



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

# Regulation for Quality Markets

Quarterly Report  
July - September 2018

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This second Quarterly Report of the Securities and Futures Commission for financial year 2018-19 covers the period from 1 July to 30 September 2018.

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# Highlights

## Regulatory enhancements

- **Takeovers:** Amendments to the Codes on Takeovers and Mergers and Share Buy-backs took effect on 13 July.
- **Open-ended fund companies (OFCs):** The new OFC regime, which introduced a new corporate fund structure in addition to the current unit trust form, was implemented on 30 July.
- **Securities margin financing:** We consulted the public on proposed guidelines for securities margin financing activities to enhance brokers' risk management.
- **Strategic Framework for Green Finance:** We published our strategic framework to contribute to the development of green finance in Hong Kong.
- **Offline requirements for complex products:** We published consultation conclusions on requirements for intermediaries to apply additional protective measures to the sale of complex products in an offline environment.
- **Anti-money laundering:** We concluded a consultation on the revised Guideline on Anti-Money Laundering and Counter-Terrorist Financing which came into effect on 1 November.
- **Virtual assets:** We issued a statement setting out a new approach to bring virtual asset portfolio managers and distributors of virtual asset funds under our regulatory net as well as a conceptual framework for the potential regulation of virtual asset trading platforms.

## Intermediaries

- **Licensees and registrants:** As at 30 September, the number of licensees and registrants reached 46,063, up 5% year-on-year, and the number of licensed corporations increased 9% to 2,844.
- **Inspections:** We conducted 81 on-site inspections of licensed corporations to review their compliance with regulatory requirements.
- **Disguised margin financing:** A circular cautioned that anyone involved in providing securities margin financing in the guise of investments may be liable to prosecution and should cease them immediately.
- **Online client onboarding:** We issued a circular to provide guidance for using electronic signatures to onboard individual clients online.

## Highlights

### Corporates

- **Listing applications:** We reviewed 118 new listing applications, up 7.3% from the previous quarter.

### Products

- **Mutual Recognition of Funds:** On 8 October, we signed a memorandum of understanding with the UK Financial Conduct Authority to allow eligible Hong Kong public funds and UK retail funds to be distributed in each other's markets.
- **Asset and Wealth Management Activities Survey 2017:** The survey, published in July, found that the asset and wealth management business in Hong Kong amounted to \$24,270 billion as of end-2017.

### Markets

- **Investor identification:** The investor identification regime for northbound trading under Mainland-Hong Kong Stock Connect was launched on 26 September.

### Enforcement

- **Disciplinary actions:** We disciplined five licensed corporations and five representatives during the quarter, resulting in total fines of \$40.4 million.
- **Market surveillance:** We made 1,958 requests for trading and account records from intermediaries triggered by untoward price and turnover movements.
- **Reporting misconduct:** We launched a campaign to encourage the public to report suspected listed company fraud and market misconduct to help us take action to safeguard our markets and protect investors.

### Corporate developments

- **New image:** We announced a new corporate identity as we approach our thirtieth anniversary next year. The new design will be phased in over time.

# Operational Review

## Intermediaries

### Licence applications

In this quarter, we received 2,354 licence applications<sup>1</sup>, up 15.9% from the last quarter and 14.6% year-on-year. The number of corporate applications increased 13% from the last quarter to 85, up 6% year-on-year.

As at 30 September, the number of licensees and registrants totalled 46,063, up 5% from last year, and the number of licensed corporations grew 9% to 2,844. Both were record highs.

### Anti-money laundering

In July, we launched a public consultation on proposed amendments to the Guideline on Anti-Money Laundering and Counter-Terrorist Financing as well as the Prevention of Money Laundering and Terrorist Financing Guideline Issued by the Securities and Futures Commission for Associated Entities.

The amendments align the guidelines with the latest international standards and make them more useful and relevant in light of industry developments. The revised guidelines allow firms the flexibility to adopt reasonable risk-based measures to verify customer identification information and facilitate compliance by providing additional guidance on existing requirements. We issued the consultation conclusions in October. The revised guidelines were gazetted on 19 October and came into effect on 1 November.

In August, we issued a circular to licensed corporations highlighting deficiencies in anti-money laundering and counter-terrorist financing measures and controls identified during our inspections in the past year. These included inadequacies related to risk assessment, customer due diligence, sanctions screening and suspicious transaction monitoring and reporting. Detailed guidance and practical examples were provided in the circular to assist licensed firms in enhancing their anti-money laundering and counter-terrorist financing policies, procedures and controls.

### Professional investor rules

Amendments to the professional investor rules came into effect on 13 July following our public consultation and the completion of the legislative process. The amendments standardise the rules for prescribing professional investors to promote the consistent application of the regulations and to better serve the interests of both intermediaries and their clients. We issued a circular and a press release to remind the industry and the public about the changes.

### Securities margin financing

Following a review we conducted in 2017 which found that brokers' margin loans increased significantly over the past decade with a deterioration in margin loan quality and slack risk controls, we launched a two-month consultation in August on proposed guidelines

<sup>1</sup> The figure does not include applications for provisional licences. See the licensing applications table on page 6 for details.

## Intermediaries

for securities margin financing activities. The guidelines provided additional guidance to enhance brokers' risk management. Our report on last year's review was published on the same day.

### Disguised margin financing

In an August circular, we highlighted that some asset management companies may have helped unlicensed affiliates or third parties provide securities margin financing in the guise of investments. We reminded licensed corporations that such arrangements are illegal and that the fitness and properness of the firms involved in them may be called into question. We also warned that anyone involved in these arrangements may be liable to prosecution and should cease them immediately.

### Offline requirements for complex products

We issued consultation conclusions in October on requirements for intermediaries to apply additional protective measures to the sale of complex products in an offline environment, namely that they have to ensure the suitability of complex products and provide product information and warning statements to clients. As a consequence, identical protective measures will be applicable to both the online and offline sale of complex products with effect from April 2019. This will ensure better investor protection, provide a level-playing field for industry participants and avoid potential regulatory gaps.

### Virtual assets

In a November statement, we set out a conceptual framework for the potential regulation of virtual asset trading platforms to explore whether they are suitable for regulation. If implemented, this regulatory approach could provide a path for compliance for those platform operators capable and willing to adhere to a high level of standards and practices, and set them apart from others which do not seek a licence.

