among other things, market liquidity and the impact of financial regulatory reforms, central counterparties, asset management activities and initiatives to ensure fair and effective wholesale fixed income, currencies and commodities markets.

During the quarter, we coordinated with Hong Kong Monetary Authority (HKMA), the Office of the Commissioner of Insurance and the Government of the Hong Kong Special Administrative Region to respond to the FSB's annual monitoring exercise on shadow banking and its survey on the implementation status of non-priority reforms.

Other international collaboration

We responded to requests for technical assistance and training from overseas regulators and authorities. We also hosted delegations from regulators and international financial institutions from Asia, Europe and the US.

Mainland China

We received delegates from the Shenzhen and Shanghai stock exchanges and a related clearing house to discuss market surveillance and other issues relating to Stock Connect. We also met with a Vice Chairman and members of the Shanghai Committee of the Chinese People's Political Consultative Conference to introduce the regulatory environment in Hong Kong's financial market.

A new agreement on trade in services under Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed on 27 November 2015 and implemented on 1 June 2016. We participated in discussions with Mainland authorities to formulate new measures for the securities sector, including relaxing shareholding requirements for Hong Kong financial institutions establishing joint ventures on the Mainland. In September, the first joint venture Mainland fund management company majority owned by foreign investors was established under the CEPA framework.

In August, we met with officials from the China Securities Regulatory Commission (CSRC) to discuss public relations practices. We also shared with the CSRC our experience of participating in international financial development assessments.

Stakeholder communication

We engage with a wide range of stakeholders in a proactive, timely and effective manner to help them understand our work and keep them informed about regulatory updates.

In September, we launched a consultation proposing enhancements to the position limit regime by expanding its scope and making it more responsive to financial market developments¹ while the deadline for responding to the joint consultation on listing regulation was extended by two months².

Jointly with the Hong Kong Monetary Authority, we published further conclusions in July on proposals to introduce mandatory clearing and expand mandatory reporting for the second stage of the over-the-counter (OTC) derivatives regulatory regime¹.



Ms Christina Choi, Executive Director, Investment Products, addresses IFPHK's³ Financial Planning Conference 2016

During the quarter, our senior executives spoke at 14 local and international conferences to share our regulatory approaches on various areas. We also supported three industry events which promote the standards of the industry.



Our senior executives attend The Hong Kong Institute of Chartered Secretaries' 10th Biennial Corporate Governance Conference

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

- the half-yearly Financial Review of the Securities Industry which provides statistical and financial information about securities dealers and securities margin financiers as well as the financial performance of participants of The Stock Exchange of Hong Kong Limited;
- the annual Fund Management Activities Survey of licensed corporations, registered institutions and insurance companies;
- the September issue of the Takeovers Bulletin, a quarterly newsletter to help industry participants better understand the Codes on Takeovers and Mergers and Share Buy-backs; and
- the Half-yearly Review of the Global and Local Securities Markets, an overview of stock market performance, key economic indicators and market risks.

We issued 15 circulars to inform industry participants of matters related to client agreement requirements, the OTC derivatives regime and anti-money laundering.

We also briefed visitors on the SFC's regulatory work, including a group of 30 students from overseas.

¹ See Market infrastructure and trading on page 8 for details.

² See Listings and takeovers on page 7 for details.

³ Institute of Financial Planners of Hong Kong.

Stakeholder communication

Publications and other communications

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY Change (%)
Press releases	28	56	52	7.7
Consultation papers	1	2	2	0
Consultation conclusions	1	1	3	-66.7
Industry-related publications	4	5	6	-16.7
Circulars to industry	15	26	32	-18.8
Corporate website average daily page views ¹	57,632	57,450	49,811	15.3
General enquiries	1,571	3,299	3,436	-4

¹ The average number of web pages browsed per day during the reporting period.

Corporate Developments

The Government reappointed Ms Teresa Ko and Dr William Wong as Non-Executive Directors for two-year terms effective from 1 August.

Ms Christina Choi was appointed as Executive Director of Investment Products for a three-year term effective from 1 August.

