



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

Quarterly Report July - September 2020



This second Quarterly Report of the Securities and Futures Commission for financial year 2020-21 covers the period from 1 July to 30 September 2020.

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Highlights



Regulatory enhancements

Anti-money laundering: We launched a consultation on proposals to amend our anti-money laundering and counter-financing of terrorism guidelines to align with international standards and provide guidance on applying the measures in a more risk-sensitive manner.

OFC regime: Following the conclusion of a consultation on enhancements to the open-ended fund companies regime, all investment restrictions for private OFCs were removed and the eligibility requirements for private OFC custodians were expanded to include securities brokers.

Climate-related risks in funds: We began a consultation on proposed requirements for fund managers to consider climate-related risks in their investment and risk management processes and disclose them appropriately.

REIT Code: We concluded a consultation on proposed amendments to the Code on Real Estate Investment Trusts to provide Hong Kong REITs with more flexibility in making investments.

Listing regulation

Listing applications: We vetted 61 new listing applications, including two from companies with a weighted voting rights structure and seven from pre-profit biotech companies.

Corporate conduct: As part of our review of corporate disclosures, we issued section 179 directions to gather additional information in 17 cases and wrote to detail our concerns in one transaction.

Review of the Exchange's work: We published a report on our review of the performance of The Stock Exchange of Hong Kong Limited in its regulation of listing matters during 2018.

Highlights

Intermediaries

Licensing: As at 30 September, the number of licensees and registrants totalled 47,048, of which 3,122 were licensed corporations.

Supervision: We conducted 80 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Cybersecurity risks: We issued a report on our recent thematic review of licensed corporations which engage in internet trading business and provided guidance on our expected standards for cybersecurity.

Products

Product authorisations: We authorised 40 unit trusts and mutual funds (including 25 Hong Kong-domiciled funds), one investment-linked assurance scheme and 73 unlisted structured investment products for public offering in Hong Kong.

Fund flows: Hong Kong-domiciled SFC-authorised funds reported overall net inflows of US\$7,062 million in the six months to 30 September.

Mainland-Hong Kong ETF cross-listing: We and the China Securities Regulatory Commission approved four exchange-traded funds (ETFs) under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets.

MSCI index futures: We approved five MSCI index futures contracts and one MSCI index options contract proposed by Hong Kong Exchanges and Clearing Limited.

Enforcement

Disciplinary actions: We disciplined two licensed corporations and seven individuals during the quarter, resulting in total fines of \$6.7 million. In October, we reprimanded and fined Goldman Sachs (Asia) L.L.C. US\$350 million (HK\$2.71 billion) for serious regulatory failures over 1Malaysia Development Berhad's bond offerings.

Market surveillance: We made 2,417 requests for trading and account records triggered by untoward price and turnover movements.

Online investment scams: We launched a campaign and published a special issue of the SFC Enforcement Reporter to warn the public about social media investment scams.

Regulatory cooperation

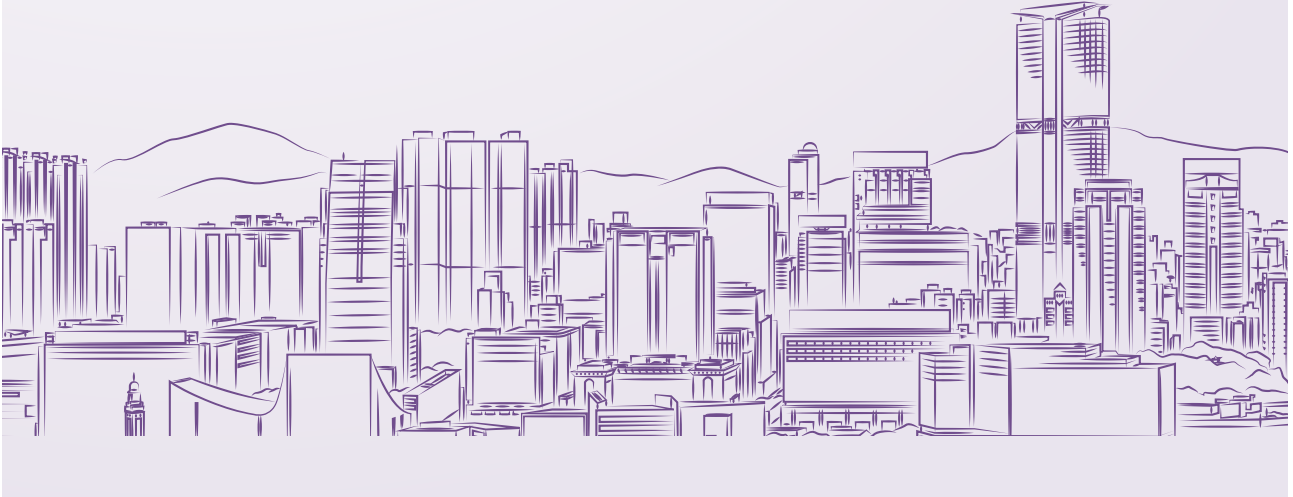
Insurance Authority: We entered into a new Memorandum of Understanding with the Insurance Authority which covers information sharing, case referrals and joint inspections and investigations.

Stakeholders

SFC on social media: We introduced our official Facebook page featuring updates on topics of interest to the general public.

Corporate website: We redesigned our corporate website to provide improved navigation, functionality and access to information.

Operational Review



Corporates

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 61 new listing applications, including two from companies with a weighted voting rights structure and seven from pre-profit biotech companies. Five companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules¹.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued one letter of concern and three requisition letters directly to listing applicants during the quarter. Amongst our concerns were the accuracy and completeness of the information submitted, legal and regulatory compliance issues and the genuineness of the financial information in the prospectus.

Corporate Conduct

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. During the quarter, we issued section 179² directions to gather additional information in 17 cases and wrote to detail our concerns in one transaction. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Review of SEHK's work

In July, we published a report on our review of the performance of The Stock Exchange of Hong Kong Limited (SEHK) in its regulation of listing matters during 2018, which identified a number of areas for SEHK to enhance its performance. We reviewed the management of potential conflicts of interest by Hong Kong Exchanges and Clearing Limited (HKEX), the interaction between the Listing Department and HKEX's business units in pre-initial public offering enquiries, oversight of the Listing Department and the Listing Committee's supervisory role. We also examined SEHK's handling of share option schemes³ and complaints about listing applicants and issuers.

SEHK's disciplinary powers

Following our recommendation, SEHK published a consultation paper in August on proposals to enhance its disciplinary powers and sanctions. The proposed changes would strengthen SEHK's ability to hold directors and other individuals accountable for misconduct and rule breaches.

¹ Chapter 19C sets out the additional requirements, modifications or exceptions for companies that have, or are seeking, a secondary listing.

² 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.

³ Under Chapter 17 of the Listing Rules.

Corporates

Debt market

Together with SEHK, we regularly review the debt capital market regime. SEHK published consultation conclusions in August on changes to the listing regime for debt issues to professional investors only⁴, including raising the net asset requirements for issuers and the minimum issuance size.

