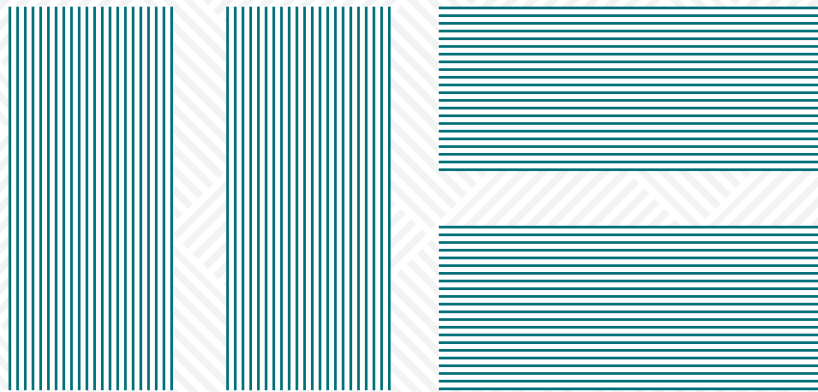




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會



Regulation for Quality Markets

Quarterly Report
July - September 2017

This second Quarterly Report of the Securities and Futures Commission for financial year 2017-18 covers the period from 1 July to 30 September 2017.

Contents

2	Highlights
3	Operational Review
3	Intermediaries
6	Investment products
8	Listings and takeovers
10	Market infrastructure and trading
11	Enforcement
13	Global regulatory engagement
15	Stakeholder communication
16	Corporate Developments
17	Activity Data
21	Financial Statements
21	Securities and Futures Commission
31	Investor Compensation Fund
40	Unified Exchange Compensation Fund

Highlights

Regulatory enhancements

- **Financial Resources Rules:** We issued consultation conclusions on the proposed regulatory capital regime for licensed corporations engaged in over-the-counter derivatives activities and other changes to the Financial Resources Rules.
- **Listing regulation:** With The Stock Exchange of Hong Kong Limited (SEHK), we published conclusions to our joint consultation on proposed enhancements to SEHK's decision-making and governance structure for listing regulation.

Listings and takeovers

- **Listing applications:** Under the dual filing regime, we reviewed a record high of 110 new listing applications, up 27.9% from the previous quarter, and we issued final decision notices to object to two listings.
- **Takeovers matters:** For breaches of the Takeovers Code, we publicly censured and imposed a 24-month cold shoulder order against one individual and also censured two other individuals and one company.

Intermediaries

- **Licensees and registrants:** As at 30 September 2017, the number of licensees and registrants reached a record high of 43,976, up 3.3% year-on-year, while the number of licensed corporations increased 12.7% to a new high of 2,613.
- **Regulatory Sandbox:** We announced the launch of the SFC Regulatory Sandbox to provide a confined regulatory environment for firms utilising financial technologies (Fintech).
- **Initial coin offerings (ICO):** A September statement explained that digital tokens offered or sold in an ICO may be subject to the securities laws of Hong Kong.
- **Asset management:** We issued two circulars highlighting irregularities and common instances of non-compliance identified during our supervision of asset managers.
- **Inspections:** We conducted 80 risk-based on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Market development

- **Mutual recognition:** We signed a Memorandum of Understanding (MoU) on mutual recognition of funds with the Autorité des Marchés Financiers (France) in July.
- **Fund activities:** Our latest Fund Management Activities Survey revealed that Hong Kong's combined fund management business increased 5.2% year-on-year to \$18,293 billion as of end-2016.
- **Gold futures:** We approved a proposal from Hong Kong Exchanges and Clearing Limited to introduce two physically-settled gold futures contracts.

Enforcement

- **Insider dealing:** The Court of First Instance (CFI) ordered Sun Min to pay over \$15.6 million to 51 investors affected by her insider dealing in the shares of China Huiyuan Juice Group Limited.
- **Breach of director's duties:** The CFI disqualified the former chairman of Hanergy Thin Film Power Group Limited for eight years and ordered him to procure the payment of outstanding receivables to the company.
- **Disciplinary actions:** We disciplined two licensed representatives for unauthorised trading in clients' accounts, banning one for life and one for 12 months.
- **Market surveillance:** We made 2,300 requests for trading and account records from intermediaries following our surveillance of untoward price and turnover movements.

Regulatory collaboration

- **Overseas regulators:** We signed an MoU with the UK Financial Conduct Authority on the supervision of regulatees and separate Fintech cooperation agreements with the Dubai Financial Services Authority and Securities Commission of Malaysia.
- **Law enforcement:** Our August MoU with the Hong Kong Police formalised and strengthened our cooperation in combating financial crime.

Intermediaries

Licence applications

In the quarter, we received 2,128 licence applications¹, down 6.6% from the same quarter in 2016. Of these, 65 were corporate applications, down 42% year-on-year.

As at 30 September 2017, the number of licensees and registrants totalled 43,976, up 3.3% year-on-year, while the number of licensed corporations grew 12.7% to 2,613. Both were record highs.

Senior management accountability

Under the Manager-In-Charge (MIC) regime introduced on 18 April, licensed corporations and corporate licence applicants are required to submit up-to-date management structure information and organisational charts to the SFC. Licensed corporations should have submitted this information by 17 July, and as of 30 September about 94% of all active licensed corporations had done so.

In addition, MICs of overall management oversight and key business line functions who were not already responsible officers should have applied for approval to become responsible officers by 16 October, when a six-month transition period ended and the regime was fully implemented.

SFC Regulatory Sandbox

On 29 September, we announced the launch of the SFC Regulatory Sandbox, which provides a confined regulatory environment for qualified firms to conduct regulated activities utilising financial technologies. Through closer dialogue with and supervision by us, firms would be able to identify and address any risks or concerns associated with their regulated activities in the sandbox before providing services to the wider public in Hong Kong.

On the same day, we issued a circular to clarify our approach to assessing the relevant industry experience required of individuals applying to be responsible officers, including those with technology expertise.

Cybersecurity

We received 36 submissions in response to a May consultation on hacking risks associated with internet trading. The key proposals received broad support. We issued consultation conclusions, related guidelines and a circular providing industry good practices for IT risk management and cybersecurity on 27 October. The requirement to implement two-factor authentication for clients to login to their internet trading accounts will take effect on 27 April 2018, while all other requirements will take effect on 27 July 2018.

Separately, we worked with the Investor Education Centre to launch a cybersecurity awareness campaign to promote good cybersecurity practices for clients to safeguard themselves from online trading threats.

Financial Resources Rules

In July, we published consultation conclusions on the proposed regulatory capital regime for licensed corporations engaged in over-the-counter derivatives activities and other proposed changes to the Securities and Futures (Financial Resources) Rules. We also launched a further consultation on a number of modified and additional proposals in view of recent market developments.

Financial resolution regime

We issued a circular in July to announce the commencement of the financial resolution regime², which vests the SFC with powers to effect the orderly resolution of within scope licensed corporations under certain conditions.