In the same statement, we provided guidance on the standards expected of virtual asset portfolio managers and fund distributors. SFC-licensed portfolio managers

intending to invest more than 10% of a mixed portfolio in virtual assets will need to observe new requirements, irrespective of whether these assets amount to "securities" or "futures contracts"<sup>2</sup>. An accompanying circular set out expected standards and practices which distributors are also required to comply with when distributing virtual asset funds.

### Monitoring

During the quarter, we conducted 81 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

### Promoting compliance

In July, we issued a circular to provide guidance to intermediaries on using electronic signatures to onboard individual clients online. The alternative procedures specified in the circular provide safeguards to contain the risks involved and enable intermediaries to onboard clients more efficiently and better serve customers without compromising their regulatory responsibilities.

We issued a circular in August to set out an interim framework for intermediaries to adopt an internal models approach to calculate the capital requirements for market risk for proprietary investments. This addresses the need to provide for an internal models approach pending the completion of the legislative process for amendments to the Securities and Futures (Financial Resources) Rules<sup>3</sup>.

We issued a circular in September to remind intermediaries of their obligation to promptly report to the SFC all actual or suspected material breaches and non-compliance as soon as practicable after they are identified as well as the consequences of failing to do so. We also reminded intermediaries to review their incident escalation and reporting mechanisms and implement appropriate controls to ensure compliance with the notification requirements.

<sup>2</sup> As defined in Part 1 to Schedule 1 of the Securities and Futures Ordinance.

<sup>3</sup> In July 2015, we proposed providing for an internal models approach as part of the amendments to the Securities and Futures (Financial Resources) Rules.

## Intermediaries

### Licenses and registrants

	As at 30.9.2018	As at 31.3.2018	Change (%)	As at 30.9.2017	YoY change (%)
Licensed corporations	2,844	2,702	5.3	2,613	8.8
Registered institutions	118	120	-1.7	119	-0.8
Licensed individuals	43,101	41,536	3.8	41,244	4.5
<b>Total</b>	<b>46,063</b>	<b>44,358</b>	<b>3.8</b>	<b>43,976</b>	<b>4.7</b>

### Licensing applications

	Quarter ended 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
Applications to conduct new regulated activity	7,244	13,138	11,466	14.6
Applications for SFC licences <sup>#</sup>	2,354	4,384	3,826	14.6

<sup>#</sup> Figures do not include applications for provisional licences. During the quarter, we received 1,418 provisional licence applications compared with 1,315 in the same quarter last year.

### Intermediary inspections

	Quarter ended 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
On-site inspections conducted	81	146	154	-5.2

# Products

## Authorisations

As of 30 September, 2,770 SFC-authorized collective investment schemes were on offer to the public. During the quarter, we authorised 31 unit trusts and mutual funds and 74 unlisted structured investment products for public offering.

## Mutual recognition of funds (MRF)

### Mainland China

Under the Mainland-Hong Kong MRF scheme, as of 30 September, we had authorised a total of 50 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission had approved 15 Hong Kong funds.

### Switzerland

As of 30 September, the Swiss Financial Market Supervisory Authority had approved four SFC-authorized funds for distribution to retail investors in Switzerland.

### United Kingdom (UK)

On 8 October, we entered into a memorandum of understanding (MoU) with the UK Financial Conduct Authority to allow eligible Hong Kong public funds



Signing of MoU with the UK Financial Conduct Authority

and UK retail funds to be distributed in each other's markets. The MoU established a framework for information exchange, regular dialogue and regulatory cooperation on the cross-border offering of eligible funds.

## Authorised collective investment schemes<sup>a</sup>

	As at 30.9.2018	As at 31.3.2018	Change (%)	As at 30.9.2017	YoY change (%)
Unit trusts and mutual funds	2,185	2,215	-1.4	2,188	-0.1
Investment-linked assurance schemes	300	299	0.3	299	0.3
Pooled retirement funds	34	34	0	34	0
MPF schemes	31	31	0	31	0
MPF pooled investment funds	194	194	0	194	0
Others	26 <sup>b</sup>	26	0	26	0
<b>Total</b>	<b>2,770</b>	<b>2,799</b>	<b>-1</b>	<b>2,772</b>	<b>-0.1</b>

<sup>a</sup> Excluding unlisted structured investment products.

<sup>b</sup> Comprising 15 paper gold schemes and 11 real estate investment trusts (REITs).

## Products

### Open-ended fund companies (OFCs)

The new OFC regime<sup>1</sup>, which took effect on 30 July, introduced a new corporate fund structure in addition to the current unit trust form. This broadens the choice of investment fund vehicles and facilitates the distribution of Hong Kong funds internationally.

To help the industry better understand the new regime, we published frequently asked questions on our website to provide further guidance.

### Asset and wealth management survey

In July, we released the *Asset and Wealth Management Activities Survey* for 2017 (previously known as the *Fund Management Activities Survey*). To provide a more comprehensive overview of Hong Kong's asset and wealth management industry, the scope of the survey was extended to cover private banking and private wealth management clients' accounts. The findings showed that the asset and wealth management business in Hong Kong amounted to \$24,270 billion as at 31 December 2017<sup>2</sup>.

### Unlisted structured investment products

	Quarter ended 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
Unlisted structured investment products <sup>a</sup>	74	80	87	-8
Authorisations granted under section 105 of the Securities and Futures Ordinance <sup>b</sup>	47	57	57	0

<sup>a</sup> 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.

<sup>b</sup> Offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

### SFC-authorised renminbi investment products

	As at 30.9.2018
<b>Unlisted products</b>	
Unlisted funds primarily investing in the onshore Mainland securities markets <sup>a</sup> or offshore renminbi bonds, fixed-income instruments or other securities	68
Other unlisted funds with renminbi share classes <sup>b</sup>	157
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	50
Unlisted structured investment products with renminbi features <sup>c</sup>	105
<b>Listed products</b>	
Exchange-traded funds (ETFs) primarily investing in the onshore Mainland securities markets <sup>a</sup> or offshore renminbi bonds, fixed-income instruments or other securities	34
Other ETFs with renminbi trading counters <sup>b</sup>	20
Renminbi gold ETFs <sup>d</sup>	1
Renminbi REITs	1

<sup>a</sup> Refers to onshore Mainland investments through the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, Stock Connect, Bond Connect and the China Interbank Bond Market.