Takeovers matters

On 16 September, we commenced disciplinary proceedings before the Takeovers Panel against Ngai Lai Ha, the chairperson of International Housewares Retail

Company Limited. We identified 13 share acquisitions by Ngai during the period from March to May 2019 which in each instance triggered an obligation to make a mandatory general offer. The proceedings were discontinued when we censured and imposed an 18-month cold-shoulder order against Ngai on 2 November.

To streamline the submission and publication process, documents required to be put on display under the Takeovers Code are required to be submitted electronically via the SFC's online portal beginning 5 October.

Listing applications and takeovers activities

	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
Listing applications	61	143	191	-25.1
Takeovers and share buy-backs transactions	114	225	192	17.2

⁴ Chapter 37 of the Main Board Rules - "Debt Issues to Professional Investors Only".

Intermediaries

Licence applications

As at 30 September, the number of licensees and registrants totalled 47,048, of which 3,122 were licensed corporations.

In the quarter, we received 1,538 licence applications¹ including 54 corporate applications.

Anti-money laundering

In September, we launched a consultation on proposals to amend our anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines to align with international standards and provide guidance to the securities industry on applying AML/CFT measures in a more risk-sensitive manner. Amendments would help mitigate risks associated with business arrangements such as cross-border correspondent relationships. The proposals also address some areas for enhancement identified in the latest *Mutual Evaluation Report of Hong Kong* published by the Financial Action Task Force in September 2019.

Climate-related risks in funds

In October, we began a public consultation on proposed requirements for fund managers to take climate-related risks into consideration in their investment and risk management processes and provide investors with appropriate disclosures. We proposed amending the Fund Manager Code of Conduct to provide high-level principles and issuing a circular to the industry to set out our expected baseline requirements and enhanced standards to facilitate fund managers' compliance.

US sanctions

We issued a press release in August informing the public that we are closely monitoring the potential impact on intermediaries' operations, as well as on investors' interests and the financial stability and orderliness of the markets in Hong Kong, of US sanctions against individuals in Hong Kong and mainland China. We also explained our expectations of intermediaries when considering the implications of the sanctions. For instance, they should carefully assess any legal, business and commercial risks to which they may be exposed and ensure that any response to the sanctions should be necessary, fair, and have regard to the best interests of their clients and the integrity of the market.

Licensees and registrants

	As at 30.9.2020	As at 31.3.2020	Change (%)	As at 30.9.2019	YoY change (%)
Licensed corporations	3,122	3,109	0.4	3,048	2.4
Registered institutions	113	112	0.9	115	-1.7
Licensed individuals	43,813	43,946	-0.3	44,472	-1.5
Total	47,048	47,167	-0.3	47,635	-1.2

Licensing applications

	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
Applications to conduct new regulated activity	5,159	8,650	11,496	-24.8
Applications for SFC licences [^]	1,538	2,581	3,816	-32.4

[^] Figures do not include applications for provisional licences. During the quarter, we received 1,030 provisional licence applications compared with 1,182 in the same quarter last year.

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

Intermediaries

Cybersecurity risks

A report we issued in September summarised the findings of our recent thematic review of licensed corporations which engage in internet trading business in Hong Kong and provided guidance on our expected standards for cybersecurity. The report also highlighted good industry practices for improving internet trading systems and controls.

Clients' trade documents

A 29 September circular updated our guidance on providing trade documents to clients by access through intermediaries' websites. For the purposes of complying with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules, this method of providing documents should be subject to clients' consent and operational safeguards. Intermediaries have one year from the date of the circular to comply with the extension of the minimum online retrieval periods to two years for monthly statements of account and three months for other required documents.

Intermediary inspections

	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
On-site inspections conducted	80	154	188	-18.1

Corporate professional investors

Also in September, we updated frequently asked questions (FAQs) and issued a circular to provide guidance on assessing corporate professional investors, particularly investment vehicles owned by family trusts or offices and managed by professionals. The FAQs provide practical guidance on how to assess the criteria for an intermediary to be exempted from some Code of Conduct² requirements when dealing with a corporate professional investor.

Family offices

Further to our January 2020 circular on the licensing obligations of family offices, we published FAQs in September to provide additional guidance on the implications of the licensing regime under the Securities and Futures Ordinance for both single- and multi-family offices.

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

Products

Authorisations

During the quarter ended 30 September, we authorised 40 unit trusts and mutual funds (including 25 Hong Kong-domiciled funds), one investment-linked assurance scheme (ILAS) and 73 unlisted structured investment products for public offering in Hong Kong.

In July, we authorised the first two sets of leveraged and inverse products tracking the CSI 300 Index, a Mainland equity benchmark.

Also in July, we authorised the first exchange-traded fund (ETF) under our new streamlined requirements¹ for ETFs adopting a master-feeder structure.

Mutual Recognition of Funds

Under the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, as of 30 September, we had authorised a total of 50 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission (CSRC) had approved 29 Hong Kong funds.

As of 30 September, the cumulative net subscription for Mainland funds was about RMB433.58 million and that for Hong Kong funds was about RMB14.58 billion. During the quarter, Mainland funds recorded a net subscription of about RMB103.21 million, up from RMB6.18 million in the previous quarter. Hong Kong funds recorded a net redemption of about RMB2.35 billion this quarter, compared to a net subscription of RMB1.65 billion last quarter.

Open-ended fund companies

In September, we released consultation conclusions on proposed enhancements to the open-ended fund companies (OFC) regime. Key changes, which took effect on 11 September, included removing all investment restrictions for private OFCs in Hong Kong and expanding the eligibility requirements for private OFC custodians to include securities brokers. A statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong will be introduced upon completion of the legislative process.

We also launched a further consultation on proposals to better align the customer due diligence requirements for OFCs with the practices adopted by other funds in Hong Kong.

REITs

In November, we released consultation conclusions on proposed amendments to the Code on Real Estate Investment Trusts (REIT Code) to provide Hong Kong REITs with more flexibility in making investments. The revised REIT Code took effect on 4 December.

Mainland-Hong Kong ETF cross-listing

We and the CSRC announced the approval of four ETFs in August under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets. In October, the two Mainland ETFs were cross-listed on The Stock Exchange of Hong Kong Limited and the two Hong Kong ETFs were cross-listed on the Shenzhen Stock Exchange. All four adopt a master-feeder fund structure and invest in the underlying master ETFs through the Renminbi Qualified Foreign Institutional Investor (RQFII) or Qualified Domestic Institutional Investor channels. The scheme provides investors in both markets with more product choice and investment opportunities.

Regularising COVID-19 relief measures

In August, we issued FAQs to regularise the temporary relief measures provided for product-related applications due to the COVID-19 outbreak such as allowing documents to be submitted in soft copy only and providing flexibility for fee payments.