Monitoring and promoting compliance

During the quarter, we conducted 80 risk-based on-site inspections of licensed corporations to review their compliance with regulatory requirements.

¹ The figure does not include applications for provisional licences. See the licensing applications table on page 5 for details.

² The Financial Institutions (Resolution) Ordinance came into operation on 7 July.

Intermediaries

On 31 July, we issued a circular on irregularities identified during the course of our supervision of licensed corporations engaged in the asset management business. A number of the private funds and discretionary accounts with concentrated, illiquid and interconnected investments were found to have irregular features. We reminded asset managers not to turn a blind eye to dubious arrangements and transactions, to maintain effective risk management policies and procedures and to act in the best interests of their clients and the integrity of the market. Another circular issued on 15 September highlighted common instances of non-compliance in managing funds and discretionary accounts.

Separately, we issued a circular on 28 July announcing the start of a circularisation exercise on client accounts at selected securities brokers, which reviews brokers' measures to protect client assets by obtaining direct written confirmation from selected clients.

We identified a number of licensed corporations which failed to comply with the requirements for securities margin financing controls under the Code of Conduct³. Their capital was significantly affected by sharp drops in share prices of highly concentrated

and illiquid small cap stocks which they held. The firms agreed to improve their internal control systems and to commission independent reviews of their margin lending policies and procedures as well as to take interim risk control measures.

In July, we issued a restriction notice on W. Falcon Asset Management (Asia) Limited following a self-report by the firm that its liquid capital had dropped below the minimum requirement.

Initial coin offerings

On 5 September, we issued a statement setting out our position on initial coin offerings (ICOs). Depending on the facts and circumstances, digital tokens offered or sold under an ICO may be subject to the securities laws in Hong Kong⁴.

E-learning platform

We funded the development of the Hong Kong Securities and Investment Institute's Advanced Learning Platform, which launched in September, to provide professionals in the financial services industry with more flexible access to e-learning opportunities.

Licensees and registrants

	As at 30.9.2017	As at 31.3.2017	Change (%)	As at 30.9.2016	YoY change (%)
Licensed corporations	2,613	2,484	5.2	2,318	12.7
Registered institutions	119	121	-1.7	120	-0.8
Licensed individuals	41,244	40,267	2.4	40,133	2.8
Total	43,976	42,872	2.6	42,571	3.3

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

⁴ On 11 September, an article called "Initial Coin Offerings, Bitcoin and other cryptocurrencies" was published on the website of Investor Education Centre to draw investors' attention to fraud, liquidity and other risks involved.

Intermediaries

Licensing applications

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
Applications to conduct new regulated activity	6,656	11,466	11,625	-1.4
Applications for SFC licences [#]	2,128	3,826	4,094	-6.5

[#] Figures do not include applications for provisional licences. During the quarter, we received 1,315 provisional licence applications compared with 1,283 in the same quarter last year.

Intermediary inspection

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
Risk-based on-site inspections conducted	80	154	152	1.3

Investment products

Authorisations

As of 30 September, there were 2,772 SFC-authorised collective investment schemes (CIS) on offer to the public. During the quarter, we authorised 32 CIS, comprising 31 unit trusts and mutual funds and one mandatory provident fund (MPF) pooled investment fund. We also authorised 69 unlisted structured investment products for public offering.

Renminbi products

As of 30 September, there were 61 renminbi-denominated SFC-authorised unlisted funds and 26 exchange-traded funds (ETFs) investing onshore in the Mainland securities markets¹, with total assets under management of RMB41.2 billion.

Mutual recognition of funds

France

A Memorandum of Understanding on mutual recognition of funds (MRF) which we signed in July with the Autorité des Marchés Financiers, our French counterpart, allows eligible French and Hong Kong public funds to be distributed in the other market through a streamlined vetting process. It also establishes a framework for information exchange and regulatory cooperation. In addition to issuing a circular, frequently asked questions (FAQs) and an information checklist, we held a briefing session in July to provide the industry with further details.

Mainland China

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

Online distribution and advisory platforms

Our three-month public consultation on proposed guidelines on online distribution and advisory platforms closed on 4 August. The proposals provide tailored guidance to the industry on the design and operation of online platforms and clarify how the suitability

requirement would operate in the online environment. They also contain specific guidance on the provision of automated or robo-advice. We are reviewing the comments received and will issue consultation conclusions in due course.

Open-ended fund companies (OFC)

Our public consultation on the Securities and Futures (Open-ended Fund Companies) Rules and the Code on Open-ended Fund Companies, which set out the detailed legal and regulatory requirements applicable to the new OFC structure², ended on 28 August. The OFC structure will enable investment funds to be established in corporate form in Hong Kong, in addition to the current unit trust form. It forms part of our initiative to develop Hong Kong's asset management industry and to enhance Hong Kong's position as a preferred fund domicile. Respondents' comments on the consultation are under review. It is expected that the new OFC regime will be implemented in 2018 following the completion of the consultation and legislative processes.

Revamped post-authorisation process

On 1 August, we adopted, for a six-month pilot period, a revamped and enhanced process for applications for the approval of post-authorisation changes (including scheme changes, terminations, mergers and withdrawals of authorisation) and the authorisation of revised offering documents for SFC-authorised funds.

Fund Management Activities Survey

In July, we released the annual *Fund Management Activities Survey* for 2016. The findings showed that Hong Kong's combined fund management business increased by 5.2% year-on-year to \$18,293 billion as of 31 December 2016.

Industry guidance

During the quarter, we issued FAQs on various topics to provide the industry with practical guidance, including on marketing materials and notices of changes to fee levels or structures.

¹ These unlisted funds and ETFs primarily invest in the Mainland securities markets through the Renminbi Qualified Foreign Institutional Investor quota, Stock Connect and the China Interbank Bond Market.

² As laid down in the Securities and Futures (Amendment) Ordinance 2016, gazetted on 10 June 2016.

Investment products

Authorised CIS^a

	As at 30.9.2017	As at 31.3.2017	Change (%)	As at 30.9.2016	YoY change (%)
Unit trusts and mutual funds	2,188	2,203	-0.7	2,183	0.2
Investment-linked assurance schemes	299	300	-0.3	300	-0.3
Pooled retirement funds	34	34	0	34	0
MPF schemes	31	35	-11.4	37	-16.2
MPF pooled investment funds	194	182	6.6	171	13.5
Others	26 ^b	26	0	26	0
Total	2,772	2,780	-0.3	2,751	0.8

^a Excluding unlisted structured investment products.

^b Comprising 15 paper gold schemes and 11 real estate investment trusts.

Unlisted structured investment products

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
Unlisted structured investment products ^a	69	87	59	47.5
Authorisations granted under section 105 of the SFO ^b	41	57	48	18.8

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

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

Listings and takeovers

Listing policy

On 15 September, the SFC and The Stock Exchange of Hong Kong Limited (SEHK) issued conclusions to their joint consultation on proposed enhancements to SEHK's decision-making and governance structure for listing regulation.

