

Breakdown of SFC activity data

Table 1 Authorised unit trusts and mutual funds – by type

| | As at 31.3.2018 | | As at 31.3.2017 | |
|--------------------------------|---------------------------|--------------------------|---------------------------|-------------------------------|
| | Number | Total NAV (US\$ million) | Number | Total NAV (US\$ million) |
| Bond | 449 (22.7%) | 569,700 (33.9%) | 430 (21.9%) | 466,096 ¹ (33.9%) |
| Equity | 1,030 (52.1%) | 787,889 (46.9%) | 1,018 (51.9%) | 638,848 (46.4%) |
| Diversified | 172 (8.7%) | 180,353 (10.7%) | 162 (8.3%) | 137,454 (10%) |
| Money market | 45 (2.3%) | 20,905 (1.2%) | 44 (2.2%) | 21,014 (1.5%) |
| Fund of funds | 116 (5.9%) | 22,897 (1.4%) | 113 (5.8%) | 19,865 (1.4%) |
| Index ² | 157 (7.9%) | 97,637 (5.8%) | 182 (9.3%) | 92,069 (6.7%) |
| Guaranteed | 3 (0.2%) | 105 (0%) | 3 (0.2%) | 127 (0%) |
| Hedge | 1 (0.1%) | 26 (0%) | 2 (0.1%) | 28 (0%) |
| Other specialised ³ | 5 (0.3%) | 1,061 (0.1%) | 7 (0.4%) | 1,288 (0.1%) |
| Sub-total | 1,978 (100%) ⁴ | 1,680,573 (100%) | 1,961 (100%) ⁴ | 1,376,789 ¹ (100%) |
| Umbrella structures | 237 | | 242 | |
| Total | 2,215 | | 2,203 | |

¹ These figures differ from those disclosed in the *Annual Report 2016-17* due to revised figures reported after the report's issuance.

² Including leveraged and inverse products.

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

⁴ These percentages do not add up to total due to rounding.

Table 2 Authorised unit trusts and mutual funds – by origin

| | As at 31.3.2018 | | | | As at 31.3.2017 | | |
|----------------|-----------------|--------------|--------------|---------------------|-------------------------------------|-----------------------|---|
| | Umbrella funds | Sub-funds | Single funds | Total | Total NAV (US\$ million) | Total | Total NAV (US\$ million) |
| Hong Kong | 144 | 534 | 80 | 758 (34.2%) | 158,199 (9.4%) | 735 (33.4%) | 131,605 (9.6%) |
| Luxembourg | 50 | 991 | 0 | 1,041 (47%) | 1,105,904 (65.8%) | 1,009 (45.8%) | 910,351 (66.1%) |
| Ireland | 26 | 211 | 2 | 239 (10.8%) | 232,586 (13.8%) | 256 (11.6%) | 173,212 ¹ (12.6%) |
| United Kingdom | 4 | 38 | 27 | 69 (3.1%) | 109,340 (6.5%) | 64 (2.9%) | 90,987 (6.6%) |
| Mainland China | 2 | 2 | 46 | 50 (2.3%) | 20,855 (1.2%) | 49 (2.2%) | 17,056 (1.2%) |
| Other Europe | 1 | 2 | 0 | 3 (0.1%) | 137 (0%) | 3 ² (0.1%) | 94 ² (0%) |
| Bermuda | 0 | 0 | 1 | 1 (0%) | 173 (0%) | 5 (0.2%) | 217 (0%) |
| Cayman Islands | 10 | 27 | 9 | 46 (2.1%) | 9,033 (0.5%) | 74 (3.4%) | 11,546 (0.8%) |
| Others | 0 | 0 | 8 | 8 (0.4%) | 44,346 (2.6%) | 8 ² (0.4%) | 41,721 ² (3.0%) |
| Total | 237 | 1,805 | 173 | 2,215 (100%) | 1,680,573 (100%)³ | 2,203 (100%) | 1,376,789¹ (100%)³ |

¹ These figures differ from those disclosed in the *Annual Report 2016-17* due to revised figures reported after the report's issuance.

² These figures differ from those disclosed in the *Annual Report 2016-17* due to different categorisation of funds' places of origin.

³ These percentages do not add up to total due to rounding.