Mr Thomas Atkinson, Executive Director of Enforcement, was appointed as a member of both the Securities Compensation Fund Committee¹ and the Investor Compensation Fund Committee² effective from 28 September.

Our income for the quarter was \$372 million, up 30% from the previous quarter. In the quarter, average daily turnover in Hong Kong's securities market was \$71 billion, 13% higher than the previous quarter. Our expenditure for the quarter was \$423 million. We recorded a deficit of \$51 million this quarter, compared to a deficit of \$129 million last quarter. As at 30 September, our reserves stood at \$7.1 billion, of which \$3 billion was set aside for possible future acquisition of office premises.

Finances

(\$ million)	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Income	372	659	973	-32
Expenses including depreciation	423	838	756	11

To raise efficiency, we introduced an electronic channel for the submission of investment products information and automated our licensing system to handle corporate amalgamations of licensed corporations.

During the quarter, we organised study visits to our counterparts in Shanghai and Shenzhen to enrich our employees' understanding of the Mainland capital markets and regulatory regime.

As of 30 September, we had 860 staff members, up from 814 a year ago.

¹ 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.

² 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.

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	3	7	9	-22.2
Failure to safekeep client securities	16	23	17	35.3
Failure to maintain proper books and records	8	18	12	50
Failure to safekeep client money	16	30	20	50
Unlicensed dealing and other registration issues	3	9	14	-35.7
Breach of licensing conditions	0	1	4	-75
Breach of requirements of contract notes/statements of account/receipts	16	35	33	6.1
Failure to make filing/notification	3	3	3	0
Breach of margin requirements	1	1	4	-75
Marketing malpractices	0	0	0	0
Illegal short selling of securities	0	0	0	0
Dealing malpractices	4	6	2	200
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	114	240	143	67.8
Breach of Corporate Finance Adviser Code of Conduct	5	16	6	166.7
Breach of Fund Manager Code of Conduct	13	35	30	16.7
Breach of regulation of on-line trading	4	6	6	0
Non-compliance with anti-money laundering guidelines	63	118	137	-13.9
Breach of other rules and regulations of the Exchanges ²	1	8	5	60
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	0	0
Internal control weaknesses ³	142	259	240	7.9
Others	23	40	58	-31
Total	435	855	743	15.1

¹ Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

² Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

³ Comprising deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.

Table 2 Authorized unit trusts and mutual funds – by type and number

	Number as at 30.9.2016	Number as at 31.3.2016	Change (%)	Number as at 30.9.2015	YoY change (%)
Bond	412	404	2	407	1.2
Equity	1,034	1,031	0.3	1,021	1.3
Diversified	163	140	16.4	111	46.8
Money market	44	46	-4.3	50	-12
Fund of funds	106	102	3.9	102	3.9
Index ¹	172	161	6.8	154	11.7
Guaranteed	3	3	0	3	0
Hedge	2	3	-33.3	3	-33.3
Other specialised ²	10	14	-28.6	14	-28.6
Sub-total	1,946	1,904	2.2	1,865	4.3
Umbrella structures	237	229	3.5	225	5.3
Total	2,183	2,133	2.3	2,090	4.4

¹ Including leveraged and inverse products.

² Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds – by type and assets under management

	Total NAV (US\$ million) as at 30.9.2016 ¹	Total NAV (US\$ million) as at 31.3.2016	Change (%)	Total NAV (US\$ million) as at 30.9.2015	YoY change (%)
Bond	461,716	423,758 ²	9	427,862	7.9
Equity	622,336	608,782	2.2	584,707	6.4
Diversified	133,511	117,242	13.9	110,003	21.4
Money market	19,268	21,315	-9.6	22,288	-13.5
Fund of funds	16,611	15,651	6.1	15,468	7.4
Index ³	97,779	87,530	11.7	78,676	24.3
Guaranteed	71	69	2.9	71	0
Hedge	38	110	-65.5	114	-66.7
Other specialised ⁴	1,407	1,576	-10.7	1,704	-17.4
Total	1,352,736⁵	1,276,033²	6	1,240,893	9

¹ Beginning from 30 June 2016, total net asset value (NAV) is presented in quarterly reports. For comparison purposes, total NAV figures as of 31 March 2016 and 30 September 2015 are also presented.