Asset and Wealth Management Activities Survey

The *Asset and Wealth Management Activities Survey* for 2019, released in August, showed that Hong Kong's asset and wealth management business posted strong growth despite the challenges facing global markets. Assets under management (AUM) increased by 20% year-on-year to \$28,769 billion and net fund inflows of \$1,668 billion² were recorded during the same period.

¹ See "Circular on streamlined requirements for eligible exchange traded funds adopting a master-feeder structure" dated 16 December 2019.

² Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

Products

Authorised collective investment schemes

	As at 30.9.2020	As at 31.3.2020	Change (%)	As at 30.9.2019	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	800	762	5	792	1
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,375	1,373	0.1	1,417	-3
ILAS	300	299	0.3	299	0.3
Pooled retirement funds	33	33	0	33	0
Mandatory provident fund (MPF) schemes	27	29	-6.9	29	-6.9
MPF pooled investment funds	210	206	1.9	192	9.4
Others	25 ^a	26	-3.8	25	0
Total	2,770	2,728	1.5	2,787	-0.6

a Comprising 13 paper gold schemes and 12 REITs.

Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type^a

For the six months ended 30 September, Hong Kong-domiciled funds reported overall net inflows of US\$7,062 million, which was primarily attributed to bond funds and index funds.

	Six months ended 30.9.2020			Six months ended 31.3.2020			Six months ended 30.9.2019		
	Subscription (US\$ mil)	Redemption (US\$ mil)	Net subscription/ (redemption) (US\$ mil)	Subscription (US\$ mil)	Redemption (US\$ mil)	Net subscription/ (redemption) (US\$ mil)	Subscription (US\$ mil)	Redemption (US\$ mil)	Net subscription/ (redemption) (US\$ mil)
Bond	11,047	6,516	4,531	8,813	8,402	411	10,207	5,723	4,484
Equity	8,912	9,164	(252)	7,579	8,583	(1,004)	6,641	8,376	(1,735)
Mixed	2,401	3,284	(883)	3,828	3,952	(124)	3,192	4,240	(1,048)
Money market	8,612	8,409	203	6,356	5,071	1,285	3,153	2,604	549
Fund of funds	2,413	2,532	(119)	2,275	2,167	108	2,252	2,199	53
Index ^b	17,437	13,849	3,588	13,576	13,380	196	11,517	13,626	(2,109)
Guaranteed	0	6	(6)	0	4	(4)	1	7	(6)
Other specialised ^c	0	0	0	0	0	0	25	31	(6)
Total	50,822	43,760	7,062	42,427	41,559	868	36,988	36,806	182

a Based on data reported by funds domiciled in Hong Kong.

b Including ETFs and leveraged and inverse products.

c Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

Products

Authorised unlisted structured investment products

	As at 30.9.2020	As at 31.3.2020	Change (%)	As at 30.9.2019	YoY change (%)
Unlisted structured investment products ^a	145	146	-0.7	148	-2

a On a "one product per key facts statement" basis, including equity-linked investments and deposits.

SFC-authorized renminbi investment products

	As at 30.9.2020
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	51
Unlisted funds (non-renminbi denominated) with renminbi share classes	241
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	50
Unlisted structured investment products issued in renminbi ^b	145
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	32
ETFs (non-renminbi denominated) with renminbi trading counters	18
Renminbi leveraged and inverse products	2
Renminbi gold ETFs ^c	1
Renminbi REITs	1

a Refers to onshore Mainland investments through the RQFII, Stock Connect, Bond Connect and the China Interbank Bond Market.

b The number is on a "one product per key facts statement" basis.

c Only includes gold ETF denominated in renminbi.

Markets

Supervision of HKEX

Following our approval, Hong Kong Exchanges and Clearing Limited (HKEX) launched 33 MSCI index futures contracts in July and August. Referencing the performance of Asia and other emerging market indices, these futures contracts expand HKEX's derivatives product range and provide more trading and hedging tools for market participants.

During the quarter, we approved five more MSCI index futures contracts and one MSCI index options contract proposed by HKEX. The five futures contracts were launched in September.

OTC derivatives

In July, we issued a circular to remind licensees of updated specifications for over-the-counter (OTC) derivatives trade reporting issued by the Hong Kong Trade Repository. They include refinements to improve data quality and align with international standards.

Automated trading services

As of 30 September, the number of automated trading services (ATS) providers¹ authorised under Part III of the Securities and Futures Ordinance (SFO) was 52, while 23 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

ATS providers

	As at 30.9.2020	As at 31.3.2020	Change (%)	As at 30.9.2019	YoY change (%)
Under Part III	52	54	-3.7	49	6.1
Under Part V	23	25	-8	25	-8

¹ Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Enforcement

Court proceedings

In July, the Appeal Committee of the Court of Final Appeal (CFA) dismissed the application of Andrew Left of Citron Research for leave to appeal to the CFA against the judgment of the Court of Appeal (CA). In August 2016, the Market Misconduct Tribunal (MMT) found Left culpable of disclosing false or misleading information inducing transactions in a 2012 report on Evergrande Real Estate Group Limited¹.

The Eastern Magistrates' Court convicted and fined:

- Ke Wen Hua, for false trading in respect of the shares of Carry Wealth Holdings Limited through six securities accounts under his control.
- Simon Chan Ying Ming, a former officer of Wonderful Wealth Group Limited², for holding out as carrying on a business in dealing in futures contracts and providing asset management services without an SFC licence.
- Brilliance Capital Management Limited and its director Law Sai Hung, for holding out as carrying on a business in advising on corporate finance without an SFC licence.
- Lau Tin Yau, for providing false or misleading information to the SFC in two licence applications and in his annual licensing return, and for failing to notify the SFC of his criminal conviction and disciplinary proceedings against him.

We commenced MMT proceedings against Tianhe Chemicals Group Limited and its executive director, Wei Xuan, for allegedly overstating Tianhe's revenue by over RMB6.7 billion in its listing prospectus. We are also seeking orders from the Court of First Instance under section 213 of the Securities and Futures Ordinance (SFO) to restore Tianhe's public shareholders to their positions before their subscriptions or purchases of Tianhe shares.

We commenced criminal proceedings against five individuals³ for conspiring to carry out false trading in the shares of Ching Lee Holdings Limited and against Zeng Lingxi for obstructing SFC employees in the execution of a search warrant.

Disciplinary actions

We disciplined two licensed corporations and seven individuals during the quarter resulting in total fines⁴ of \$6.7 million. In October, we fined Goldman Sachs (Asia) L.L.C. US\$350 million (HK\$2.71 billion) for serious lapses and deficiencies in its management supervisory, risk, compliance and anti-money laundering controls in 1Malaysia Development Berhad's bond offerings.

Sponsor failures

Company/Name	Breaches	Action
Fabian Shin Yick	Failed to discharge his duties as a sponsor principal, a responsible officer and a member of the senior management of Yi Shun Da Capital Limited	Banned from re-entering the industry for 20 months
Lai Voon Wai	Failed to discharge his duties as a sponsor principal and a responsible officer of CCB International Capital Limited and BOCOM International (Asia) Limited in two listing applications	Banned from re-entering the industry for five years

¹ Left's appeal to the CA was dismissed in February 2019, and his application for leave to further appeal to the CFA was dismissed in July 2020.