Amongst other matters, the conclusions paper clarifies the role of the SFC as the statutory regulator which administers the Securities and Futures Ordinance (SFO) and the Securities and Futures (Stock Market Listing) Rules (SMLR), and which supervises, monitors and regulates the activities carried on by SEHK. In tandem with our new, front-loaded regulatory approach, this role has evolved to increase our direct presence when dealing with the more crucial listing matters which fall within the scope of the SMLR or the SFO.

The conclusions paper also clarifies SEHK's role as the regulator administering the Listing Rules¹.

A new Listing Policy Panel will be established as an advisory, consultative and steering body outside the SFC and SEHK to initiate and centralise discussion of listing policies with broader regulatory or market implications.

In July, we published the first issue of the *SFC Regulatory Bulletin: Listed Corporations*, providing guidance on how we perform some of our functions under the SMLR and the SFO in relation to listed corporations and other listing matters.

IPO applications

Under the dual filing regime, we reviewed 110 new listing applications during the quarter, up 27.9% from 86 in the previous quarter and 31% from 84 in the same quarter last year. This was another record high since the regime commenced in 2003.

During the quarter, we issued five "letters of mindedness to object" (LOMs) to listing applicants directly². Subsequently, we issued final decision notices to object³ to two of these applicants because their responses to the LOMs failed to address our concerns. Of the other three, one was withdrawn and two either lapsed or did not proceed.

During the quarter, one listing application was returned and an eight-week moratorium⁴ was imposed because the relevant application proof was not substantially complete.

Corporate conduct

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. In 26 cases during the quarter, we felt it appropriate to issue section 179⁵ directions to gather additional information. The underlying concerns were varied and included whether a corporate action had been conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Electronic disclosure of interests notices

As of 3 July, disclosure of interests notices must be submitted via Hong Kong Exchanges and Clearing Limited's electronic filing system⁶. A three-month transitional period was provided to enable a smooth transition and minimise potential issues with using the new system.

¹ SEHK will be the primary front-line regulator and will remain the contact point for all listing applications save in respect of concerns raised by the SFC under the SMLR.

² The SFC may object to a listing of securities based on one or more of the grounds set out in section 6(2) of the SMLR. An LOM sets out the substantive concerns of the SFC along with detailed reasons.

³ The SFC's decision to object to a listing of securities under section 6(2) of the SMLR is subject to review by the Securities and Futures Appeals Tribunal upon application.

⁴ The applicant can only submit a new listing application with a new application proof no less than eight weeks after the return.

⁵ 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.

⁶ The mandatory electronic filing provisions under Part XV of the Securities and Futures Ordinance (SFO) commenced on 3 July.

Listings and takeovers

Takeovers matters

In August, we publicly censured and imposed a 24-month cold shoulder order against Yeung Wing Yee for breaching the Takeovers Code⁷. Yeung failed to make a mandatory general offer when he bought over 30% of the shares of Union Asia Enterprise Holdings Limited in July 2016, depriving Union Asia's shareholders of the right to receive an offer.

Also in August, we publicly censured China Life Insurance (Overseas) Company Limited for breaching the dealing disclosure requirements under the Takeovers Code during the privatisation of Glorious Property Holdings Limited. China Life failed to disclose 2,139 trades in the shares of Glorious Property when it was an associate holding more than 5% in the company.

In September, we publicly censured Chen Chi-Te and Kenneth C.M. Lo (both directors of Taiwan Cement

Corporation) for breaching the dealing provisions under the Takeovers Code during the proposed privatisation of TCC International Holdings Limited by Taiwan Cement.

Following a judicial review⁸ hearing in September, the High Court of Hong Kong quashed the Takeovers Panel's April ruling that an application for a whitewash waiver in connection with Television Broadcasts Limited's (TVB) share buy-back offer should be granted subject to a majority of votes cast in favour of a shareholders' resolution to approve the offer (without adjustment), and the whitewash waiver should not be put before TVB's shareholders for a separate vote. The court also declared that provisions of the Broadcasting Ordinance apply to the shareholders' approval of the whitewash waiver. Other aspects of the Takeovers Panel's ruling, including the required disclosure of Young Lion Holdings Limited's shareholding structure, remain valid.

Listing applications and takeovers activities

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
Listing applications filed under the dual filing regime	110	196	155	26.5
Takeovers and share buy-back transactions	108	240	221	8.6

⁷ The Code on Takeovers and Mergers.

⁸ TVB applied to the court in May for leave to commence judicial review of the Takeovers Panel's decision.

Market infrastructure and trading

Gold futures

In May, we approved a proposal from Hong Kong Exchanges and Clearing Limited to introduce two physically-settled gold futures contracts. The two contracts, launched on 10 July, are denominated in renminbi and US dollars respectively and are settled via physical delivery of gold bars.

Over-the-counter (OTC) derivatives

In September, we approved a product proposal from OTC Clearing Hong Kong Limited to clear swaps with a broader range of interest rates, coupon periods and other features.

Automated trading services

	As at 30.9.2017	As at 31.3.2017	Change (%)	As at 30.9.2016	YoY change (%)
Under Part III	50	49	2	44	13.6
Under Part V	24	24	0	24	0

Bond Connect

Bond Connect, which provides offshore institutional investors with access to the China Interbank Bond Market, was launched on 3 July. We collaborated with other regulatory authorities to implement the programme and closely monitored the arrangements after they commenced.

Automated trading services

As of 30 September, the number of automated trading services (ATS)¹ authorisations under Part III of the Securities and Futures Ordinance (SFO) was 50, while 24 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.

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 that provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Enforcement

Court proceedings

The Court of First Instance (CFI) disqualified Li Hejun, the former chairman of Hanergy Thin Film Power Group Limited, from being a director or being involved in the management of any listed or unlisted corporation in Hong Kong for eight years for breaches of director's duties. In addition, four independent non-executive directors were disqualified for three to four years. Li was also ordered to procure the payment of outstanding receivables due to Hanergy from its parent company.

The CFI ordered Sun Min to pay over \$15.6 million to 51 investors affected by her insider dealing in the shares of China Huiyuan Juice Group Limited.

The CFI dismissed the application by Hong Kong Game Theory Association Limited and its sole director Sze Ching Lok, Lawrence for leave to appeal to the Court of Final Appeal against their convictions for advising on futures contracts without a licence.

The Court of Appeal dismissed our leave application to appeal to the Court of Final Appeal against the Market Misconduct Tribunal's findings that Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited¹, had not engaged in insider dealing. We further applied directly to the Court of Final Appeal for leave to appeal.

During the quarter, we successfully prosecuted one corporation and three individuals in the Eastern Magistrates' Court.