<sup>b</sup> Refers to unlisted funds or ETFs which have non-renminbi base currency.

<sup>c</sup> The number is on a "one product per key facts statement" basis.

<sup>d</sup> Only includes gold ETF denominated in renminbi.

<sup>1</sup> On 18 May 2018, the SFC concluded a consultation on the proposed Securities and Futures (Open-ended Fund Companies) Rules and Code on Open-ended Fund Companies which set out detailed legal and regulatory requirements for the new OFC structure.

<sup>2</sup> The scope of the survey was extended; comparative figures are not available.

# Corporates

## Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 118 new listing applications, up 7.3% from 110 in the same quarter last year.

We received one listing application from a company with a weighted voting rights structure and six listing applications from pre-profit biotech companies.

## Corporate conduct

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. During the quarter, we issued section 179<sup>1</sup> directions to gather additional information in 16 cases and wrote to detail our concerns in 10 transactions. These concerns included, for example, whether a corporate action or transaction had been or is being conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

## Takeovers matters

In July, we released consultation conclusions on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs. The amendments include increasing the threshold for independent shareholder approval of a whitewash waiver to 75%, empowering the Takeovers Panel to require compensation be paid to shareholders who have suffered as a result of a breach of the codes and empowering the Takeovers Executive<sup>2</sup> and the Takeovers Panel to issue compliance rulings. The amended codes were gazetted on 13 July and took immediate effect.

In the same month, we publicly censured and imposed a 24-month cold shoulder order against Liang Guosheng for breaching the Takeovers Code. Liang and his concert parties triggered a mandatory general offer obligation when he acquired shares of Silver Base Group Holdings Limited on the market in July 2017, but no offer was made.

## Listing applications and takeovers activities

	Quarter ended 30.9.2018	Quarter ended 30.6.2018	Change (%)	Quarter ended 30.9.2017	YoY change (%)
Listing applications	118	124	-4.8%	110	7.3%
Takeovers and share buy-backs transactions	81	111	-27%	108	-25%

<sup>1</sup> Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

<sup>2</sup> Refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

# Markets

## Stock Connect

We worked with the China Securities Regulatory Commission (CSRC) and Hong Kong Exchanges and Clearing Limited (HKEX) to launch an investor identification regime for northbound trading under Mainland-Hong Kong Stock Connect on 26 September. We are working with the CSRC to introduce a similar regime for southbound trading.

To facilitate the Mainland exchanges' and regulators' market surveillance of northbound orders and trades under Stock Connect, we upgraded our surveillance system to handle the Broker-to-Client Assigned Numbers used in the new investor identification regime.

## HKEX

In September, we approved proposals from HKEX's clearing houses to enhance their recovery plans for managing extreme market situations. This will improve the clearing houses' resilience and compliance with international standards.

## Automated trading services providers

	As at 30.9.2018	As at 31.3.2018	Change (%)	As at 30.9.2017	YoY change (%)
Under Part III	59	57	3.5	50	18
Under Part V	25	24	4.2	24	4.2

## Market surveillance

During the quarter, we enhanced our ability to detect significant price changes during the closing auction session. We also streamlined the way we process over-the-counter derivatives information received from the Hong Kong Trade Repository to enhance our ability to analyse and monitor the risks of these transactions.

## Automated trading services

As of 30 September, the number of automated trading services (ATS)<sup>1</sup> authorisations under Part III of the Securities and Futures Ordinance (SFO) was 59, while 25 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.

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

## Green finance

On 21 September, we announced our *Strategic Framework for Green Finance* to contribute to the development of Hong Kong as a leading centre for green finance and to connect green finance flows between the Mainland and the rest of the world. This followed the establishment of a cross-divisional working group to consider policies to develop Hong Kong as a green finance hub earlier this year.

Our five-pronged strategy goes beyond Hong Kong's current focus on green bonds and is in line with global market and regulatory developments in green finance.

As a priority, we are working with Hong Kong Exchanges and Clearing Limited (HKEX) to enhance listed companies' disclosure of environmental information, with an emphasis on climate-related risks and opportunities<sup>1</sup>. Our upcoming sustainable investment survey of asset managers and asset owners will help us consider ways for asset managers to make clear to investors how environmental criteria are factored into their investment processes and risk assessments.

In addition, the SFC will work to facilitate the development of green investment opportunities through internationally-compatible disclosure guidance to ensure the credibility of green product offerings in Hong Kong. There has been a notable increase in applications for new funds with an environmental or sustainable investment focus, as well as in applications for existing funds to change their investment strategies to adopt these themes<sup>2</sup>. We will also work closely with HKEX on how it can develop and promote the listing and trading of green financial products including bonds, indices and derivatives.

Other elements of the strategy include participating in international green finance initiatives, such as the IOSCO<sup>3</sup> Sustainable Finance Network, exploring cooperation opportunities and promoting investor awareness and capacity building in collaboration with other financial regulators, the Investor Education Centre and stakeholders. We will monitor global market and regulatory developments in green finance to drive our initiatives forward.

<sup>1</sup> Based on the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures.

<sup>2</sup> Currently, there are 21 SFC-authorized funds with an investment focus on climate, green, environmental or sustainable development.

<sup>3</sup> The International Organization of Securities Commissions.

# Enforcement

## Court proceedings

During the quarter, the Court of Final Appeal dismissed the appeal of Moody's Investors Service Hong Kong Limited in relation to our disciplinary action concerning the special comment report it published in 2011.

The Court of Appeal allowed our appeal against the decision of the Market Misconduct Tribunal (MMT) that Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, had not engaged in insider dealing in the shares of China Gas Holdings Limited in 2011.

The Eastern Magistrates' Court convicted Hui Kwok Piu and fined him \$231,000 for illegal short selling in the shares of Coslight Technology International Group Limited. In a separate case, the Court found Wong Hung not guilty of illegal short selling in the shares of five companies. The Court also fixed a date for trial of Chan Wai Chuen, a former director, company secretary and chief financial officer of DBA Telecommunication (Asia) Holdings Limited, in relation to an announcement issued by DBA suspected of containing material information that was false or misleading.