Breakdown of SFC activity data

Table 3 Takeovers activities

| | 2017/18 | 2016/17 | 2015/16 |
|---|------------|------------|------------|
| Codes on Takeovers and Mergers and Share Buy-backs | | | |
| General and partial offers under Code on Takeovers and Mergers | 59 | 73 | 50 |
| Privatisations | 11 | 13 | 7 |
| Whitewash waiver applications | 41 | 37 | 51 |
| Other applications under Code on Takeovers and Mergers ¹ | 289 | 365 | 323 |
| Off-market and general offer share buy-backs | 1 | 4 | 1 |
| Other applications under Code on Share Buy-backs ¹ | 0 | 2 | 3 |
| Total | 401 | 494 | 435 |
| Executive Statements | | | |
| Sanctions imposed with parties' agreement ² | 5 | 4 | 1 |
| Takeovers and Mergers Panel | | | |
| Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs | 2 | 0 | 0 |
| Hearings before the Panel (disciplinary and non-disciplinary) | 1 | 2 | 2 |
| Statements issued by the Panel ³ | 1 | 2 | 4 |

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 4 Breaches noted during on-site inspections

| | 2017/18 | 2016/17 | 2015/16 |
|---|---------|---------|---------|
| Failure to comply with Securities and Futures (Financial Resources) Rules | 12 | 13 | 16 |
| Failure to safekeep client securities | 38 | 58 | 41 |
| Failure to maintain proper books and records | 33 | 36 | 34 |
| Failure to safekeep client money | 59 | 62 | 45 |
| Unlicensed dealing and other registration issues | 23 | 13 | 33 |
| Breach of licensing conditions | 7 | 8 | 10 |
| Breach of requirements of contract notes/statements of account/receipts | 62 | 85 | 69 |
| Failure to make filing/notification | 2 | 8 | 6 |
| Breach of margin requirements | 5 | 6 | 5 |
| Marketing malpractices | 0 | 1 | 0 |
| Illegal short selling of securities | 0 | 1 | 1 |
| Dealing malpractices | 3 | 11 | 2 |
| Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹ | 320 | 441 | 388 |
| Breach of Corporate Finance Adviser Code of Conduct | 8 | 18 | 9 |
| Breach of Fund Manager Code of Conduct | 93 | 82 | 56 |
| Breach of regulation of online trading | 4 | 8 | 14 |
| Non-compliance with anti-money laundering guidelines | 175 | 201 | 223 |
| Breach of other rules and regulations of the Exchanges ² | 17 | 14 | 12 |
| Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority | 0 | 0 | 3 |
| Internal control weaknesses ³ | 535 | 598 | 571 |
| Others | 80 | 91 | 146 |
| Total | 1,476 | 1,755 | 1,684 |

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

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

³ Comprise 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.

Breakdown of SFC activity data

Table 5 Successful prosecutions

Unauthorised activities

| Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|---------------------------------------|--------------------|---------------|----------------------------------|
| ETRADE Securities (Hong Kong) Limited | 21.9.2017 | 40,000 | 109,857 |
| Total | | 57,000 | 255,768 |

Provision of false/misleading representation to the SFC

| Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|-----------------|--------------------|---------------|----------------------------------|
| YAN Ching Ching | 27.7.2017 | 15,000 | 9,891 |
| Total | | 35,000 | 38,482 |

Short selling

| Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|-----------------------|--------------------|---------------|----------------------------------|
| SHIU Kin Keung, Sammy | 8.6.2017 | 35,000 | 19,435 |
| Total | | 51,000 | 30,869 |

Disclosure of interests

| Defendants | Date of conviction | Fine (\$) | Investigation costs awarded (\$) |
|---------------------------------------|--------------------|---------------|----------------------------------|
| CHEUNG Pui Lam | 28.9.2017 | 27,000 | 6,881 |
| Triken Limited | 28.9.2017 | 12,000 | 6,881 |
| Four Seas Mercantile Holdings Limited | 11.5.2017 | 12,000 | 13,371 |
| Total | | 56,500 | 35,895 |

Note: Cases with fines below \$10,000 are not shown in these tables.

Table 6 Other public disciplinary actions

| Name | Date of action | Conduct | Action |
|------------------------|----------------|---|---|
| HUI Lam Chiu | 22.5.2017 | Failures to ensure compliance with anti-money laundering regulatory requirements when processing third party fund transfers | Suspended for six months |
| WONG Ching Man, Bernie | 22.5.2017 | Forged a client's signature | Banned from re-entering the industry for four months |
| LI Bo | 13.6.2017 | Failure to disclose to his employer his personal trading account and beneficial interests in his friend's securities accounts | Banned from re-entering the industry for eight months |
| WU Biwei | 19.6.2017 | Failure to ensure compliance with anti-money laundering regulatory requirements when processing third party fund transfers | Suspended for six months |
| FOK Chi Kin | 22.6.2017 | Transferred proprietary information and client data from his former employer without authorisation | Banned from re-entering the industry for eight months |
| CHAN Wai Ling | 26.7.2017 | Accepted third party instructions to conduct unauthorised trades in clients' accounts | Suspended for 12 months |
| XU Tao | 11.10.2017 | Failure to comply with regulatory requirements of the SFC's Code of Conduct ¹ in recording client order instructions | Banned from re-entering the industry for four months |
| NG Chau | 27.12.2017 | Conducted unauthorised transactions in a client's account | Banned from re-entering the industry for six months |
| WU Hon Cheung | 9.1.2018 | Failure to keep proper records of a client's order instructions | Reprimanded and fined \$50,000 |
| CHAN Wai Nun | 22.1.2018 | Transferred client data from his former employer without authorisation | Banned from re-entering the industry for six months |

¹ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Note: See Enforcement on pages 59-67 for details of the most significant disciplinary actions.