- ETRADE Securities (Hong Kong) Limited was convicted and fined \$20,000 for actively marketing, to the Hong Kong public, brokerage services provided by its overseas parent company E*TRADE Securities LLC which was not licensed by the SFC. This was the first criminal conviction for this offence².
- Yan Ching Ching was convicted and fined \$15,000 for making false or misleading representations about her criminal records in her licence application.
- Fonia Kwok Lai Kwan, the sole proprietor of Finamics Capital Management, and Lawrence Ho Man Chung, its investment portfolio manager, were convicted and fined for unlicensed activities.

¹ Now known as Yunfeng Financial Group Limited.

² This was the first criminal conviction secured under both sections 114 and 115 of the Securities and Futures Ordinance (SFO) for actively marketing regulated activities carried out outside of Hong Kong to the Hong Kong public.

Two criminal proceedings against four individuals before the Eastern Magistrates' Court are ongoing.

- We commenced proceedings against Au-Yeung Siu Pang, a former employee of China CBM Group Company Limited, over alleged insider dealing in the company's shares.
- Our criminal proceedings against alleged insider dealing in the shares of Integrated Distribution Services Group Limited by Chan Lit Chun, Lam Yik Tung and Anson Mui Ka Leung were adjourned for a pre-trial review.

Disciplinary actions

We disciplined two licensed representatives, including the following actions:

- Shum Kam Ming, a former account executive at Sincere Securities Limited, was banned from re-entering the industry for life for conducting unauthorised transactions in a client's account, resulting in substantial losses.
- Chan Wai Ling, a former account executive at Kingsway Financial Services Group Limited, was suspended for 12 months for unauthorised trading in clients' accounts.

Restriction Notice

In August, we issued restriction notices to Caitong International Securities Co., Limited, Pacific Foundation Securities Limited and Yuanta Securities (Hong Kong) Company Limited, prohibiting them from dealing with certain client assets related to suspected false trading, price rigging or market manipulation involving the shares of GME Group Holdings Limited. The firms are not suspects in the investigation.

Market surveillance

We made 2,300 requests for trading and account records from intermediaries in the quarter. In addition, we posted three high shareholding concentration announcements on our website to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Enforcement

Enforcement activities

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
S179 ^a inquiries commenced	6	15	14	7.1
S181 ^b inquiries commenced (number of letters sent)	68 (2,300)	148 (4,917)	141 (4,404)	11.6
S182 ^c directions issued	58	148	246	-39.8
Investigations started	64	153	251	-39
Investigations completed	57	112	294	-61.9
Individuals/corporations charged in criminal proceedings	3	10	4	150
Criminal charges laid	28	42	15	180
Notices of Proposed Disciplinary Action ^d issued	9	16	25	-36
Notices of Decision ^e issued	3	12	23	-47.8
Individuals/corporations subject to ongoing civil proceedings	118	118	108	9.3
Compliance advice letters issued	72	162	268	-39.6
Cases with search warrants executed	7	15	19	-21.1

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

^b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

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

^d A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

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

Global regulatory engagement

IOSCO

We remain actively involved in international policy making. Mr Ashley Alder, our Chief Executive Officer (CEO), chairs the Board of the International Organization of Securities Commissions (IOSCO) and we participate in all eight of its policy committees.

We worked closely with the IOSCO Secretariat to enhance the relevance of IOSCO's work to the Board and to the wider membership as well as to coordinate the policy work of IOSCO and the Financial Stability Board (FSB) and to promote interaction between members from emerging and developed economies.

We participated in the the Asia-Pacific Regional Committee meeting which focused on issues including initial coin offerings, effective supervision of harmful but legal conduct, common enforcement challenges in the region, the impact of European Union regulations on Asia-Pacific markets and capacity-building initiatives.

Financial Stability Board

Mr Alder was a member of the FSB Nominations Committee which was tasked with identifying candidates for the role of FSB Secretary General for the FSB Plenary's consideration. In September 2017, he attended the FSB Steering Committee and Standing Committee on Supervisory and Regulatory Cooperation meetings where he presented measures to be recommended by IOSCO to address structural vulnerabilities from asset management activities.

We also participated in the FSB Standing Committee on Standards Implementation which considered the effects of reforms and discussed its future thematic peer reviews.

We worked with the Hong Kong Monetary Authority, the Insurance Authority and the Government of the Hong Kong Special Administrative Region on the FSB peer review of Hong Kong and the FSB's annual monitoring exercise on shadow banking.

Mainland China

In September, we held a regular high-level meeting with the China Securities Regulatory Commission (CSRC) to discuss key regulatory issues related to Stock Connect, cross-border enforcement cooperation and other supervisory collaboration. Working groups were established to follow up on the cooperation initiatives.

We organised training programmes for senior executives from Mainland authorities to enhance their understanding of our regulatory work. In addition, we coordinated working-level meetings between the Investor Education Centre (IEC)¹ and the CSRC Investor Protection Bureau and the visit to IEC by the People's Bank of China Shenzhen Branch.

Other regulatory engagement

Our Chairman Mr Carlson Tong and CEO Mr Ashley Alder were appointed members of the Financial Leaders Forum for a two-year term effective 18 August. Newly set up by the Government, the forum provides a platform to discuss strategic and forward-looking proposals to further strengthen Hong Kong's position as an international financial centre.

In August, we entered into a memorandum of understanding (MoU) with the Hong Kong Police to formalise and strengthen cooperation in combating financial crime. The MoU covers a range of matters, including case referrals, joint investigations, investigative assistance and the exchange and use of information, and establishes a framework for closer collaboration on policy, operational and training issues.



Signing MoU with the Hong Kong Police

¹ The Investor Education Centre is a wholly-owned subsidiary of the SFC which has a broad mandate to provide financial consumer education and information.

Global regulatory engagement

We maintain close contact with local and overseas regulatory counterparts to keep abreast of developments in emerging regulatory and financial technologies (Fintech). During the quarter, we signed separate Fintech cooperation agreements with the Dubai Financial Services Authority and the Securities Commission of Malaysia.

In July, we entered into an MoU with the UK Financial Conduct Authority providing for consultation, cooperation and exchange of information on the supervision of regulatees operating on a cross-border basis in Hong Kong and the UK.

We held meetings during the quarter with overseas regulators, institutions and government representatives, including the US Securities and Exchange Commission, US Department of the Treasury, International Swaps and Derivatives Association, Financial Stability Institute and International Federation of Accountants. We also provided technical training for a number of overseas regulatory authorities and institutions.

Stakeholder communication

We proactively engage with a broad range of stakeholders to provide timely regulatory updates and to help them better understand our work.

This quarter, we released consultation conclusions on the regulatory capital regime for licensed corporations engaged in over-the-counter (OTC) derivatives activities and corresponding amendments to the Financial Resources Rules (FRR), together with a further consultation on a number of modified and additional FRR proposals.

In addition, we published conclusions to the joint consultation with The Stock Exchange of Hong Kong Limited (SEHK) on listing reform which were announced at a press conference held with SEHK and the Financial Services and the Treasury Bureau.

During the quarter, our senior executives spoke at 14 local and international conferences to share our regulatory approach in several areas. Separately, we supported four industry events.