## Market Misconduct Tribunal

The MMT found that Samantha Keung Wai Fun, former CEO of China AU Group Holdings Limited, her friend Wu Hsiu Jung and a business partner Chen Kuo Chen, engaged in false trading in the shares of China AU.

## Disciplinary actions

We disciplined five licensed corporations and five representatives during the quarter, resulting in total fines<sup>1</sup> of \$40.4 million.

## Sponsor failures

We reprimanded and fined CCB International Capital Limited \$24 million for failing to discharge its duties as the sole sponsor in the listing application of Fujian Dongya Aquatic Products Co., Ltd. CCB failed to conduct reasonable due diligence on the company and keep a proper audit trail of its due diligence work.

We banned Joseph Hsu Kar Hing, a former responsible officer of Standard Chartered Securities (Hong Kong) Limited, from re-entering the industry for three years for failing to discharge his duties as a sponsor principal and a responsible officer.

## Deficiencies in selling listed bonds

We reprimanded and fined HSBC Broking Securities (Asia) Limited \$9.6 million for systemic deficiencies in selling bonds listed under Chapter 37 of the Main Board Listing Rules. HSBC failed to conduct proper and adequate product due diligence and have an effective system in place to assess its clients' risk profiles to ensure the suitability of the recommendations or solicitations it made to them.

## Mis-handling client money and data

We reprimanded and fined HPI Forex Limited \$2 million for mis-handling client money, which it failed to maintain in a segregated client account in Hong Kong and used to conduct proprietary transactions overseas.

We banned Cham Nga Yin, a former licensed representative of Tanrich Futures Limited<sup>2</sup>, from re-entering the industry for life for misappropriation of client money.

We banned Ngo Wing Chun, a former relationship manager of Hongkong and Shanghai Banking Corporation Limited, from re-entering the industry for 12 months for unauthorised transfer of customer data.

## Other regulatory breaches

We reprimanded and fined Citigroup Global Markets Asia Limited \$4 million after resolving our concerns over regulatory breaches in the operation of its alternative liquidity pool.

Huatai Financial Holdings (Hong Kong) Limited was reprimanded and fined \$800,000 for failures relating to its short selling of Great Wall Motor Company Limited shares in 2015. Huatai failed to implement adequate and effective systems and controls for short selling.

<sup>1</sup> Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

<sup>2</sup> Now known as Southwest Securities (HK) Futures Limited.

## Enforcement

We banned Poon Chun Hing from re-entering the industry for 30 months for providing false or misleading information to his client and to us, as well as conducting transactions through an unlicensed corporation.

We banned Fonia Kwok Lai Kwan from re-entering the industry for 12 months following her conviction for unlicensed asset management.

### Reporting listed company fraud and market misconduct

Credible, timely and actionable intelligence from the public can help us stop listed company fraud and market misconduct in their tracks and protect investors from harm. We launched a new reporting form on the SFC website in October to encourage the public to report suspected fraud and misconduct, including misleading or fraudulent financial statements, directors' conflicts of interests, failure to disclose price-sensitive information, insider dealing and stock market manipulation. We also conducted a campaign to raise public awareness about these threats and the importance of reporting misconduct to the SFC.



### Disciplinary Fining Guidelines

We updated our Disciplinary Fining Guidelines in August to codify the fining principles confirmed by the Securities and Futures Appeals Tribunal in our disciplinary proceedings against HSBC Private Bank (Suisse) SA.

Under these principles, multiple culpable acts or omissions constituting misconduct may attract multiple penalties even if they are of the same generic nature. We may use the number of persons affected by the misconduct as the multiplier in assessing the appropriate penalty. The approach will depend on the facts of each case and we will look at the totality of the penalties to ensure they are not disproportionate to the gravity of the conduct in question.

### Market surveillance

We made 1,958 requests for trading and account records from intermediaries in the quarter. In addition, we posted one high shareholding concentration announcement 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 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
S179 <sup>a</sup> inquiries commenced	7	12	15	-20
S181 <sup>b</sup> inquiries commenced (number of letters sent)	70 (1,958)	145 (4,137)	148 (4,917)	-15.9
S182 <sup>c</sup> directions issued	60	120	148	-18.9
Investigations started	62	123	153	-19.6
Investigations completed	65	122	112	8.9
Individuals and corporations charged in criminal proceedings	0	4	10	-60
Criminal charges laid	0	37	42	-11.9
Notices of Proposed Disciplinary Action <sup>d</sup> issued	6	8	16	-50
Notices of Decision <sup>e</sup> issued	9	21	12	75
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	110	110	118	-6.8
Compliance advice letters issued	73	122	162	-24.7
Cases with search warrants executed	9	15	15	0

<sup>a</sup> Section 179 of the Securities and Futures Ordinance (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.

<sup>b</sup> Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including information identifying the ultimate clients, the particulars and instructions relating to the transactions.

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

<sup>d</sup> 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.

<sup>e</sup> A notice which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

<sup>f</sup> As of the last day of the reporting period.

# Regulatory engagement

## IOSCO

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

Mr Alder took part in the 31 October EU-Asia Pacific Forum on Financial Regulation held in Kuala Lumpur. Since the second EU-Asia Pacific Forum held in Hong Kong in December 2017, we have maintained dialogue with regulators representing the EU and IOSCO Asia-Pacific Regional Committee to discuss cross-border regulatory issues arising from EU regulations which have an impact on Hong Kong and the region.

## Financial Stability Board (FSB)

In September, Mr Alder attended the FSB Steering Committee meeting which discussed financial vulnerabilities in the global financial system, non-bank financial intermediation and the FSB's 2019 work programme. In July, we expressed our support for the recommendations of the FSB Task Force on Climate-related Financial Disclosures<sup>1</sup>.

## Mainland China

In August, we reached an agreement with the China Securities Regulatory Commission (CSRC) to implement an investor identification regime for northbound trading under Mainland-Hong Kong Stock Connect, which aims to facilitate effective monitoring and surveillance by the CSRC and Mainland stock exchanges to safeguard market integrity. The SFC and the CSRC also agreed, on a reciprocal basis, to introduce a similar investor identification regime for southbound trading as soon as practicable. In addition, we visited the CSRC in Beijing to discuss cross-border cooperation and attended a seminar held by the Shanghai International Energy Exchange in Xi'an to discuss the cross-border supervision of the futures market.