² This figure differs from that disclosed in the *Annual Report 2015-16* due to revised figures reported by fund managers after the report's issuance.

³ Including leveraged and inverse products.

⁴ Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

⁵ Figure does not add up to total due to rounding.

Activity Data

Table 4 Authorized unit trusts and mutual funds – by origin and number

	Number as at 30.9.2016	Number as at 31.3.2016	Change (%)	Number as at 30.9.2015	YoY change (%)
Hong Kong	695	656	5.9	628	10.7
Luxembourg	1,006	1,004	0.2	1,010	-0.4
Ireland	268	277	-3.2	281	-4.6
United Kingdom	69	65	6.2	65	6.2
Mainland China	45	27	67	0	N/A
Other Europe	3	0	N/A	0	N/A
Bermuda	5	5	0	5	0
Cayman Islands	84	90	-6.7	92	-8.7
Others	8	9	-11	9	-11
Total	2,183	2,133	2.3	2,090	4.4

Table 5 Authorized unit trusts and mutual funds – by origin and assets under management

	Total NAV (US\$ million) as at 30.9.2016 ¹	Total NAV (US\$ million) as at 31.3.2016	Change (%)	Total NAV (US\$ million) as at 30.9.2015	YoY change (%)
Hong Kong	125,967	118,172 ²	6.6	110,803	13.7
Luxembourg	889,124	860,620	3.3	854,348	4
Ireland	160,813	150,267	7	150,972	6.5
United Kingdom	93,351	78,830	18.4	76,250	22.4
Mainland China	23,007	10,880	111.5	0	N/A
Other Europe	67	0	N/A	0	N/A
Bermuda	241	292	-17.5	309	-22
Cayman Islands	12,051	15,253	-21	13,890	-13
Others	48,116	41,719	15.3	34,321	40.2
Total	1,352,736³	1,276,033²	6	1,240,894³	9

¹ Beginning from 30 June 2016, total NAV is presented in quarterly reports. For comparison purposes, total NAV figures as of 31 March 2016 and 30 September 2015 are also presented.

² This figure differs from that disclosed in the *Annual Report 2015-16* due to revised figures reported by fund managers after the report's issuance.

³ Figure does not add up to total due to rounding.

Table 6 Takeovers activities

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	17	29	21	38.1
Privatisations	4	8	4	100
Whitewash waiver applications	5	16	29	-44.8
Other applications under Code on Takeovers and Mergers ¹	82	167	171	-2.3
Off-market and general offer share buy-backs	0	1	1	0
Other applications under Code on Share Buy-backs ¹	0	0	2	-100
Total	108	221	228	-3.1
Executive Statements				
Sanctions imposed with parties' agreement ²	0	2	0	N/A
Takeovers and Mergers Panel				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	N/A
Hearings before the Panel (disciplinary and non-disciplinary)	1	2	0	N/A
Statements issued by the Panel ³	0	1	2	-50

¹ Including stand-alone applications and those made during the course of a Code-related transaction.

² Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

³ Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 7 Complaints against intermediaries and market activities

	Quarter ended 30.9.2016	Six months ended 30.9.2016	Six months ended 30.9.2015	YoY change (%)
Conduct of licensees	79	178	162	9.9
Conduct of registered institutions	11	25	20	25
Listing-related matters and disclosure of interests	174	329	392	-16.1
Market misconduct ¹	46	98	76	28.9
Product disclosure	2	5	0	N/A
Unlicensed activities	24	58	73	-20.5
Breach of offers of investments	16	22	4	450
Other financial activities ²	140	325	422	-23
Total	492	1,040	1,149	-9.5

¹ Primarily, alleged market manipulation and insider dealing.

² Comprising boiler rooms, insurance and bullion activities, identity frauds, etc.