We also held two briefing sessions for the industry, including a seminar on corporate transaction valuations.

In July, we published the first edition of the *SFC Regulatory Bulletin: Listed Corporations*. This new series aims to provide guidance to listed corporations, intermediaries and market practitioners, among other

topics, on how we are taking steps to intervene in serious cases at an early stage to suppress improper market practices. We produced a wide range of other publications during the quarter, including:

- Our *Half-Yearly Review of the Global and Local Securities Markets*, covering the performance of major stock markets and highlighting risks and uncertainties facing both Hong Kong and international markets.
- The *Financial Review of the Securities Industry*, which summarised statistical information on the financial positions of securities dealers and securities margin financiers as well as the financial performance of SEHK participants.
- The September issue of the *Takeovers Bulletin* discussed a recent cold shoulder order and public censures and clarified the details required in scheme of arrangement result announcements.
- The *Fund Management Activities Survey 2016*, an annual exercise to collect information on the fund management industry in Hong Kong.

We issued 22 circulars informing industry participants about a wide range of matters, including OTC derivatives transactions reporting, irregularities and deficiencies in managing private funds and counter-terrorist financing.

Publications and other communications

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016
Press releases	30	75	56
Consultation papers	1	5	2
Consultation conclusions	2	4	1
Industry-related publications	5	9	5
Codes and guidelines ¹	2	6	2
Circulars to industry	22	43	26
Corporate website average daily page views ²	70,670	69,752	57,450
General enquiries	1,848	3,570	3,299

¹ Includes updates to previous versions.

² The average number of web pages browsed per day during the reporting period.

Corporate Developments

In September, the Financial Secretary reappointed Ms Mary Ma and Mr Lester Huang as Non-Executive Directors for two-year terms effective 15 November.

Our income for the quarter was \$473 million, 11% higher than the previous quarter. Average daily turnover in Hong Kong's securities market was \$95 billion, 22% higher than the \$78 billion recorded in the previous quarter. Expenditure was \$447 million, up 5% from last quarter. As at 30 September, our reserves

stood at \$6.9 billion, of which \$3 billion was set aside for the possible acquisition of office premises.

To enhance efficiency, we implemented a new information management system for intermediaries inspections as well as a new system to monitor disclosure of interests notices filed electronically with Hong Kong Exchanges and Clearing Limited.

As of 30 September, we had 875 staff members, up from 860 a year ago.

Finances

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
Income (\$ million)	473	899	659	36
Expenses including depreciation (\$ million)	447	871	838	4
Surplus / (loss) (\$ million)	26	28	(179)	N/A

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016 ¹	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	0	5	7	-28.6
Failure to safekeep client securities	11	21	23	-8.7
Failure to maintain proper books and records	10	18	18	0
Failure to safekeep client money	17	32	30	6.7
Unlicensed dealing and other registration issues	8	11	9	22.2
Breach of licensing conditions	3	5	1	400
Breach of requirements of contract notes/statements of account/receipts	13	32	35	-8.6
Failure to make filing/notification	0	1	3	-66.7
Breach of margin requirements	1	3	1	200
Marketing malpractices	0	0	0	0
Illegal short selling of securities	0	0	0	0
Dealing malpractices	0	0	6	-100
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ²	86	173	240	-27.9
Breach of Corporate Finance Adviser Code of Conduct	2	5	16	-68.8
Breach of Fund Manager Code of Conduct	27	50	35	42.9
Breach of regulation of on-line trading	0	3	6	-50
Non-compliance with anti-money laundering guidelines	35	72	118	-39
Breach of other rules and regulations of the Exchanges ³	2	6	8	-25
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	0	0
Internal control weaknesses ⁴	115	247	259	-4.6
Others	14	32	41	-22
Total	344	716	856	-16.4

¹ Adjustments have been made for the period.

² Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

³ The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

⁴ Deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trail for internal control purposes, among other weaknesses.

Activity Data

Table 2 Authorised unit trusts and mutual funds – by type

	Number as at 30.9.2017	Number as at 31.3.2017	Change (%)	Number as at 30.9.2016	YoY change (%)
Bond	437	430	1.6	412	6.1
Equity	1,021	1,018	0.3	1,034	-1.3
Diversified	167	162	3.1	163	2.5
Money market	44	44	0	44	0
Fund of funds	111	113	-1.8	106	4.7
Index ¹	159	182	-12.6	172	-7.6
Guaranteed	4	3	33.3	3	33.3
Hedge	1	2	-50	2	-50
Other specialised ²	5	7	-28.6	10	-50
Sub-total	1,949	1,961	-0.6	1,946	0.2
Umbrella structures	239	242	-1.2	237	0.8
Total	2,188	2,203	-0.7	2,183	0.2

¹ Including leveraged and inverse products.

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

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

	Total NAV (US\$ million) as at 30.9.2017	Total NAV (US\$ million) as at 31.3.2017	Change (%)	Total NAV (US\$ million) as at 30.9.2016	YoY change (%)
Bond	552,846	466,096 ¹	18.6	461,716	19.7
Equity	726,160	638,848	13.7	622,336	16.7
Diversified	162,000	137,454	17.9	127,742 ²	26.8
Money market	20,254	21,014	-3.6	19,268	5.1
Fund of funds	21,924	19,865	10.4	16,611	32
Index ³	96,645	92,069	5	97,779	-1.2
Guaranteed	127	127	0	71	78.9
Hedge	26	28	-7.1	38	-31.6
Other specialised ⁴	1,119	1,288	-13.1	1,407	-20.5
Total	1,581,101	1,376,789¹	14.8	1,346,968²	17.4

¹ These figures differ from those disclosed in the *Annual Report 2016-17* and the *Quarterly Report April - June 2017* due to revised figures reported after those reports' issuance.

² These figures differ from those disclosed in the *Quarterly Report July - September 2016* due to revised figures reported after that report's issuance.

³ Including leveraged and inverse products.

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

Activity Data

Table 4 Authorised unit trusts and mutual funds – by origin

	Number as at 30.9.2017	Number as at 31.3.2017	Change (%)	Number as at 30.9.2016	YoY change (%)
Hong Kong	753	735	2.4	697 ¹	8
Luxembourg	1,013	1,009	0.4	1,006	0.7
Ireland	249	256	-2.7	268	-7.1
United Kingdom	63	64	-1.6	69	-8.7
Mainland China	50	49	2	45	11.1
Other Europe	3	3 ²	0	3	0
Bermuda	3	5	-40	5	-40
Cayman Islands	46	74	-37.8	82 ¹	-43.9
Others	8	8 ²	0	8	0
Total	2,188	2,203	-0.7	2,183	0.2

¹ These figures differ from those disclosed in the *Quarterly Report July - September 2016* due to the recategorisation of funds' places of origin after that report's issuance.