To promote understanding of the SFC's regulatory work, we held training programmes and seminars for executives from Mainland authorities, businesses and other organisations during the quarter. Together with the Hong Kong Chinese Enterprises Association, we organised a workshop for Hong Kong subsidiaries of Mainland securities companies and Hong Kong-listed Mainland companies to explain the latest regulatory requirements for intermediaries and listed companies.

We support the Government in strengthening Hong Kong's cooperation with different Mainland regions. We attended the eighth Working Meeting of Hong Kong-Shanghai Financial Cooperation in August to discuss a range of topics including mutual market access, regulation of the securities industry and green finance.

<sup>1</sup> See the task force's website (<https://www.fsb-tcfd.org/supporters-landing>) for details.

# Stakeholders

We engage with stakeholders to help them understand our work and the latest regulatory developments.

During the quarter, our senior executives spoke at 17 local and international conferences. To help the industry understand the new open-ended fund companies regime, we held three briefings for around 400 participants, including fund managers, industry associations and professional firms. We also met with an industry association to discuss auditing practices for licensed corporations.

In August, we held a press briefing to explain our consultation on proposed guidelines to clarify, codify and standardise risk management practices for securities margin financing activities.

We issued the following during the quarter:

- The *Asset and Wealth Management Activities Survey<sup>1</sup> 2017* provided a comprehensive overview of the asset and wealth management industry in Hong Kong.
- The *Half-yearly Review of the Global and Local Securities Markets* highlighted the performance of major stock markets as well as risks and uncertainties facing Hong Kong and international markets.
- The *Report on Review of Securities Margin Financing Activities*, published in August together with a related consultation paper and circular, shared the findings of our review of licensed firms' margin lending practices and risk controls.
- The *Strategic Framework for Green Finance* set out the SFC's agenda to help develop green finance in Hong Kong.

- The *Financial Review of the Securities Industry* presented statistics on the financial positions of securities dealers and securities margin financiers as well as the financial performance of SEHK<sup>2</sup> participants in the first half of 2018.
- The September issue of the *Takeovers Bulletin* discussed a recent public censure and cold shoulder order and provided an update of our takeovers-related regulatory work.

We issued 20 circulars informing industry participants about a wide range of matters, including securities margin financing, online client onboarding, professional investor rules and updates on anti-money laundering and counter-terrorist financing.

In October, new features were introduced on our website to make it easier for the public to report suspected listed company fraud and market misconduct to us.

In addition, the "Have you seen these people?" section of our website provides more details about individuals we are trying to locate and an online form which can be used to submit information about the whereabouts of these individuals.

In light of rising concerns about the provision of investment advice for a fee in chatrooms and in conjunction with investment classes or training programmes, we worked with the Investor Education Centre to publish an article in local media to caution investors against taking investment advice from unlicensed individuals.

<sup>1</sup> Previously known as the *Fund Management Activities Survey*.

<sup>2</sup> The Stock Exchange of Hong Kong Limited.

## Stakeholders

### Publications and other communications

	Quarter ended 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
Press releases	30	66	75	-12
Consultation papers	2	4	5	-20
Consultation conclusions	1	5	4	25
Industry-related publications	6	8	9	-11.1
Codes and guidelines <sup>a</sup>	5	6	6	0
Circulars to industry	20	44	43	2.3
Corporate website average daily page views <sup>b</sup>	48,750	58,263	69,752	-16.5
General enquiries	1,711	3,539	3,570	-0.9

<sup>a</sup> Includes updates to previous versions.

<sup>b</sup> The average number of web pages browsed per day during the reporting period.

# Corporate Developments

## Board

The Chief Executive of the Hong Kong Special Administrative Region appointed Mr Tim Lui Tim-leung as the Chairman of the SFC for a term of three years from 20 October. Mr Lui succeeded Mr Carlson Tong, who stepped down after a six-year chairmanship.

Ms Agnes Chan Sui-kuen was appointed as Non-Executive Director (NED) for a two-year term effective from 20 October. Dr Kelvin Wong Tin-yau stepped down as NED after a six-year tenure.

Mr Edward Cheng Wai-sun was re-appointed as NED, also for a two-year term, from 1 January 2019.

## New corporate identity

In October, we announced a new corporate identity as the SFC approaches its thirtieth anniversary next year. Beginning with changes on the SFC's website, the new design will be phased in over time.

## Finance

Our income for the quarter was \$433 million, compared to \$441 million in the previous quarter but 8% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$99 billion for the quarter, 10% lower than the \$110 billion recorded in the previous quarter. Our expenditure for the quarter was \$446 million, 3% higher than that in the last quarter.

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$4.2 billion as of 30 September.

## Information technology

In July, we upgraded our search engine and deployed Optical Character Recognition to digitise and index documents as part of efforts to improve our work processes in a more digitalised industry environment.

## Staffing

As of 30 September, we had 894 staff members, up from 875 a year ago.

## Finances

(\$ million)	Quarter ended 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
Income	433	872	899	-3%
Expenses including depreciation	446	878	871	1%
(Loss)/surplus	(13)	(6)	28	N/A

# Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	1	5	5	0
Failure to safekeep client securities	1	15	21	-28.6
Failure to maintain proper books and records	3	11	18	-38.9
Failure to safekeep client money	9	18	32	-43.8
Unlicensed dealing and other registration issues	2	7	11	-36.4
Breach of licensing conditions	1	1	5	-80
Breach of requirements of contract notes/statements of account/receipts	6	18	32	-43.8
Failure to make filing/notification	0	0	1	N/A
Breach of margin requirements	3	7	3	133.3
Marketing malpractices	0	0	0	0
Illegal short selling of securities	0	0	0	0
Dealing malpractices	0	1	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>1</sup>	52	167	173	-3.5
Breach of Corporate Finance Adviser Code of Conduct	0	0	5	N/A
Breach of Fund Manager Code of Conduct	15	24	50	-52
Breach of regulation of on-line trading	1	2	3	-33.3
Non-compliance with anti-money laundering guidelines	42	75	72	4.2
Breach of other rules and regulations of the Exchanges <sup>2</sup>	2	9	6	50
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	0	0
Internal control weaknesses <sup>3</sup>	102	229	247	-7.3
Others	22	41	32	28.1
<b>Total</b>	<b>262</b>	<b>630</b>	<b>716</b>	<b>-12</b>