Independent Auditors' Report on Review of Interim Financial Information to 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 2016, 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 21 to 28 (the condensed consolidated interim financial information). The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*. Our responsibility is to form a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of the condensed 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 Hong Kong 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 2016 is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

KPMG

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

5 December 2016

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

For the three months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2016 \$'000	Unaudited and unreviewed Three months ended 30 September 2015 \$'000
Income		
Levies	263,762	374,605
Fees and charges	34,012	41,271
Investment income/(loss)	74,287	(62,137)
Less : custody and advisory expenses	(1,487)	(855)
Investment income/(loss) net of third party expenses	72,800	(62,992)
Recoveries from the Investor Compensation Fund	1,390	1,342
Other income	284	213
	372,248	354,439
Expenses		
Staff costs and directors' emoluments	304,971	279,533
Premises		
Rent	52,412	50,513
Rates, management fees and others	12,579	11,527
Other expenses	42,206	31,517
Depreciation	10,661	12,806
	422,829	385,896
Loss and total comprehensive income for the quarter	(50,581)	(31,457)

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2016 \$'000	Unaudited Six months ended 30 September 2015 \$'000
Income			
Levies		502,218	935,731
Fees and charges		68,092	70,523
Investment income/(loss)		88,205	(35,259)
Less : custody and advisory expenses		(2,683)	(1,785)
Investment income/(loss) net of third party expenses		85,522	(37,044)
Recoveries from the Investor Compensation Fund		2,780	2,688
Other income		440	837
		659,052	972,735
Expenses			
Staff costs and directors' emoluments	8(b)	601,953	549,771
Premises			
Rent		103,922	101,026
Rates, management fees and others		24,831	22,913
Other expenses		86,206	58,153
Depreciation		21,346	23,619
		838,258	755,482
(Loss)/surplus and total comprehensive income for the period		(179,206)	217,253

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 30 September 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		68,905	73,247
Held-to-maturity debt securities	2	–	30,009
		68,905	103,256
Current assets			
Held-to-maturity debt securities	2	436,942	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		764,953	–
Pooled funds		706,243	654,585
Debtors, deposits and prepayments		160,514	122,458
Fixed deposits with banks	3	5,172,044	6,066,032
Cash at bank and in hand	3	22,300	25,649
		7,262,996	7,330,505
Current liabilities			
Fees received in advance		7,908	8,405
Creditors and accrued charges		196,979	121,969
		204,887	130,374
Net current assets			
		7,058,109	7,200,131
Total assets less current liabilities			
		7,127,014	7,303,387
Non-current liabilities			
	4	28,680	25,847
Net assets			
		7,098,334	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		4,055,494	7,234,700
		7,098,334	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 30 September 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		68,493	72,701
Held-to-maturity debt securities	2	–	30,009
		68,493	102,710
Current assets			
Held-to-maturity debt securities	2	436,942	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		764,953	–
Pooled funds		706,243	654,585
Debtors, deposits and prepayments		163,012	134,872
Fixed deposits with banks		5,172,044	6,066,032
Cash at bank and in hand		14,646	5,058
		7,257,840	7,322,328
Current liabilities			
Fees received in advance		7,908	8,405
Creditors and accrued charges		191,411	113,246
		199,319	121,651
Net current assets		7,058,521	7,200,677
Total assets less current liabilities		7,127,014	7,303,387
Non-current liabilities	4	28,680	25,847
Net assets		7,098,334	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		4,055,494	7,234,700
		7,098,334	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Reserve for property acquisition \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2015	42,840	–	7,198,353	7,241,193
Surplus and total comprehensive income for the period	–	–	217,253	217,253
Balance at 30 September 2015	42,840	–	7,415,606	7,458,446
Balance at 1 April 2016	42,840	–	7,234,700	7,277,540
Transfer to reserve for property acquisition	–	–	(3,000,000)	(3,000,000)
Reserve for property acquisition	–	3,000,000	–	3,000,000
Loss and total comprehensive income for the period	–	–	(179,206)	(179,206)
Balance at 30 September 2016	42,840	3,000,000	4,055,494	7,098,334