² The company was dissolved in November 2017.

³ Sit Yi Ki, Lam Wing Ki, Tam Cheuk Hang, Simon Suen Man and Ho Ming Hin.

⁴ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

Unauthorised transactions

Company/Name	Breaches	Action
Lai Wing Fat	Conducted unauthorised transactions in client accounts	Banned from re-entering the industry for 20 months
Chan Yiu Ting	Conducted unauthorised transactions in a client account	Banned from re-entering the industry for 18 months
Mung Wai Sun	Conducted unauthorised transactions in a client account	Suspended for nine months

Other regulatory breaches

Company/Name	Breaches	Action
The Bank of East Asia, Limited	Failed to segregate client securities from proprietary securities	Reprimanded and fined \$4.2 million
Ts'o Jing	Falsely claimed that clients opening securities accounts had to pay an additional sum, pocketed the money and fabricated receipts	Banned for life
Masy Lo Mee Chi	Fabricated a signature in connection with the purchase of a fund	Banned from re-entering the industry for eight months
China Everbright Securities (HK) Limited	Pledged clients' securities to banks without valid authorisation from the clients	Reprimanded and fined \$2.5 million

Restriction notices

During the quarter, we issued restriction notices to five brokers⁵, prohibiting them from disposing of or processing specified assets held in trading accounts related to suspected market manipulation or other misconduct. Our investigations are ongoing.

An account holder concerned in two of the restriction notices lodged a review application with the Securities and Futures Appeals Tribunal (SFAT), seeking their withdrawal. On 23 September the SFAT rejected the review application because the restriction notices were made in respect of two licensed corporations and the SFAT did not have jurisdiction to hear a review application by an account holder.

Social media investment scams

We launched a campaign to warn the public about the risks of falling victim to social media investment scams. A special edition of our Enforcement Reporter explained how these scams operate and provided tips for avoiding them.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,417 requests for trading and account records from intermediaries in the quarter.

We published five high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Cooperation with the CSRC

During the quarter, the China Securities Regulatory Commission (CSRC) provided investigatory assistance for several of our cases despite travel restrictions amidst the COVID-19 pandemic. We also held in-depth discussions on high-priority cases with the CSRC.

⁵ Gary Cheng Securities Limited, Zhongcai Securities Limited, China Gather Wealth Financial Company Limited, Power Securities Company Limited and Shenwan Hongyuan Securities (H.K.) Limited.

Enforcement

Enforcement activities

	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
S179 ^a inquiries commenced	6	16	21	-23.8
S181 ^b inquiries commenced (number of letters sent)	78 (2,417)	133 (4,783)	128 (5,070)	-5.7
S182 ^c directions issued	56	86	120	-28.3
Investigations started	57	90	126	-28.6
Investigations completed	54	115	90	27.8
Individuals and corporations charged in criminal proceedings	6	8	5	60
Criminal charges laid	8	11	8	37.5
Notices of Proposed Disciplinary Action ^d issued	9	13	17	-23.5
Notices of Decision ^e issued	7	19	26	-26.9
Individuals and corporations subject to ongoing civil proceedings ^f	155	155	146	6.2
Compliance advice letters issued	54	109	133	-18
Cases with search warrants executed	2	4	8	-50

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 information identifying 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.

f As of the last day of the period.

Regulatory engagement

IOSCO

We are actively involved in international policy making. Mr Ashley Alder, our Chief Executive Officer, is Chair of the Board of the International Organization of Securities Commissions (IOSCO). During the quarter, he chaired regular IOSCO Board meetings which were held virtually due to the ongoing COVID-19 pandemic. Discussions focussed on capital market issues arising from the crisis and emerging regulatory developments.

We are a member of the IOSCO Financial Stability Engagement Group and its Steering Group which coordinates IOSCO's role in ensuring financial stability in close contact with the Financial Stability Board (FSB).

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee and Asia-Pacific Regional Committee (APRC). We joined the Retail Market Conduct Task Force and participate in its follow-up work to deepen regulatory and supervisory cooperation. We also participate in the Fintech Network, Cyber Task Force and Data Analytics Group.

We lead the APRC's working group on sustainable finance which focusses on capacity building and enhancing the regulation of ESG¹ and climate-related disclosures in the region. Ms Julia Leung, our Deputy Chief Executive Officer and Executive Director, Intermediaries, co-leads a workstream on sustainability and asset management under the Sustainability Task Force.

Our senior executives have been appointed Vice Chairs of the Committee on Investment Management and the Committee on Enforcement and the Exchange of Information for the 2021-22 term.

FSB

Mr Alder, in his role as IOSCO Board Chair, participated in virtual meetings of the FSB's Steering Committee, Plenary, Standing Committee on Supervisory and

Regulatory Cooperation and Steering Committee Group on Non-bank Financial Intermediation. Mr Alder moderated an industry discussion on the impact of the pandemic on the global financial system during the FSB's stakeholder outreach meeting in September.

Mainland China

During the quarter, we maintained close communication with the China Securities Regulatory Commission (CSRC) and other Mainland authorities on cross-boundary regulatory cooperation, including the financial reporting of A+H companies, the supervision of financial institutions operating on a cross-boundary basis and the expansion of mutual market access schemes such as the cross-listing of exchange-traded funds between Hong Kong and the Mainland².

Regulatory collaboration

Following the introduction of the direct regulatory regime for insurance intermediaries, the SFC entered into a new Memorandum of Understanding with the Insurance Authority in September which covers information sharing, case referrals and joint inspections and investigations.

Green and sustainable finance

During the quarter, our Climate Change Technical Expert Group, chaired by Ms Julia Leung, provided views and support in formulating regulatory policy on the management of climate change risks and providing practical guidance to the asset management industry.

In October, we launched a public consultation on requirements for fund managers to take climate-related risks into consideration³.

¹ Environmental, social and governance.

² See Products on pages 8-10.

³ See Intermediaries on pages 6-7.

Regulatory engagement

We continued to implement other goals as set out in our strategic framework⁴, including to foster collaboration across relevant authorities. In November, Mr Alder co-chaired the second meeting of the Green and Sustainable Finance Cross-Agency Steering Group with participation from the Government and the other financial regulators. The Steering Group, initiated by the SFC, will coordinate a comprehensive green and sustainable finance strategy for Hong Kong in its capacity as one of the world's leading international financial centres.

Mr Alder participated in the September launch of the Greater Bay Area Green Finance Alliance, which aims to promote research and incubate green investments across the region.

Globally, we actively participate in the Central Banks and Supervisors' Network for Greening the Financial System and the United Nations Sustainable Stock Exchanges Initiative Advisory Group. Mr Alder delivered a keynote address at a UN Principles for Responsible Investment event in September.