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

<sup>2</sup> The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

<sup>3</sup> 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**

	As at 30.9.2018	As at 31.3.2018	Change (%)	As at 30.9.2017	YoY change (%)
Bond	454	449	1.1	437	3.9
Equity	1,000	1,030	-2.9	1,021	-2.1
Diversified	178	172	3.5	167	6.6
Money market	43	45	-4.4	44	-2.3
Fund of funds	111	116	-4.3	111	0
Index <sup>1</sup>	158	157	0.6	159	-0.6
Guaranteed	3	3	0	4	-25
Hedge	0	1	N/A	1	N/A
Other specialised <sup>2</sup>	5	5	0	5	0
Sub-total	1,952	1,978	-1.3	1,949	0.2
Umbrella structures	233	237	-1.7	239	-2.5
<b>Total</b>	<b>2,185</b>	<b>2,215</b>	<b>-1.4</b>	<b>2,188</b>	<b>-0.1</b>

<sup>1</sup> Including leveraged and inverse products.

<sup>2</sup> 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 30.9.2018	Total NAV (US\$ million) as at 31.3.2018	Change (%)	Total NAV (US\$ million) as at 30.9.2017	YoY change (%)
Bond	507,140	569,700	-11	552,846	-8.3
Equity	736,035	787,889	-6.6	726,160	1.4
Diversified	173,811	180,353	-3.6	162,000	7.3
Money market	21,553	20,905	3.1	20,254	6.4
Fund of funds	22,593	22,897	-1.3	21,924	3.1
Index <sup>1</sup>	88,934	97,637	-8.9	96,645	-8
Guaranteed	90	105	-14.3	127	-29.1
Hedge	0	26	N/A	26	N/A
Other specialised <sup>2</sup>	923	1,061	-13	1,119	-17.5
<b>Total</b>	<b>1,551,079</b>	<b>1,680,573</b>	<b>-7.7</b>	<b>1,581,101</b>	<b>-1.9</b>

<sup>1</sup> Including leveraged and inverse products.

<sup>2</sup> Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

## Activity Data

Table 4 Authorised unit trusts and mutual funds – by origin

	As at 30.9.2018	As at 31.3.2018	Change (%)	As at 30.9.2017	YoY change (%)
Hong Kong	762	758	0.5	753	1.2
Luxembourg	1,037	1,041	-0.4	1,013	2.4
Ireland	231	239	-3.3	249	-7.2
United Kingdom	53	69	-23.2	63	-15.9
Mainland China	50	50	0	50	0
Other Europe	3	3	0	3	0
Bermuda	1	1	0	3	-66.7
Cayman Islands	40	46	-13	46	-13
Others	8	8	0	8	0
<b>Total</b>	<b>2,185</b>	<b>2,215</b>	<b>-1.4</b>	<b>2,188</b>	<b>-0.1</b>

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

	Total NAV (US\$ million) as at 30.9.2018	Total NAV (US\$ million) as at 31.3.2018	Change (%)	Total NAV (US\$ million) as at 30.9.2017	YoY change (%)
Hong Kong	146,811	158,199	-7.2	150,877	-2.7
Luxembourg	1,065,067	1,105,904	-3.7	1,036,556	2.8
Ireland	203,060	232,586	-12.7	216,543	-6.2
United Kingdom	74,643	109,340	-31.7	104,658	-28.7
Mainland China	16,807	20,855	-19.4	20,167	-16.7
Other Europe	125	137	-8.8	108	15.7
Bermuda	156	173	-9.8	191	-18.3
Cayman Islands	8,384	9,033	-7.2	8,048	4.2
Others	36,026	44,346	-18.8	43,953	-18
<b>Total</b>	<b>1,551,079</b>	<b>1,680,573</b>	<b>-7.7</b>	<b>1,581,101</b>	<b>-1.9</b>

## Activity Data

**Table 6 Takeovers activities**

	Quarter ended 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>				
General and partial offers under Code on Takeovers and Mergers	14	32	32	0
Privatisations	2	3	9	-67
Whitewash waiver applications	2	10	23	-57
Other applications under Code on Takeovers and Mergers <sup>1</sup>	59	136	176	-23
Off-market and general offer share buy-backs	2	6	0	N/A
Other applications under Code on Share Buy-backs <sup>1</sup>	2	5	0	N/A
<b>Total</b>	<b>81</b>	<b>192</b>	<b>240</b>	<b>-20</b>
<b>Executive Statements</b>				
Sanctions imposed with parties' agreement <sup>2</sup>	1	2	3	-33
<b>Takeovers and Mergers Panel</b>				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	1	0	N/A
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	1	N/A
Statements issued by the Panel <sup>3</sup>	0	0	1	N/A

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

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

<sup>3</sup> 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 30.9.2018	Six months ended 30.9.2018	Six months ended 30.9.2017	YoY change (%)
Conduct of licensees	104	225	163	38
Conduct of registered institutions	4	7	36	-80.6
Listed companies and disclosure of interests	1,903	2,161	372	480.9
Market misconduct <sup>1</sup>	90	187	122	53.3
Product disclosure	0	2	3	-33.3
Unlicensed activities	34	91	58	56.9
Breach of offers of investments	6	15	36	-58.3
Boiler rooms and suspicious websites	68	163	162	0.6
Scams and frauds <sup>2</sup>	77	151	74	104.1
Other financial activities <sup>3</sup>	249	387	146	165.1
<b>Total</b>	<b>2,535</b>	<b>3,389</b>	<b>1,172</b>	<b>189.2</b>

<sup>1</sup> Primarily, alleged market manipulation and insider dealing.

<sup>2</sup> Such as identity fraud and impersonation.

<sup>3</sup> For example, bullion trading and banking services.