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Six months ended 30 September 2016 \$'000	Unaudited Six months ended 30 September 2015 \$'000
Cash flows from operating activities		
(Loss)/surplus for the period	(179,206)	217,253
Adjustments for:		
Depreciation	21,346	23,619
Investment (income)/loss	(88,205)	35,259
Exchange difference	566	559
Loss on disposal of fixed assets	7	12
	(245,492)	276,702
(Increase)/decrease in debtors, deposits and prepayments	(30,105)	2,340
Increase in creditors and accrued charges	75,010	55,647
Decrease in fees received in advance	(497)	(1,013)
Increase in non-current liabilities	2,833	2,429
Net cash (used in)/generated from operating activities	(198,251)	336,105
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	(459,276)	(1,513,190)
Interest received	29,653	29,948
Held-to-maturity debt securities redeemed at maturity	53,800	380,305
Debt securities purchased	(1,116,325)	–
Debt securities sold	349,649	–
Pooled funds sold	1,148	1,297
Fixed assets purchased	(17,011)	(13,632)
Net cash used in investing activities	(1,158,362)	(1,115,272)
Net decrease in cash and cash equivalents	(1,356,613)	(779,167)
Cash and cash equivalents at beginning of the six-month period	1,522,116	2,104,324
Cash and cash equivalents at end of the six-month period	165,503	1,325,157

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 September 2016 \$'000	Unaudited At 30 September 2015 \$'000
Fixed deposits with banks	143,203	1,311,969
Cash at bank and in hand	22,300	13,188
	165,503	1,325,157

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the SFC since the annual financial statements for the year ended 31 March 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the SFC's statutory annual financial statements 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 2016. 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 2016 to the condensed interim financial information.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2016.

2. Held-to-maturity debt securities

As of 30 September 2016, the total market value of held-to-maturity debt securities amounted to \$437,345,000 (31 March 2016: \$492,756,000), which was above the total carrying value of \$436,942,000 (31 March 2016: \$491,790,000).

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 30 September 2016 \$'000	Audited At 31 March 2016 \$'000
Cash at bank and in hand	22,300	25,649
Fixed deposits with banks	5,172,044	6,066,032
Amounts shown in the condensed consolidated statement of financial position	5,194,344	6,091,681
Less : Amounts with an original maturity of beyond three months	(5,028,841)	(4,569,565)
Cash and cash equivalents in the condensed consolidated statement of cash flows	165,503	1,522,116

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

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.

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 2016. 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, US 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 US 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 the 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. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance (SFO).

The objective of the 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 2016, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2016: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

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

8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange 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 ICF for all the ICC's expenses amounting to \$2,780,000 (2015: \$2,688,000), which is in accordance with section 242(1) of the SFO. As at 30 September 2016, the amount due to the ICF from the ICC was \$511,000 (at 31 March 2016: \$73,000).

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

8. Related party transactions (cont'd)

(b) Remuneration of key management personnel comprised:

	Unaudited Six months ended 30 September 2016 \$'000	Unaudited Six months ended 30 September 2015 \$'000
Directors' fees and salaries, allowances and benefits in kind	15,295	16,099
Retirement scheme contributions	1,355	1,471
	16,650	17,570

The total remuneration is included in "staff costs and directors' emoluments" on page 21. 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.

9. Commitment to pay rents for offices

At 30 September 2016 the minimum amount we are committed to pay in rent for our offices up to 31 August 2020, being the rent review date as set out in the lease agreements, are as follows :

	Unaudited At 30 September 2016 \$'000	Audited At 31 March 2016 \$'000
Payable next year	214,700	208,294
Payable in one to five years	576,198	87,619
Payable in more than five years	-	-
	790,898	295,913

During the period, \$103,922,000 net of lease incentives was recognised as an expense in the condensed consolidated statement of comprehensive income in respect of operating leases (2015: \$101,026,000).