Other regulatory engagement

To keep abreast of regulatory developments, we held virtual meetings and calls during the quarter with the Australian Securities and Investments Commission, UK Financial Conduct Authority, US Commodity Futures Trading Commission, US Securities and Exchange Commission and other overseas regulators.

⁴ The SFC announced its Strategic Framework for Green Finance in 2018.

Stakeholders

Our engagement with stakeholders helps them understand our work and provides them with up-to-date regulatory information.

In September, we introduced our official Facebook page which features updates on topics of interest to the general public, including investor warnings about market risks, fraud and scams. Information of interest to the financial industry and other professionals is posted on the SFC's LinkedIn page.

Also in September, we launched a campaign to warn the public about the use of social media platforms to defraud investors, particularly ramp and dump schemes and scammers who impersonate well-known investment advisors and popular market commentators.

During the quarter, we supported two industry events and our senior executives spoke at nine local and international webinars and virtual meetings. We also held meetings with industry associations to understand their views on regulatory issues. In interviews with two publications, *Hong Kong Lawyer* and *Asia Risk*, our Chief Executive Officer Mr Ashley Alder discussed the SFC's regulatory approach and response to the COVID-19 outbreak.

We hosted the SFC Compliance Forum on a virtual platform in October. During the one-day event, regulators and industry participants discussed the risks and opportunities facing the securities industry and capital markets, the management of liquidity, prudential and market risks, sustainable finance, family offices, private wealth management and anti-money laundering and counter financing of terrorism.

We were a co-organiser of Hong Kong FinTech Week 2020 in November. Our senior executives delivered speeches and hosted panel discussions on regulatory issues related to the development of financial technology during the event.



SFC Facebook page

We released the following publications in the quarter:

- The *Asset and Wealth Management Activities Survey 2019* provided a comprehensive overview of the asset and wealth management industry in Hong Kong¹.
- A special issue of *Enforcement Reporter* warned the public about stock investment scams conducted through social media platforms.
- The *Financial Review of the Securities Industry* provided statistics on the financial positions of securities dealers and securities margin financiers as well as the financial performance of SEHK² participants in the first half of 2020.
- The *Half-yearly Review of the Global and Local Securities Markets* discussed the performance of major stock markets as well as risks and uncertainties facing Hong Kong and international markets.
- The September issue of the *Takeovers Bulletin* reminded offeree companies about exclusivity agreements and introduced a new platform for the electronic submission of documents on display.

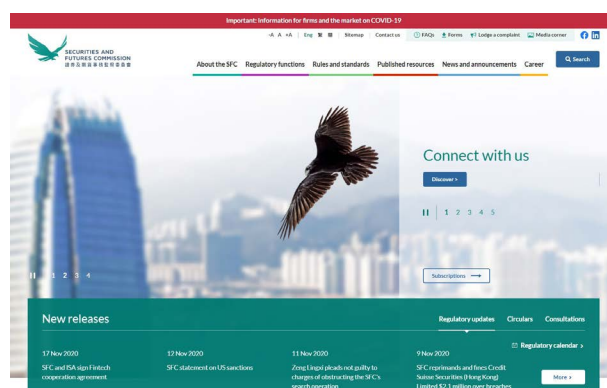
¹ See Products on pages 8-10.

² The Stock Exchange of Hong Kong Limited.

Stakeholders

During the quarter, we issued statements about the new National Security Law, US government sanctions and Next Digital Limited. We also issued 13 circulars providing guidance on a number of matters, including internet trading cybersecurity, over-the-counter derivatives reporting, corporate professional investors and updates on anti-money laundering and counter-terrorist financing.

The redesigned corporate website we introduced in October provides an improved user experience in terms of navigation, functionality and information search.



Redesigned SFC corporate website

Publications and other communications

	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
Press releases	33	64	64	0
Policy statements and announcements	4	7	2	250
Consultation papers	2	3	2	50
Consultation conclusions	1	4	2	100
Industry-related publications	5	7	7	0
Codes and guidelines ^a	3	4	5	-20
Circulars to industry	13	32	40	-20
Corporate website average daily page views ^b	42,832	40,456	53,945	-25
General enquiries	1,636	3,589	3,298	8.8

a Includes updates to previous versions.

b The average number of webpages browsed per day during the reporting period.

Corporate Developments



Board

In July, the Financial Secretary appointed Mr Victor Dawes as Non-Executive Director (NED) and re-appointed Dr James C Lin as NED for two-year terms with effect from 1 August 2020. Dr William Wong Ming-fung stepped down as NED.

In October, Ms Agnes Chan Sui-kuen and Mr Edward Cheng Wai-sun were reappointed as NEDs for two years, effective 20 October 2020 and 1 January 2021, respectively.

Finance

Our income for the quarter was \$732 million, 17% higher than last quarter and 94% more than the same quarter last year. Average daily turnover in Hong Kong's

securities market was \$149 billion, 25% higher than the \$119 billion recorded in the previous quarter. Our expenditure for the quarter was \$526 million, slightly higher than last quarter and 8% more than the same quarter last year. We recorded a surplus of \$206 million for the quarter.

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$4 billion as of 30 September.

Staffing

As of 30 September, we had 932 staff members, up from 907 a year ago.

Finances

(\$ million)	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
Income	732	1,358	790	72
Expenses including depreciation	526	1,047	954	10
Surplus/(loss)	206	311	(164)	N/A

Activity Data

Table 1 Takeovers activities

	Quarter ended 30.9.2020	Quarter ended 30.6.2020	Change (%)	Quarter ended 30.9.2019	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs					
General and partial offers under Code on Takeovers and Mergers	10	5	100	15	-33.3
Privatisations	10	6	66.7	3	233.3
Whitewash waiver applications	10	8	25	2	400
Other applications under Code on Takeovers and Mergers ¹	82	91	-9.9	66	24.2
Off-market and general offer share buy-backs	2	0	N/A	2	0
Other applications under Code on Share Buy-backs ¹	0	1	-100	1	-100
Total	114	111	2.7	89	28.1
Executive Statements					
Sanctions imposed with parties' agreement ²	0	2	-100	0	0
Takeovers and Mergers Panel					
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	0	1	-100

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.