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

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

	Total NAV (US\$ million) as at 30.9.2017	Total NAV (US\$ million) as at 31.3.2017	Change (%)	Total NAV (US\$ million) as at 30.9.2016	YoY change (%)
Hong Kong	150,877	131,605	14.6	126,049 ¹	19.7
Luxembourg	1,036,556	910,351	13.9	889,124	16.6
Ireland	216,543	173,212 ²	25	160,813	34.7
United Kingdom	104,658	90,987	15	93,351	12.1
Mainland China	20,167	17,056	18.2	17,238 ³	17
Other Europe	108	94 ⁴	14.9	67	61.2
Bermuda	191	217	-12	241	-20.7
Cayman Islands	8,048	11,546	-30.3	11,969 ¹	-32.8
Others	43,953	41,721 ⁴	5.3	48,116	-8.7
Total	1,581,101	1,376,789²	14.8	1,346,968⁵	17.4

¹ These figures differ from those disclosed in the *Quarterly Report July - September 2016* due to the recategorisation of funds' places of origin after that report's issuance.

² These figures differ from those disclosed in the *Annual Report 2016-17* and the *Quarterly Report April - June 2017* due to revised figures reported after those reports' issuance.

³ This figure differs from that disclosed in the *Quarterly Report July - September 2016* due to revised figure reported after that report's issuance.

⁴ These figures differ from those disclosed in the *Annual Report 2016-17* due to the different categorisation of funds' places of origin.

⁵ See footnotes 1 and 3.

Activity Data

Table 6 Takeovers activities

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	11	32	29	10.3
Privatisations	5	9	8	12.5
Whitewash waiver applications	12	23	16	43.8
Other applications under Code on Takeovers and Mergers ¹	80	176	167	5.4
Off-market and general offer share buy-backs	0	0	1	-100
Other applications under Code on Share Buy-backs ¹	0	0	0	0
Total	108	240	221	8.6
Executive Statements				
Sanctions imposed with parties' agreement ²	3	3	2	50
Takeovers and Mergers Panel				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	0	1	2	-50
Statements issued by the Panel ³	0	1	1	0

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

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

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

Table 7 Complaints against intermediaries and market activities

	Quarter ended 30.9.2017	Six months ended 30.9.2017	Six months ended 30.9.2016	YoY change (%)
Conduct of licensees	89	163	178	-8.4
Conduct of registered institutions	5	36	25	44
Listed companies and disclosure of interests	192	372	329	13.1
Market misconduct ¹	69	122	98	24.5
Product disclosure	2	3	5	-40
Unlicensed activities	31	58	58	0
Breach of offers of investments	18	36	22	63.6
Boiler rooms and suspicious websites	76	162	156	3.8
Scams and frauds ²	29	74	62	19.4
Other financial activities ³	81	146	107	36.4
Total	592	1,172	1,040	12.7

¹ Primarily, alleged market manipulation and insider dealing.

² Such as identity fraud and impersonation.

³ For example, bullion trading, banking services.

Securities and Futures Commission

Report on review of condensed consolidated 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 condensed consolidated interim financial information set out on pages 23 to 30 which comprise the condensed consolidated statement of financial position of the Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) as at 30 September 2017 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the SFC are responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*. Our responsibility is to express a conclusion on these condensed consolidated 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 the condensed consolidated 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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4 December 2017

Securities and Futures Commission

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

For the three months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Income		
Levies	356,074	263,762
Fees and charges	33,762	34,012
Investment income	81,574	74,287
Less: custody and advisory expenses	(1,918)	(1,487)
Investment income net of third party expenses	79,656	72,800
Recoveries from the Investor Compensation Fund	1,432	1,390
Other income	2,003	284
	472,927	372,248
Expenses		
Staff costs and directors' emoluments	325,287	304,971
Premises		
Rent	51,772	52,412
Rates, management fees and others	12,190	12,579
Other expenses	50,431	42,206
Depreciation	7,237	10,661
	446,917	422,829
Surplus/(loss) and total comprehensive income for the quarter	26,010	(50,581)

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2017 \$'000	30 Sep 2016 \$'000
Income			
Levies		628,343	502,218
Fees and charges		74,617	68,092
Investment income		181,301	88,205
Less: custody and advisory expenses		(3,742)	(2,683)
Investment income net of third party expenses		177,559	85,522
Recoveries from the Investor Compensation Fund		2,883	2,780
Other income		15,142	440
		898,544	659,052
Expenses			
Staff costs and directors' emoluments	8(b)	642,312	601,953
Premises			
Rent		104,402	103,922
Rates, management fees and others		24,889	24,831
Other expenses		84,822	86,206
Depreciation		14,175	21,346
		870,600	838,258
Surplus/(loss) and total comprehensive income for the period		27,944	(179,206)

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

At 30 September 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2017 \$'000	Audited At 31 Mar 2017 \$'000
Non-current assets			
Fixed assets		62,113	63,455
Held-to-maturity debt securities	2	736,717	-
		798,830	63,455
Current assets			
Held-to-maturity debt securities	2	-	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		775,628	716,403
Pooled funds		981,695	941,911
Debtors, deposits and prepayments		196,176	158,450
Fixed deposits with banks		4,342,033	5,107,808
Cash at bank and in hand		104,672	75,462
		6,400,204	7,030,037
Current liabilities			
Fees received in advance		8,059	9,210
Creditors and accrued charges		201,882	128,218
		209,941	137,428
Net current assets		6,190,263	6,892,609
Total assets less current liabilities		6,989,093	6,956,064
Non-current liabilities	4	39,249	34,164
Net assets		6,949,844	6,921,900
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,907,004	3,879,060
		6,949,844	6,921,900

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Condensed statement of financial position

At 30 September 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2017 \$'000	Audited At 31 Mar 2017 \$'000
Non-current assets			
Fixed assets		61,952	63,167
Held-to-maturity debt securities	2	736,717	–
		798,669	63,167
Current assets			
Held-to-maturity debt securities	2	–	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		775,628	716,403
Pooled funds		981,695	941,911
Debtors, deposits and prepayments		200,606	158,516
Fixed deposits with banks		4,342,033	5,107,808
Cash at bank and in hand		95,752	71,262
		6,395,714	7,025,903
Current liabilities			
Fees received in advance		8,059	9,210
Creditors and accrued charges		197,231	123,796
		205,290	133,006
Net current assets		6,190,424	6,892,897
Total assets less current liabilities		6,989,093	6,956,064
Non-current liabilities	4	39,249	34,164
Net assets		6,949,844	6,921,900
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,907,004	3,879,060
		6,949,844	6,921,900

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Reserve for property acquisition \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2016	42,840	–	7,234,700	7,277,540
Transfer to reserve for property acquisition	–	3,000,000	(3,000,000)	–
Loss and total comprehensive income for the period	–	–	(179,206)	(179,206)
Balance at 30 September 2016	42,840	3,000,000	4,055,494	7,098,334
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the period	–	–	27,944	27,944
Balance at 30 September 2017	42,840	3,000,000	3,907,004	6,949,844