10. Funding and reserve management

During the period, the SFC has earmarked \$3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

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 2016.

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 statements

The financial performance of the Fund for the reporting period ended 30 September 2016 and the financial position of the Fund as at that date are set out in the financial statements on pages 31 to 37.

Members of the Committee

The members of the Committee during the six months ended 30 September 2016 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	(appointed on 28 September 2016)

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

5 December 2016

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

Introduction

We have reviewed the accompanying condensed statement of financial position of Investor Compensation Fund (the Fund) (established in Hong Kong under Part XII of the Securities and Futures Ordinance) as at 30 September 2016, 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 32 to 37 (the condensed interim financial information). The directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*. Our responsibility is to form a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of the condensed 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 Hong Kong 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 2016 is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

KPMG

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

5 December 2016

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

For the three months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2016 \$'000	Unaudited and unreviewed Three months ended 30 September 2015 \$'000
Income		
Net investment income/(loss)	30,801	(30,742)
Exchange difference	(418)	(501)
	30,383	(31,243)
Expenses		
Investor Compensation Company Limited expenses	1,390	1,342
Compensation (write-backs)/expenses	(294)	6,738
Auditor's remuneration	32	31
Bank charges	247	234
Professional fees	970	928
	2,345	9,273
Surplus/(loss) and total comprehensive income for the quarter	28,038	(40,516)

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2016 \$'000	Unaudited Six months ended 30 September 2015 \$'000
Income			
Net investment income/(loss)		54,530	(29,415)
Exchange difference		(160)	(589)
		54,370	(30,004)
Expenses			
Investor Compensation Company Limited expenses	2	2,780	2,688
Compensation (write-backs)/expenses	3	(5)	9,436
Auditor's remuneration		65	62
Bank charges		482	474
Professional fees		1,944	1,928
		5,266	14,588
Surplus/(loss) and total comprehensive income for the period		49,104	(44,592)

The notes on pages 36 to 37 form part of the condensed financial statements.

Condensed statement of financial position

At 30 September 2016 (Expressed in Hong Kong dollars)

Note	Unaudited At 30 September 2016 \$'000	Audited At 31 March 2016 \$'000
Current assets		
Financial assets designated at fair value through profit or loss		
Debt securities	1,927,666	1,866,404
Pooled fund	311,557	282,860
Interest receivable	12,622	13,367
Due from Investor Compensation Company Limited	511	73
Fixed deposits with banks	7,449	7,788
Cash at bank	2,837	43,175
	2,262,642	2,213,667
Current liabilities		
Provision for compensation	3	1,257
Creditors and accrued charges	1,402	1,376
	2,659	2,788
Net current assets		
	2,259,983	2,210,879
Representing:		
Compensation fund		
Contributions from Unified Exchange Compensation Fund	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	108,923	108,923
Accumulated surplus	1,156,342	1,107,238
	2,259,983	2,210,879

The notes on pages 36 to 37 form part of the condensed financial statements.

Condensed statement of changes in equity

For the six months ended 30 September 2016 (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 April 2015	994,718	108,923	1,111,180	2,214,821
Loss and total comprehensive income for the period	–	–	(44,592)	(44,592)
Balance at 30 September 2015	994,718	108,923	1,066,588	2,170,229
Balance at 1 April 2016	994,718	108,923	1,107,238	2,210,879
Surplus and total comprehensive income for the period	–	–	49,104	49,104
Balance at 30 September 2016	994,718	108,923	1,156,342	2,259,983

The notes on pages 36 to 37 form part of the condensed financial statements.