Table 2 Breaches noted during on-site inspections

	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	0	0	4	-100
Failure to safekeep client securities	0	5	14	-64.3
Failure to maintain proper books and records	5	8	12	-33.3
Failure to safekeep client money	3	10	21	-52.4
Unlicensed dealing and other registration issues	4	4	11	-63.6
Breach of licensing conditions	0	0	2	-100
Breach of requirements of contract notes/statements of account/ receipts	3	6	14	-57.1
Failure to make filing/notification	0	0	2	-100
Breach of margin requirements	0	1	3	-66.7
Dealing malpractices	1	2	5	-60
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	53	97	156	-37.8
Breach of Corporate Finance Adviser Code of Conduct	1	5	2	150
Breach of Fund Manager Code of Conduct	36	68	37	83.8
Breach of regulation of on-line trading	0	0	4	-100
Non-compliance with anti-money laundering guidelines	51	74	190	-61.1
Breach of other rules and regulations of the Exchanges ²	0	3	6	-50
Internal control weaknesses ³	119	221	216	2.3
Others	18	32	108	-70.4
Total	294	536	807	-34

1 Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

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

3 Comprised 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 3 Hong Kong-domiciled authorised funds

a) Number of funds by type	As at 30.9.2020	As at 31.3.2020	Change (%)	As at 30.9.2019	YoY change (%)
Bond	144	136	5.9	136	5.9
Equity	188	185	1.6	198	-5.1
Mixed ¹	65	61	6.6	59	10.2
Money market	29	28	3.6	27 ⁴	7.4
Fund of funds	85	78	9	82	3.7
Index ²	142	129	10.1	136 ⁴	4.4
Guaranteed	3	3	0	3	0
Other specialised ³	0	0	N/A	2	-100
Sub-total	656	620	5.8	643	2
Umbrella structures	144	142	1.4	149	-3.4
Total	800	762	5	792	1

b) Assets under management by type	Total NAV (US\$ million) as at 30.9.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 30.9.2019	YoY change (%)
Bond	34,913	28,245	23.6	29,256	19.3
Equity	49,398	39,238	25.9	47,295	4.4
Mixed ¹	15,935	14,629	8.9	14,023	13.6
Money market	7,624	7,331	4	5,856 ⁴	30.2
Fund of funds	19,141	16,494	16	20,249	-5.5
Index ²	38,587	32,168	20	34,839 ⁴	10.8
Guaranteed	59	59	0	66	-10.6
Other specialised ³	0	0	N/A	80	-100
Total⁵	165,657	138,163	19.9	151,663	9.2

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 Presented as "Diversified" previously.

2 Including exchange-traded funds and leveraged and inverse products.

3 Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

4 This figure, when combined with the corresponding figure for non-Hong Kong-domiciled authorised funds, differs from the figure disclosed in the *Quarterly Report Jul-Sep 2019* due to a revised figure reported after the report's issuance.

5 Figures may not add up to total due to rounding.

Table 4 Non-Hong Kong-domiciled authorised funds

a) Number of funds by origin	As at 30.9.2020	As at 31.3.2020	Change (%)	As at 30.9.2019	YoY change (%)
Luxembourg	1,033	1,032	0.1	1,055	-2.1
Ireland	230	222	3.6	217	6
United Kingdom	34	37	-8.1	53	-35.8
Other Europe	0	0	N/A	3	-100
Mainland China	50	50	0	51	-2
Bermuda	1	1	0	1	0
Cayman Islands	22	26	-15.4	30	-26.7
Others	5	5	0	7	-28.6
Total	1,375	1,373	0.1	1,417	-3

b) Assets under management by origin	Total NAV (US\$ million) as at 30.9.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 30.9.2019	YoY change (%)
Luxembourg	1,155,740	884,452 ¹	30.7	1,056,143	9.4
Ireland	255,005	204,602	24.6	234,449	8.8
United Kingdom	68,980	60,602	13.8	75,046	-8.1
Other Europe	0	0	N/A	137	-100
Mainland China	22,087	18,496	19.4	18,461	19.6
Bermuda	123	142	-13.4	156	-21.2
Cayman Islands	4,865	4,705	3.4	7,820	-37.8
Others	81,629	54,638	49.4	50,663	61.1
Total²	1,588,428	1,227,637¹	29.4	1,442,875	10.1

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report's issuance.

2 Figures may not add up to total due to rounding.

Activity Data

c) Number of funds by type	As at 30.9.2020	As at 31.3.2020	Change (%)	As at 30.9.2019	YoY change (%)
Bond	336	329	2.1	336	0
Equity	752	760	-1.1	794	-5.3
Mixed ¹	127	123	3.3	122	4.1
Money market	16	15	6.7	17	-5.9
Fund of funds	23	26	-11.5	26	-11.5
Index ²	41	41	0	35	17.1
Hedge	1	1	0	0	N/A
Other specialised ³	0	0	N/A	3	-100
Sub-total	1,296	1,295	0.1	1,333	-2.8
Umbrella structures	79	78	1.3	84	-6
Total	1,375	1,373	0.1	1,417	-3

d) Assets under management by type	Total NAV (US\$ million) as at 30.9.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 30.9.2019	YoY change (%)
Bond	584,311	469,281	24.5	557,833	4.7
Equity	718,664	532,133 ⁴	35.1	646,209	11.2
Mixed ¹	145,034	123,753	17.2	146,201	-0.8
Money market	13,234	13,877	-4.6	17,013	-22.2
Fund of funds	1,471	1,414	4	1,977	-25.6
Index ²	125,591	87,036	44.3	73,099	71.8
Hedge	123	142	-13.4	0	N/A
Other specialised ³	0	0	N/A	542	-100
Total⁵	1,588,428	1,227,637⁴	29.4	1,442,875	10.1

1 Presented as "Diversified" previously.

2 Including ETFs.

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

4 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report's issuance.

5 Figures may not add up to total due to rounding.

Table 5 Complaints against intermediaries and market activities

	Quarter ended 30.9.2020	Six months ended 30.9.2020	Six months ended 30.9.2019	YoY change (%)
Conduct of licensees	216	392	264	-18
Conduct of registered institutions	2	9	19	-89.5
Listing-related matters and disclosure of interests	347	1,470	796	-56.4
Market misconduct ¹	323	451	355	-9
Product disclosure	7	81	4	75
Unlicensed activities	31	63	76	-59.2
Breach of offers of investments	49	67	85	-42.4
Boiler rooms and suspicious websites	162	318	282	-42.6
Scams and frauds ²	112	255	143	-21.7
Other financial activities not regulated by the SFC ³	81	163	145	-44.1
Total	1,330	3,269	2,169	-38.7

1 Primarily, alleged market manipulation and insider dealing.

2 Such as identity fraud and impersonation.

3 For example, bullion trading and banking complaints.

Securities and Futures Commission

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 interim financial information set out on pages 28 to 34, which comprises the condensed consolidated statement of financial position and the condensed statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2020 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of 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 interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 2 December 2020

Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income		
Levies	550,849	320,995
Fees and charges	55,481	36,337
Net investment income		
Investment income	127,137	7,805
Less: custody and advisory expenses	(2,481)	(1,968)
Recoveries from the Investor Compensation Fund	1,447	1,524
Exchange (loss)/income	(381)	13,046
Other income	86	6
	732,138	377,745
Expense		
Staff costs and directors' emoluments	386,063	359,019
Depreciation		
Fixed assets	22,817	10,546
Right-of-use assets	71,175	50,322
Other premises expenses	3,167	10,405
Finance costs	2,306	1,086
Other expenses	40,490	57,458
	526,018	488,836
Surplus/(loss) and total comprehensive income for the quarter	206,120	(111,091)

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 is for information only.