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of cash flows

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2017 \$'000	30 Sep 2016 \$'000
Cash flows from operating activities			
Surplus/(loss) for the period		27,944	(179,206)
Adjustments for:			
Depreciation		14,175	21,346
Investment income		(181,301)	(88,205)
Exchange difference		(7,953)	566
Loss on disposal of fixed assets		719	7
		(146,416)	(245,492)
Increase in debtors, deposits and prepayments		(30,366)	(30,105)
Increase in creditors and accrued charges		73,664	75,010
Decrease in fees received in advance		(1,151)	(497)
Increase in non-current liabilities		5,085	2,833
<i>Net cash used in operating activities</i>		(99,184)	(198,251)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		310,389	(459,276)
Interest received		35,279	29,653
Held-to-maturity debt securities purchased		(738,328)	–
Held-to-maturity debt securities redeemed at maturity		30,000	53,800
Debt securities designated at fair value through profit or loss purchased		(335,902)	(1,116,325)
Debt securities designated at fair value through profit or loss sold or redeemed		281,180	349,649
Pooled funds sold		103,942	1,148
Fixed assets purchased		(13,552)	(17,011)
<i>Net cash used in investing activities</i>		(326,992)	(1,158,362)
Net decrease in cash and cash equivalents		(426,176)	(1,356,613)
Cash and cash equivalents at beginning of the six-month period		676,727	1,522,116
Cash and cash equivalents at end of the six-month period	3	250,551	165,503

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2017 \$'000	At 30 Sep 2016 \$'000
Fixed deposits with banks	145,879	143,203
Cash at bank and in hand	104,672	22,300
	250,551	165,503

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the SFC since the annual financial statements for the year ended 31 March 2017. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2017 included in this report does not constitute the SFC's statutory annual financial statements for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 30 September 2017. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2017 to the condensed consolidated interim financial information.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2017.

2. Held-to-maturity debt securities

As of 30 September 2017, the total carrying cost of held-to-maturity debt securities amounted to \$736,717,000 (at 31 March 2017: \$30,003,000), with a market value of \$733,788,000 (at 31 March 2017: \$30,006,000).

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 30 Sep 2017 \$'000	Audited At 31 Mar 2017 \$'000
Cash at bank and in hand	104,672	75,462
Fixed deposits with banks	4,342,033	5,107,808
Amounts shown in the condensed consolidated statement of financial position	4,446,705	5,183,270
Less : Amounts with an original maturity of beyond three months	(4,196,154)	(4,506,543)
Cash and cash equivalents in the consolidated statement of cash flows	250,551	676,727

4. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our condensed consolidated statement of profit or loss and other comprehensive income on a straight line basis over the lease period ranging from 2017 to 2020 as an integral part of rental expense.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance or creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 September 2017. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange fluctuation

The SFC's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either US dollars or Hong Kong dollars which are closely pegged, we do not consider we are exposed to significant exchange rate risk.

7. Investment in subsidiaries

The SFC formed the ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the IEC as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

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

The objective of the IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 30 September 2017, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2017: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

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

8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, we entered into the following material related party transactions:

- (a) During the period, we received reimbursement from the ICF for all the ICC's expenses amounting to \$2,883,000 (2016: \$2,780,000), which is in accordance with section 242(1) of the SFO. As at 30 September 2017, the amount due to the ICF from the ICC was \$184,000 (at 31 March 2017: \$75,000).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

8. Related party transactions (cont'd)

(b) Remuneration for key management personnel comprised :

	Unaudited six months ended	
	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Directors' fees and salaries, allowances and benefits in kind	16,119	15,295
Retirement scheme contributions	1,473	1,355
	17,592	16,650

The total remuneration is included in "staff costs and directors' emoluments" on page 23. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

9. Commitment to pay rents for offices

At 30 September 2017 the minimum amount we are committed to pay in rent for our offices up to 31 August 2020, being the rent review date as set out in the lease agreements, are as follows :

	Unaudited At 30 Sep 2017 \$'000	Audited At 31 Mar 2017 \$'000
Payable next year	200,280	205,077
Payable in one to five years	384,463	477,534
Payable in more than five years	–	–
	584,743	682,611

During the period, \$104,402,000 net of lease incentives was recognised as an expense in the condensed consolidated statement of profit or loss and other comprehensive income in respect of operating leases (2016: \$103,922,000).

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 2017.

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 2017 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 33 to 39.

Members of the Committee

The members of the Committee during the six months ended 30 September 2017 and up to the date of this report were :

Mr Keith Lui (Chairman)

Ms Teresa Ko Yuk-yin, JP

Mr Lee Kwok Keung

Mr Thomas Allan Atkinson

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the six months.

On behalf of the Committee

Keith Lui
Chairman

4 December 2017

Investor Compensation Fund

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

Introduction

We have reviewed the condensed interim financial information set out on pages 34 to 39, 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 2017 and the related condensed statements of profit or loss and other comprehensive income, changes in equity and 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 (HKAS) 34, *Interim financial reporting*. 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 condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial information is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 4 December 2017

Investor Compensation Fund

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

For the three months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Income		
Net investment income	26,871	30,801
Exchange difference	920	(418)
	27,791	30,383
Expenses		
Investor Compensation Company Limited expenses	1,433	1,390
Compensation write-backs	–	(294)
Auditor's remuneration	49	47
Bank charges	243	247
Professional fees	1,013	955
	2,738	2,345
Surplus and total comprehensive income for the quarter	25,053	28,038

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2017 \$'000	30 Sep 2016 \$'000
Income			
Net investment income		57,097	54,530
Exchange difference		8,423	(160)
		65,520	54,370
Expenses			
Investor Compensation Company Limited expenses	2	2,883	2,780
Compensation write-backs	3	–	(5)
Auditor's remuneration		99	94
Bank charges		479	482
Professional fees		2,056	1,915
		5,517	5,266
Surplus and total comprehensive income for the period		60,003	49,104

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 38 to 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

At 30 September 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2017 \$'000	Audited At 31 Mar 2017 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,874,012	1,893,248
- Pooled fund		329,084	330,386
Interest receivable		12,993	13,651
Due from Investor Compensation Company Limited		183	75
Fixed deposits with banks		80,564	26,201
Cash at bank		45,187	18,770
		2,342,023	2,282,331
Current liabilities			
Provision for compensation	3	300	476
Creditors and accrued charges		1,314	1,449
		1,614	1,925
Net current assets		2,340,409	2,280,406
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,236,768	1,176,765
		2,340,409	2,280,406

The notes on pages 38 to 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited Contributions from Unified Exchange Compensation Fund \$'000	Unaudited Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2016	994,718	108,923	1,107,238	2,210,879
Surplus and total comprehensive income for the period	–	–	49,104	49,104
Balance at 30 September 2016	994,718	108,923	1,156,342	2,259,983
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the period	–	–	60,003	60,003
Balance at 30 September 2017	994,718	108,923	1,236,768	2,340,409