# Securities and Futures Commission

## Report on review of interim financial information

To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Introduction

We have reviewed the interim financial information set out on pages 23 to 31, which comprises the condensed consolidated statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2018 and the condensed consolidated statements of profit or loss and other comprehensive income, the condensed consolidated statements of changes in equity and the condensed consolidated statements of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the SFC are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

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

### PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 November 2018

## Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2018  
(Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Income</b>		
Levies	373,311	356,074
Fees and charges	38,647	33,762
Investment income	20,863	81,574
Less: custody and advisory expenses	(1,963)	(1,918)
Investment income net of third party expenses	18,900	79,656
Recoveries from the Investor Compensation Fund	1,478	1,432
Exchange (loss)/gain	(10,230)	1,946
Other income	11,233	57
	433,339	472,927
<b>Expenses</b>		
Staff costs and directors' emoluments	332,739	325,287
Premises		
Rent	50,170	51,772
Rates, management fees and others	11,557	12,190
Other expenses	43,238	50,431
Depreciation	8,503	7,237
	446,207	446,917
<b>(Loss)/surplus and total comprehensive (loss)/income for the quarter</b>	<b>(12,868)</b>	26,010

## Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2018  
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Income</b>			
Levies		764,869	628,343
Fees and charges		68,641	74,617
Investment income		40,597	181,301
Less: custody and advisory expenses		(3,959)	(3,742)
Investment income net of third party expenses		36,638	177,559
Recoveries from the Investor Compensation Fund		2,962	2,883
Exchange (loss)/gain		(12,351)	15,043
Other income		11,364	99
		<b>872,123</b>	898,544
<b>Expenses</b>			
Staff costs and directors' emoluments	8(b)	663,593	642,312
Premises			
Rent		100,342	104,402
Rates, management fees and others		23,008	24,889
Other expenses		74,344	84,822
Depreciation		16,366	14,175
		<b>877,653</b>	870,600
<b>(Loss)/surplus and total comprehensive (loss)/income for the period</b>		<b>(5,530)</b>	27,944

The notes on pages 29 to 31 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of financial position

At 30 September 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2018 \$'000	Audited At 31 Mar 2018 \$'000
<b>Non-current assets</b>			
Fixed assets		81,837	71,923
Financial assets at amortised cost		1,343,564	–
Held-to-maturity debt securities		–	1,546,613
		1,425,401	1,618,536
<b>Current assets</b>			
Financial assets at amortised cost		232,958	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		770,933	772,300
Pooled funds		909,573	934,768
Debtors, deposits and prepayments		197,786	219,778
Fixed deposits with banks		3,814,101	3,713,477
Cash at bank and in hand		56,130	33,353
		5,981,481	5,709,179
<b>Current liabilities</b>			
Fees received in advance		7,874	8,810
Creditors and accrued charges		196,843	113,317
		204,717	122,127
<b>Net current assets</b>		5,776,764	5,587,052
<b>Total assets less current liabilities</b>		7,202,165	7,205,588
<b>Non-current liabilities</b>	4	42,931	40,824
<b>Net assets</b>		7,159,234	7,164,764
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,116,394	4,121,924
		7,159,234	7,164,764

The notes on pages 29 to 31 form part of the condensed consolidated financial statements.

## Condensed statement of financial position

At 30 September 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2018 \$'000	Audited At 31 Mar 2018 \$'000
<b>Non-current assets</b>			
Fixed assets		81,805	71,859
Financial assets at amortised cost		1,343,564	–
Held-to-maturity debt securities		–	1,546,613
		1,425,369	1,618,472
<b>Current assets</b>			
Financial assets at amortised cost		232,958	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		770,933	772,300
Pooled funds		909,573	934,768
Debtors, deposits and prepayments		206,285	221,338
Fixed deposits with banks		3,814,101	3,713,477
Cash at bank and in hand		42,477	21,171
		5,976,327	5,698,557
<b>Current liabilities</b>			
Fees received in advance		7,874	8,810
Creditors and accrued charges		191,657	102,631
		199,531	111,441
<b>Net current assets</b>		5,776,796	5,587,116
<b>Total assets less current liabilities</b>		7,202,165	7,205,588
<b>Non-current liabilities</b>	4	42,931	40,824
<b>Net assets</b>		7,159,234	7,164,764
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,116,394	4,121,924
		7,159,234	7,164,764

The notes on pages 29 to 31 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the six months ended 30 September 2018  
(Expressed in Hong Kong dollars)

	Unaudited			
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 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
Balance at 1 April 2018	<b>42,840</b>	<b>3,000,000</b>	<b>4,121,924</b>	<b>7,164,764</b>
Loss and total comprehensive loss for the period	–	–	(5,530)	(5,530)
Balance at 30 September 2018	<b>42,840</b>	<b>3,000,000</b>	<b>4,116,394</b>	<b>7,159,234</b>

The notes on pages 29 to 31 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the six months ended 30 September 2018  
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Cash flows from operating activities</b>			
(Loss)/surplus and total comprehensive (loss)/income for the period		(5,530)	27,944
Adjustments for:			
Depreciation		16,366	14,175
Investment income		(40,597)	(181,301)
Exchange difference		10,403	(7,953)
Loss on disposal of fixed assets		–	719
		(19,358)	(146,416)
Decrease/(increase) in debtors, deposits and prepayments		25,257	(30,366)
Increase in creditors and accrued charges		83,526	73,664
Decrease in fees received in advance		(936)	(1,151)
Increase in non-current liabilities		2,107	5,085
Net cash generated from/(used in) operating activities		90,596	(99,184)
<b>Cash flows from investing activities</b>			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(179,626)	310,389
Interest received		59,268	35,279
Held-to-maturity debt securities purchased		–	(738,328)
Held-to-maturity debt securities redeemed at maturity		–	30,000
Debt securities at fair value through profit or loss purchased		(125,816)	(335,902)
Debt securities at fair value through profit or loss sold or redeemed		123,321	281,180
Pooled funds at fair value through profit or loss sold		2,312	103,942
Fixed assets purchased		(26,280)	(13,552)
Net cash used in investing activities		(146,821)	(326,992)
<b>Net decrease in cash and cash equivalents</b>		(56,225)	(426,176)
<b>Cash and cash equivalents at beginning of the six-month period</b>		292,105	676,727
<b>Cash and cash equivalents at end of the six-month period</b>	3	235,880	250,551

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2018 \$'000	At 30 Sep 2017 \$'000
Fixed deposits with banks	179,750	145,879
Cash at bank and in hand	56,130	104,672
	235,880	250,551

The notes on pages 29 to 31 form part of the condensed consolidated financial statements.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2018  
(Expressed in Hong Kong dollars)

### 1. Basis of preparation

We have prepared the 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 interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the SFC since the annual financial statements for the year ended 31 March 2018. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 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 consolidated financial statements made up to 30 September 2018. 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 2018 to the interim financial information, except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, Financial Instruments and HKFRS 15, Revenue from Contracts with Customers as issued by the HKICPA, both with a date of transition of 1 January 2018. The adoption of HKFRS 15 did not have any impact on the Group's accounting policies and did not require retrospective adjustments. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2018.