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income			
Levies		964,960	665,336
Fees and charges		108,504	73,769
Net investment income			
Investment income		286,840	57,160
Less: custody and advisory expenses		(4,501)	(3,939)
Recoveries from the Investor Compensation Fund	6(a)	3,006	3,041
Exchange loss		(624)	(5,661)
Other income		229	100
		1,358,414	789,806
Expense			
Staff costs and directors' emoluments	6(b)	746,503	707,426
Depreciation			
Fixed assets		39,545	20,527
Right-of-use assets		158,980	100,618
Other premises expenses		22,641	22,133
Finance costs		4,788	2,170
Other expenses		74,829	100,714
		1,047,286	953,588
Surplus/(loss) and total comprehensive income for the period		311,128	(163,782)

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		295,167	135,712
Right-of-use assets		1,049,135	324,040
Deposits for leases		37,685	33,767
Financial assets at amortised costs – debt securities		2,364,955	1,600,123
		3,746,942	2,093,642
Current assets			
Financial assets at amortised costs – debt securities		400,684	984,239
Financial assets at fair value through profit or loss			
Debt securities		435,179	419,469
Pooled funds		871,488	648,510
Debtors, deposits and prepayments		264,779	265,200
Fixed deposits with banks		2,636,202	2,832,302
Cash at bank and in hand		122,230	51,871
		4,730,562	5,201,591
Current liabilities			
Fees received in advance		16,484	47,097
Creditors and accrued charges		303,805	167,043
Lease liabilities		136,935	96,115
Provisions	3	25,910	66,532
		483,134	376,787
Net current assets		4,247,428	4,824,804
Total assets less current liabilities		7,994,370	6,918,446
Non-current liabilities			
Lease liabilities		899,402	203,558
Provisions	3	88,920	19,968
		988,322	223,526
Net assets		7,006,048	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,963,208	3,652,080
		7,006,048	6,694,920

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		295,016	135,658
Right-of-use assets		1,049,048	324,040
Deposits for leases		37,685	33,767
Financial assets at amortised costs – debt securities		2,364,955	1,600,123
		3,746,704	2,093,588
Current assets			
Financial assets at amortised costs – debt securities		400,684	984,239
Financial assets at fair value through profit or loss			
Debt securities		435,179	419,469
Pooled funds		871,488	648,510
Debtors, deposits and prepayments		278,293	274,141
Fixed deposits with banks		2,636,202	2,832,302
Cash at bank and in hand		100,571	29,836
		4,722,417	5,188,497
Current liabilities			
Fees received in advance		16,484	47,097
Creditors and accrued charges		295,509	153,895
Lease liabilities		136,917	96,115
Provisions	3	25,910	66,532
		474,820	363,639
Net current assets		4,247,597	4,824,858
Total assets less current liabilities		7,994,301	6,918,446
Non-current liabilities			
Lease liabilities		899,333	203,558
Provisions	3	88,920	19,968
		988,253	223,526
Net assets		7,006,048	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,963,208	3,652,080
		7,006,048	6,694,920

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited			
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the period	–	–	(163,782)	(163,782)
Balance at 30 September 2019	42,840	3,000,000	3,863,600	6,906,440
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the period	–	–	311,128	311,128
Balance at 30 September 2020	42,840	3,000,000	3,963,208	7,006,048

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Cash flows from operating activities			
Surplus/(loss) for the period		311,128	(163,782)
Adjustments for:			
Depreciation – Fixed assets		39,545	20,527
Depreciation – Right-of-use assets		158,980	100,618
Provisions for reinstatement		(12,196)	–
Finance costs		4,788	2,170
Interest income on deposits for leases		(141)	–
Investment income		(286,840)	(57,160)
Exchange difference		476	5,661
Loss on disposal of fixed assets		4,889	2
		220,629	(91,964)
Increase in right-of-use assets		(40)	–
Increase in debtors, deposits and prepayments		(13,431)	(26,452)
(Decrease)/increase in fees received in advance		(30,613)	35,611
Increase in creditors and accrued charges		68,714	36,306
Decrease in provisions for reinstatement		(28,426)	–
Net cash generated from/(used in) operating activities		216,833	(46,499)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		911,731	319,139
Interest received		67,363	75,376
Debt securities at fair value through profit or loss purchased		(122,672)	(277,846)
Debt securities at fair value through profit or loss sold or redeemed		116,259	265,556
Pooled funds sold		2,183	152,241
Debt securities at amortised cost purchased		(793,213)	–
Debt securities at amortised cost redeemed at maturity		604,613	197,945
Fixed assets purchased		(131,389)	(28,970)
Proceeds from fixed assets disposal		1	–
Net cash generated from investing activities		654,876	703,441
Cash flows from financing activities			
Principal element of lease payments		(80,833)	(98,384)
Interest element of lease payments		(4,788)	(2,170)
Net cash used in financing activities		(85,621)	(100,554)
Net increase in cash and cash equivalents		786,088	556,388
Cash and cash equivalents at the beginning of the six-month period		753,406	289,657
Cash and cash equivalents at the end of the six-month period	2	1,539,494	846,045

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	1,417,264	770,798
Cash at bank and in hand	122,230	75,247
	1,539,494	846,045

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

This 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 Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2020. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2020 included in this report does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 30 September 2020. We eliminated all material intra group 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 2020 to the interim financial information.

There were no significant changes in the operations of the Group for the six months ended 30 September 2020.

2. Cash and cash equivalents

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank and in hand	122,230	51,871
Fixed deposits with banks	2,636,202	2,832,302
Amounts shown in the condensed consolidated statement of financial position	2,758,432	2,884,173
Less: Amounts with an original maturity beyond three months	(1,218,938)	(2,130,767)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,539,494	753,406

3. Provisions

Provisions represent premises reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

4. Exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange loss or income was mainly driven by the USD revaluation on financial assets.

5. Investments 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 IFEC 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 IFEC 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 2020, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2020: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

6. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the related parties transactions disclosed in elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the period, \$3,006,000 was recovered from the ICF for the ICC's expenses (2019: \$3,041,000). As at 30 September 2020, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$455,000 (as at 31 March 2020: \$138,000).

(b) Remuneration of key management personnel

	Unaudited Six months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Directors' fees and salaries, allowances and benefits in kind	17,109	18,285
Retirement scheme contributions	1,538	1,551
	18,647	19,836

The total remuneration is included in "staff costs and directors' emoluments" on page 28. 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.

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 2020.

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 2020 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 37 to 43.

Members of the Committee

The members of the Committee during the six months ended 30 September 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung

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

Rico Leung

Chairman

2 December 2020

Report on review of interim financial information To the Securities and Futures Commission

Introduction

We have reviewed the interim financial information set out on pages 38 to 43, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2020 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of 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 interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 2 December 2020

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income		
Interest income	5,306	15,963
Exchange (loss)/gain	(79)	4,578
	5,227	20,541
Expenses		
Investor Compensation Company Limited expenses	1,447	1,524
Auditor's remuneration	55	54
	1,502	1,578
Surplus and total comprehensive income for the quarter	3,725	18,963

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 is for information only.