Condensed statement of cash flows

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Unaudited Six months ended 30 September 2016 \$'000	Unaudited Six months ended 30 September 2015 \$'000
Cash flows from operating activities		
Surplus/(loss) for the period	49,104	(44,592)
Adjustments for:		
Net investment (income)/loss	(54,530)	29,415
Exchange difference	160	589
	(5,266)	(14,588)
Increase in amount due from Investor Compensation Company Limited	(438)	(310)
Decrease in provision for compensation	(155)	(17,646)
Increase/(decrease) in creditors and accrued charges	26	(61)
Net cash used in operating activities	(5,833)	(32,605)
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	–	(1,700)
Purchase of debt securities	(305,958)	(324,825)
Sale or maturity of debt securities	246,654	342,990
Sale of equity securities	694	761
Interest received	23,766	24,478
Net cash (used in)/generated from investing activities	(34,844)	41,704
Net (decrease)/increase in cash and cash equivalents	(40,677)	9,099
Cash and cash equivalents at beginning of the six-month period	50,963	54,045
Cash and cash equivalents at end of the six-month period	10,286	63,144

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 September 2016 \$'000	Unaudited At 30 September 2015 \$'000
Fixed deposits with banks	7,449	58,091
Cash at bank	2,837	5,053
	10,286	63,144

The notes on pages 36 to 37 form part of the condensed financial statements.

Notes to the condensed financial statements

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2016. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2016 to the condensed interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2016.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) 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 the ICC. For the six months ended 30 September 2016, the ICC incurred \$2,780,000 for its operations and was reimbursed by the Fund (for the six months ended 30 September 2015 : \$2,688,000).

3. Provision for compensation

	\$'000
Balance as at 1 April 2015	43,808
Add: compensation expenses during the year ended 31 March 2016	11,142
Less: compensation write-backs during the year ended 31 March 2016	(3,801)
Less: compensation paid during the year ended 31 March 2016	(49,737)
Balance as at 31 March 2016 and 1 April 2016	1,412
Add: compensation expenses during the six months ended 30 September 2016	289
Less: compensation write-backs during the six months ended 30 September 2016	(294)
Less: compensation paid during the six months ended 30 September 2016	(150)
Balance as at 30 September 2016	1,257

As at 30 September 2016, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 30 September 2016 was \$1,257,000 (31 March 2016: \$1,412,000). As at 30 September 2016, all provisions were expected to be paid within one year.

Notes to the condensed financial statements

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

4. Material related party transactions

We have related party relationships with the SFC, the ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the six months ended 30 September 2015 and 2016.

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 of these claims is \$2,981,000 (31 March 2016: \$2,619,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2016.

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 2016, the Fund transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (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 statements

The financial performance of the Fund for the reporting period ended 30 September 2016 and the financial position of the Fund as at that date are set out in the financial statements on pages 40 to 46.

Members of the Committee

The members of the Committee during the six months ended 30 September 2016 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	(appointed on 28 September 2016)

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

21 November 2016

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

Introduction

We have reviewed the accompanying condensed statement of financial position of the Unified Exchange Compensation Fund (the Fund) (established under section 99 of the repealed Hong Kong Securities Ordinance) as at 30 September 2016, 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 41 to 46 (the condensed interim financial information). The directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*. Our responsibility is to form a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of the condensed 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 Hong Kong 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 2016 is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

KPMG

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

21 November 2016

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

For the three months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2016 \$'000	Unaudited and unreviewed Three months ended 30 September 2015 \$'000
Income		
Interest income	120	121
Expenses		
Auditor's remuneration	14	13
Professional fees	10	9
	24	22
Surplus and total comprehensive income for the quarter	96	99

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2016 \$'000	Unaudited Six months ended 30 September 2015 \$'000
Income			
Interest income		246	271
Expenses			
Recoveries re-distributed	3	1,152	–
Auditor's remuneration		27	26
Professional fees		19	18
Sundry expenses		3	–
		1,201	44
(Loss)/surplus and total comprehensive income for the period		(955)	227

The notes on pages 45 to 46 form part of the condensed financial statements.

Condensed statement of financial position

At 30 September 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2016 \$'000	Audited At 31 March 2016 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		51	59
Fixed deposits with banks		82,531	82,179
Cash at bank		224	278
		82,807	82,517
Current liabilities			
Creditors and accrued charges		10,301	10,306
Relinquished trading rights payable to SEHK	4	1,000	800
		11,301	11,106
Net current assets			
		71,506	71,411
Net assets			
		71,506	71,411
Representing:			
Compensation fund			
Contributions from SEHK	4	50,100	49,050
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		25,835	26,790
		1,066,224	1,066,129
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		71,506	71,411

The notes on pages 45 to 46 form part of the condensed financial statements.