Breakdown of SFC activity data

Table 7 Other enforcement actions

| | 2017/18 | 2016/17 | 2015/16 |
|---|-------------|-------------|-------------|
| S179 ¹ inquiries commenced | 24 | 27 | 24 |
| S181 ² inquiries commenced (number of letters sent) | 261 (8,461) | 301 (8,960) | 286 (7,997) |
| S182 ³ directions issued | 274 | 407 | 507 |
| Rule 8 directions ⁴ issued | 12 | 4 | 2 |
| Show cause letters ⁴ issued | 11 | 3 | 0 |
| Cases with search warrants executed | 22 | 34 | 31 |
| Compliance advice letters issued | 277 | 548 | 453 |
| Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings | | | |
| (a) Insider dealing | | | |
| Individuals/corporations summonsed (summons laid) | 4 (7) | 0 (0) | 1(3) |
| Individuals/corporations involved in ongoing civil proceedings | 13 | 16 | 13 |
| Individuals/corporations involved in ongoing MMT proceedings | 0 | 0 | 2 |
| (b) Market manipulation | | | |
| Individuals/corporations involved in ongoing MMT proceedings | 3 | 3 | 16 |
| (c) Others | | | |
| Individuals/corporations summonsed (summons laid) | 10 (47) | 10 (46) | 20 (107) |
| Individuals/corporations involved in ongoing civil proceedings | 84 | 110 | 87 |
| Individuals/corporations involved in ongoing MMT proceedings | 13 | 26 | 14 |
| Disciplinary enquiry | | | |
| Notices of Proposed Disciplinary Action ⁵ issued | 29 | 49 | 35 |
| Notices of Decision ⁶ issued (including S201 ⁷ agreement) | 32 | 56 | 42 |
| SFAT hearings | | | |
| Applications to SFAT | 4 | 1 | 4 |
| Applications/hearings completed | 3 | 4 | 4 |

¹ 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.

² 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.

³ Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

⁴ A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

⁵ 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.

⁶ A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

⁷ Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

Table 8 Statistical information and financial position of the Hong Kong securities industry¹

| | As at 31.12.2017 | As at 31.12.2016 | As at 31.12.2015 |
|--|--|--|--|
| Securities dealers and securities margin financiers | 1,222 | 1,104 | 1,002 |
| Active cash clients ² | 1,320,332 | 1,289,563 | 1,259,868 |
| Active margin clients ² | 337,599 | 267,132 | 241,948 |
| Active clients | 1,657,931 | 1,556,695 | 1,501,816 |
| Balance sheet | (\$ million) | (\$ million) | (\$ million) |
| Cash in hand and at bank ³ | 515,547 | 446,465 | 429,002 |
| Amounts receivable from margin clients ⁴ | 205,977 | 171,633 | 145,307 |
| Amounts receivable from clients and other dealers arising from dealing in securities | 164,226 | 125,471 | 139,869 |
| Proprietary positions | 139,502 | 110,756 | 170,125 |
| Other assets | 312,152 | 224,196 | 205,673 |
| Total assets | 1,337,404 | 1,078,521 | 1,089,976 |
| Amounts payable to clients and other dealers arising from dealing in securities | 568,641 | 481,339 | 466,208 |
| Total borrowings from financial institutions | 170,411 | 86,731 | 111,265 |
| Short positions held for own account | 62,161 | 33,194 | 61,198 |
| Other liabilities | 164,033 | 143,941 | 146,989 |
| Total shareholders' funds | 372,158 | 333,316 | 304,316 |
| Total liabilities and shareholders' funds | 1,337,404 | 1,078,521 | 1,089,976 |
| | 12 months to 31.12.2017 (\$ million) | 12 months to 31.12.2016 (\$ million) | 12 months to 31.12.2015 (\$ million) |
| Profit and loss | | | |
| Total value of transactions ⁵ | 73,901,390 | 63,495,134 | 84,787,467 |
| Net securities commission income | 23,079 | 18,739 | 28,656 |
| Gross interest income | 17,259 | 14,026 | 12,203 |
| Other income ⁶ | 107,079 | 98,344 | 106,044 |
| Total operating income | 147,417 | 131,109 | 146,903 |
| Total overheads and interest expense | 123,878 | 116,978 | 120,499 |
| Total operating profit | 23,539 | 14,131 | 26,404 |
| Net profit on proprietary trading | 11,667 | 6,893 | 16,799 |
| Net profit for the period | 35,206 | 21,024 | 43,203 |

¹ Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.

² Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

³ Cash in hand and at bank include trust monies held on behalf of clients which totalled \$286,461 million (31.12.2016: \$248,066 million).

⁴ As at 31.12.2017, the average collateral coverage was 4.1 times (as at 31.12.2016: 4 times). It represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis.

⁵ The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

⁶ Comprises fund management fee income, corporate finance income, inter-company management fee income and others.