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income			
Interest income		15,479	31,934
Exchange loss		(157)	(1,764)
		15,322	30,170
Expenses			
Investor Compensation Company Limited expenses	2	3,006	3,041
Auditor's remuneration		110	106
		3,116	3,147
Surplus and total comprehensive income for the period		12,206	27,023

The notes on pages 42 and 43 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets		
Interest receivable	4,259	7,185
Due from Investor Compensation Company Limited	455	138
Fixed deposits with banks	2,435,551	2,420,558
Cash at bank	437	651
	2,440,702	2,428,532
Current liabilities		
Creditors and accrued charges	232	268
	232	268
Net current assets	2,440,470	2,428,264
Net assets	2,440,470	2,428,264
Representing:		
Compensation fund	2,440,470	2,428,264

The notes on pages 42 and 43 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the period	–	–	27,023	27,023
Balance at 30 September 2019	994,718	108,923	1,314,887	2,418,528
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the period	–	–	12,206	12,206
Balance at 30 September 2020	994,718	108,923	1,336,829	2,440,470

The notes on pages 42 and 43 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Cash flows from operating activities			
Surplus for the period		12,206	27,023
Adjustments for:			
Interest income		(15,479)	(31,934)
Exchange loss		157	1,764
		(3,116)	(3,147)
Increase in amount due from Investor Compensation Company Limited		(317)	(522)
Decrease in creditors and accrued charges		(36)	(74)
Net cash used in operating activities		(3,469)	(3,743)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		641,554	68,608
Interest received		18,404	36,832
Net cash generated from investing activities		659,958	105,440
Net increase in cash and cash equivalents		656,489	101,697
Cash and cash equivalents at the beginning of the six-month period		1,086,662	32,944
Cash and cash equivalents at the end of the six-month period	3	1,743,151	134,641

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	1,742,714	134,219
Cash at bank	437	422
	1,743,151	134,641

The notes on pages 42 and 43 form part of the condensed financial statements.

Notes to the condensed financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the 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 2020. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2020 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.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2020.

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. The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2020, the ICC incurred costs of \$3,006,000 for its operation (for the six months ended 30 September 2019: \$3,041,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	437	651
Fixed deposits with banks	2,435,551	2,420,558
Amounts shown in the condensed statement of financial position	2,435,988	2,421,209
Less: Amounts with an original maturity of beyond three months	(692,837)	(1,334,547)
Cash and cash equivalents in the condensed statement of cash flows	1,743,151	1,086,662

Notes to the condensed financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

4. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 2020 and 2019.

5. Contingent liabilities

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit per claimant is \$150,000 for each default case occurring on or before 31 December 2019 and \$500,000 for each default case occurring on or after 1 January 2020.

There are 9 outstanding claims as at the date of this report. The maximum liability in respect of these claims in aggregate is \$1,567,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit 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 2020.

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 from 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 2020, the Fund transferred \$994,718,000 to the ICF. After the 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 2020 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 52.

Members of the Committee

The members of the Committee during the six months ended 30 September 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Yiu Ka Yan Wilfred

Ms Kwok Hom Siu

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

Rico Leung

Chairman

12 November 2020

Unified Exchange Compensation Fund

Report on review of interim financial information To the Securities and Futures Commission

Introduction

We have reviewed the interim financial information set out on pages 47 to 52, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2020 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of 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 interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 November 2020

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income		
Interest income	189	473
Expenses		
Auditor's remuneration	27	26
Surplus and total comprehensive income for the quarter	162	447

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 is for information only.

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income			
Interest income		571	863
Recoveries	2	3,626	(1)
		4,197	862
Expenses			
Auditor's remuneration		54	52
Surplus and total comprehensive income for the period		4,143	810

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets			
Interest receivable		56	243
Accounts receivable		9	9
Fixed deposits with banks		97,102	92,879
Cash at bank		270	470
		97,437	93,601
Current liabilities			
Creditors and accrued charges		10,299	10,306
Relinquished trading rights payable to SEHK	4	1,300	1,250
		11,599	11,556
Net current assets		85,838	82,045
Net assets		85,838	82,045
Representing:			
Compensation fund		85,838	82,045

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited						
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000	Total \$'000
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	850	–	–	–	–	–	850
Surplus and total comprehensive income for the period	–	–	–	–	810	–	810
Balance at 30 September 2019	55,350	353,787	630,000	6,502	30,071	(994,718)	80,992
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(350)	–	–	–	–	–	(350)
Surplus and total comprehensive income for the period	–	–	–	–	4,143	–	4,143
Balance at 30 September 2020	55,100	353,787	630,000	6,502	35,167	(994,718)	85,838

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Cash flows from operating activities			
Surplus for the period		4,143	810
Adjustments for:			
Interest income		(571)	(863)
Recoveries		–	1
		3,572	(52)
Decrease in creditors and accrued charges		(7)	(28)
Increase in relinquished trading rights payable to SEHK		50	50
Net cash generated from/(used in) operating activities		3,615	(30)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		53,055	–
Interest received		758	792
Net cash generated from investing activities		53,813	792
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(350)	850
Net cash (used in)/generated from financing activities		(350)	850
Net increase in cash and cash equivalents		57,078	1,612
Cash and cash equivalents at the beginning of the six-month period		31,999	90,260
Cash and cash equivalents at the end of the six-month period	3	89,077	91,872

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	88,807	91,481
Cash at bank	270	391
	89,077	91,872

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has prepared the 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.

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the 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 2020. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2020 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.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2020.

2. Recoveries/Equity securities received under subrogation

The Fund received \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd which was recognised as recoveries for the six months ended 30 September 2020 (for the six months ended 30 September 2019: nil).

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

As at 30 September 2020, the equity securities received under subrogation amounted to \$157 (as at 31 March 2020: \$142). The balance as at 30 September 2020 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. Cash and cash equivalents

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	270	470
Fixed deposits with banks	97,102	92,879
Amounts shown in the condensed statement of financial position	97,372	93,349
Less: Amounts with an original maturity of beyond three months	(8,295)	(61,350)
Cash and cash equivalents in the condensed statement of cash flows	89,077	31,999

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

4. Trading rights deposits 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 Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of 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 \$300,000 in respect of 6 new trading rights were received from SEHK and deposits of \$600,000 in respect of 12 relinquished trading rights were refunded to SEHK. As at 30 September 2020, 26 trading rights totalling \$1,300,000 were relinquished but not yet refunded (as at 31 March 2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the period was as follows:

	Unaudited Six months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Balance brought forward	55,450	54,500
Add: new trading rights issued	300	1,100
Less: relinquished trading rights refunded	(600)	(200)
Adjustment for: increase in relinquished trading rights payable to SEHK	(50)	(50)
Balance carried forward	55,100	55,350

5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the six months ended 30 September 2020 and 2019.

Securities and Futures Commission

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