Condensed statement of changes in equity

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Unaudited Contributions from SEHK \$'000	Unaudited Excess transaction levy from SEHK \$'000	Unaudited Special contributions and special levy surplus \$'000	Unaudited Additional contributions from SEHK and the SFC \$'000	Unaudited Accumulated surplus \$'000	Unaudited Contributions to Investor Compensation Fund \$'000	Unaudited Total \$'000
Balance at 1 April 2015	48,100	353,787	6,502	630,000	26,342	(994,718)	70,013
Net contributions from SEHK	150	-	-	-	-	-	150
Surplus and total comprehensive income for the period	-	-	-	-	227	-	227
Balance at 30 September 2015	48,250	353,787	6,502	630,000	26,569	(994,718)	70,390
Balance at 1 April 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411
Net contributions from SEHK	1,050	-	-	-	-	-	1,050
Loss and total comprehensive income for the period	-	-	-	-	(955)	-	(955)
Balance at 30 September 2016	50,100	353,787	6,502	630,000	25,835	(994,718)	71,506

The notes on pages 45 to 46 form part of the condensed financial statements.

Condensed statement of cash flows

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

	Unaudited Six months ended 30 September 2016 \$'000	Unaudited Six months ended 30 September 2015 \$'000
Cash flows from operating activities		
(Loss)/surplus for the period	(955)	227
Adjustments for:		
Interest income	(246)	(271)
	(1,201)	(44)
Decrease in creditors and accrued charges	(5)	(6)
Increase/(decrease) in relinquished trading rights payable to SEHK	200	(1,200)
Net cash used in operating activities	(1,006)	(1,250)
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	–	(34,776)
Interest received	254	275
Net cash generated from/(used in) investing activities	254	(34,501)
Cash flows from financing activities		
Net contributions from SEHK	1,050	150
Net cash generated from financing activities	1,050	150
Net increase/(decrease) in cash and cash equivalents	298	(35,601)
Cash and cash equivalents at beginning of the six-month period	82,457	82,357
Cash and cash equivalents at end of the six-month period	82,755	46,756

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 September 2016 \$'000	Unaudited At 30 September 2015 \$'000
Fixed deposits with banks	82,531	46,479
Cash at bank	224	277
	82,755	46,756

The notes on pages 45 to 46 form part of the condensed financial statements.

Notes to the condensed financial statements

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA). 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 condensed interim financial information on a non-going concern basis. 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.

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2016. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2016 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2016.

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 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 payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 September 2016 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 HKAS 39, *Financial Instruments: Recognition and measurement*. According to HKFRS 13, *Fair value measurement*, these 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. Recoveries re-distributed

The Fund received recoveries by virtue of the SFC's subrogation rights in respect of claimants who received compensation payments from the Fund. On 17 May 2016, the Securities Compensation Fund Committee of the SFC decided to return the excess amount and relevant interest amount totalled to \$1,152,000 to some of the claimants of the C.A. Pacific case. The excess amount for each claimant represents the excess of total recovered amount from the liquidators over the compensation amount paid to the claimant.

Notes to the condensed financial statements

For the six months ended 30 September 2016 (Expressed in Hong Kong dollars)

4. Contributions from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished.

During the six-month period, deposits of \$1,250,000 in respect of 25 new trading rights were received from SEHK and no trading rights were refunded.

At 30 September 2016, there were 20 trading rights in total that have been relinquished but not yet refunded (at 31 March 2016: 16). The net contributions from SEHK at 30 September 2016, excluding the relinquished trading rights payable, amounted to \$50,100,000 (at 31 March 2016: \$49,050,000).

5. Material related party transactions

We have related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the six months ended 30 September 2015 and 2016.

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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