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 38 to 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Cash flows from operating activities		
Surplus for the period	60,003	49,104
Adjustments for:		
Net investment income	(57,097)	(54,530)
Exchange difference	(8,423)	160
	(5,517)	(5,266)
Increase in amount due from Investor Compensation Company Limited	(108)	(438)
Decrease in provision for compensation	(176)	(155)
(Decrease) / increase in creditors and accrued charges	(135)	26
<i>Net cash used in operating activities</i>	(5,936)	(5,833)
Cash flows from investing activities		
Debt securities purchased	(512,523)	(305,958)
Debt securities sold or redeemed	538,225	246,654
Equity securities sold	35,916	694
Interest received	25,098	23,766
<i>Net cash generated from/(used in) investing activities</i>	86,716	(34,844)
Net increase/(decrease) in cash and cash equivalents	80,780	(40,677)
Cash and cash equivalents at beginning of the six-month period	44,971	50,963
Cash and cash equivalents at end of the six-month period	125,751	10,286

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2017 \$'000	At 30 Sep 2016 \$'000
Fixed deposits with banks	80,564	7,449
Cash at bank	45,187	2,837
	125,751	10,286

The notes on pages 38 to 39 form part of the condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2017. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2017 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2017 to the condensed interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2017.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2017, the ICC incurred \$2,883,000 for its operations and was reimbursed by the Fund (for the six months ended 30 September 2016 : \$2,780,000).

3. Provision for compensation

	\$'000
Balance as at 1 April 2016	1,412
Add: compensation expenses during the year ended 31 March 2017	476
Less: compensation write-backs during the year ended 31 March 2017	(294)
Less: compensation paid during the year ended 31 March 2017	(1,118)
Balance as at 31 March 2017 and 1 April 2017	476
Less: compensation paid during the six months ended 30 September 2017	(176)
Balance as at 30 September 2017	300

As at 30 September 2017, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 30 September 2017 was \$300,000 (31 March 2017: \$476,000). As at 30 September 2017, all provisions were expected to be paid within one year.

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

4. Material related party transactions

We have related party relationships with the SFC, the ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the six months ended 30 September 2016 and 2017.

5. Contingent liabilities

As at the date of this report, in addition to the provision made as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims is \$2,558,000 (31 March 2017: \$2,558,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2017.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect on 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 September 2017, the Fund transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the reporting period ended 30 September 2017 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 42 to 48.

Members of the Committee

The members of the Committee during the six months ended 30 September 2017 and up to the date of this report were:

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

Interests in contracts

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

On behalf of the Committee

Keith Lui
 Chairman

22 November 2017

Unified Exchange Compensation Fund

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

Introduction

We have reviewed the condensed interim financial information set out on pages 43 to 48, 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 2017 and the related condensed statements of profit or loss and other comprehensive income, changes in equity and 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 condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*. Our responsibility is to express a conclusion on this condensed 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 condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial information is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22 November 2017

Unified Exchange Compensation Fund

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

For the three months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Income		
Interest income	132	120
Expenses		
Auditor's remuneration	24	24
Surplus and total comprehensive income for the quarter	108	96

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Income		
Interest income	292	246
Expenses		
Recoveries re-distributed	-	1,152
Auditor's remuneration	48	46
Sundry expenses	-	3
	48	1,201
Surplus/(loss) and total comprehensive income for the period	244	(955)

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 47 to 48 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

At 30 September 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2017 \$'000	Audited At 31 Mar 2017 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		62	77
Accounts receivable		9	–
Fixed deposits with banks		85,268	83,744
Cash at bank		213	332
		85,553	84,154
Current liabilities			
Creditors and accrued charges		10,318	10,663
Relinquished trading rights payable to SEHK	3	700	600
		11,018	11,263
Net current assets		74,535	72,891
Net assets		74,535	72,891
Representing:			
Compensation fund			
Contributions from SEHK	3	52,600	51,200
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		26,364	26,120
		1,069,253	1,067,609
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		74,535	72,891

The notes on pages 47 to 48 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited Contributions from SEHK \$'000	Unaudited Excess transaction levy from SEHK \$'000	Unaudited Special contributions and special levy surplus \$'000	Unaudited Additional contributions from SEHK and the SFC \$'000	Unaudited Accumulated surplus \$'000	Unaudited Contributions to Investor Compensation Fund \$'000	Unaudited Total \$'000
Balance at 1 April 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411
Net contributions from SEHK	1,050	-	-	-	-	-	1,050
Loss and total comprehensive income for the period	-	-	-	-	(955)	-	(955)
Balance at 30 September 2016	50,100	353,787	6,502	630,000	25,835	(994,718)	71,506
Balance at 1 April 2017	51,200	353,787	6,502	630,000	26,120	(994,718)	72,891
Net contributions from SEHK	1,400	-	-	-	-	-	1,400
Surplus and total comprehensive income for the period	-	-	-	-	244	-	244
Balance at 30 September 2017	52,600	353,787	6,502	630,000	26,364	(994,718)	74,535

The notes on pages 47 to 48 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Cash flows from operating activities		
Surplus/(loss) for the period	244	(955)
Adjustment for:		
Interest income	(292)	(246)
	(48)	(1,201)
Increase in accounts receivable	(9)	–
Decrease in creditors and accrued charges	(345)	(5)
Increase in relinquished trading rights payable to SEHK	100	200
<i>Net cash used in operating activities</i>	(302)	(1,006)
Cash flows from investing activities		
Interest received	307	254
<i>Net cash generated from investing activities</i>	307	254
Cash flows from financing activities		
Net contributions from SEHK	1,400	1,050
<i>Net cash generated from financing activities</i>	1,400	1,050
Net increase in cash and cash equivalents	1,405	298
Cash and cash equivalents at beginning of the six-month period	84,076	82,457
Cash and cash equivalents at end of the six-month period	85,481	82,755

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2017 \$'000	At 30 Sep 2016 \$'000
Fixed deposits with banks	85,268	82,531
Cash at bank	213	224
	85,481	82,755

The notes on pages 47 to 48 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants. 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 condensed interim financial information on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2017. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2017 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2017 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2017.

2. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 September 2017 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in HKAS 39, *Financial Instruments: Recognition and measurement*. According to HKFRS 13, *Fair value measurement*, these subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

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

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in 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 \$1,650,000 in respect of 33 new trading rights were received from SEHK and deposits of \$150,000 in respect of 3 relinquished trading rights was refunded to SEHK.

At 30 September 2017, there were 14 trading rights in total of \$700,000 that have been relinquished but not yet refunded (at 31 March 2017: 12). The net contributions from SEHK at 30 September 2017, excluding the relinquished trading rights payable, amounted to \$52,600,000 (at 31 March 2017: \$51,200,000).

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2017 (Expressed in Hong Kong dollars)

4. Material related party transactions

We have related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the six months ended 30 September 2016 and 2017.

5. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 2) will be re-distributed to claimants. As the timing of any future re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

Securities and Futures Commission

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