### 2. Changes in accounting policies

#### Impact on the interim financial information

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the condensed consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Debt securities that would have previously been classified as held-to-maturity are now classified as financial assets at amortised cost. We intended to hold the debt securities to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Debt securities carried at amortised cost are subject to HKFRS 9's new expected credit loss model. All the debt securities are considered to have low credit risk as they are rated A or above. The loss allowance as a result of applying the expected credit loss model was immaterial.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, continue to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank and in hand	56,130	33,353
Fixed deposits with banks	3,814,101	3,713,477
Amounts shown in the condensed consolidated statement of financial position	3,870,231	3,746,830
Less: Amounts with an original maturity of beyond three months	(3,634,351)	(3,454,725)
Cash and cash equivalents in the consolidated statement of cash flows	235,880	292,105

### 4. Non-current liabilities

Non-current liabilities represent provision for premises reinstatement cost to restore the premises to its original condition when the lease has expired.

### 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 2018. Therefore we do not provide an ageing analysis of debtors and creditors.

### 6. Exchange risk

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 with no 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 2018, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2018: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

## 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 \$2,962,000 (2017: \$2,883,000), which is in accordance with section 242(1) of the SFO. As at 30 September 2018, the amount due to the ICF from the ICC was \$421,000 (at 31 March 2018: \$203,000).
- (b) Remuneration for key management personnel comprised:

	Unaudited six months ended	
	30 Sep 2018 \$'000	30 Sep 2017 \$'000
Directors' fees and salaries, allowances and benefits in kind	16,660	16,119
Retirement scheme contributions	1,527	1,473
	18,187	17,592

The total remuneration is included in “staff costs and directors’ emoluments” on page 27. 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. Operating lease commitments

At 30 September 2018 the minimum amount we are committed to pay in rent for our offices up to 31 August 2020 are as follows:

	Unaudited At 30 Sep 2018 \$'000	Audited At 31 Mar 2018 \$'000
Payable next year	200,653	200,457
Payable in one to five years	183,810	284,069
Payable in more than five years	–	–
	384,463	484,526

During the period, \$100,342,000 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 (2017: \$104,402,000).

# 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 2018.

### 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 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 34 to 40.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2018 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)

### 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, 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

30 November 2018

## Report On Review of Interim Financial Information

To the Securities and Futures Commission

### Introduction

We have reviewed the interim financial information set out on pages 35 to 40, 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 2018 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting.

### PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 November 2018

## Investor Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Income</b>		
Net investment income	14,299	26,871
Exchange difference	(3,411)	920
	10,888	27,791
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,478	1,433
Auditor's remuneration	51	49
Bank charges	165	243
Professional fees	385	1,013
	2,079	2,738
<b>Surplus and total comprehensive income for the quarter</b>	<b>8,809</b>	<b>25,053</b>

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### Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Income</b>			
Net investment income		8,271	57,097
Exchange difference		(4,678)	8,423
		3,593	65,520
<b>Expenses</b>			
Investor Compensation Company Limited expenses	3	2,962	2,883
Auditor's remuneration		102	99
Bank charges		395	479
Professional fees		1,449	2,056
		4,908	5,517
<b>(Loss)/surplus and total comprehensive (loss)/income for the period</b>		<b>(1,315)</b>	60,003

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The notes on pages 39 to 40 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

At 30 September 2018 (Expressed in Hong Kong dollars)

	Unaudited At 30 Sep 2018 \$'000	Audited At 31 Mar 2018 \$'000
<b>Current assets</b>		
Financial assets at fair value through profit or loss		
– Debt securities	274,210	1,939,279
– Pooled fund	–	350,084
Interest receivable	6,419	17,015
Due from Investor Compensation Company Limited	421	203
Fixed deposits with banks	2,078,801	52,586
Cash at bank	690	3,347
	<b>2,360,541</b>	<b>2,362,514</b>
<b>Current liabilities</b>		
Creditors and accrued charges	706	1,364
	<b>706</b>	<b>1,364</b>
<b>Net current assets</b>	<b>2,359,835</b>	<b>2,361,150</b>
<b>Net assets</b>	<b>2,359,835</b>	<b>2,361,150</b>
Representing:		
<b>Compensation fund</b>	<b>2,359,835</b>	<b>2,361,150</b>

The notes on pages 39 to 40 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 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
Balance at 1 April 2018	<b>994,718</b>	<b>108,923</b>	<b>1,257,509</b>	<b>2,361,150</b>
Loss and total comprehensive loss for the period	–	–	(1,315)	(1,315)
Balance at 30 September 2018	<b>994,718</b>	<b>108,923</b>	<b>1,256,194</b>	<b>2,359,835</b>

The notes on pages 39 to 40 form part of the condensed financial statements.

## Condensed statement of cash flows

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Cash flows from operating activities</b>			
(Loss)/surplus for the period		(1,315)	60,003
Adjustments for:			
Net investment income		(8,271)	(57,097)
Exchange difference		4,678	(8,423)
		(4,908)	(5,517)
Increase in amount due from Investor Compensation Company Limited		(218)	(108)
Decrease in provision for compensation		–	(176)
Decrease in creditors and accrued charges		(658)	(135)
Net cash used in operating activities		(5,784)	(5,936)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(1,052,152)	–
Debt securities purchased		(165,306)	(512,523)
Debt securities sold or redeemed		1,818,518	538,225
Pooled fund sold		338,934	35,916
Interest received		37,196	25,098
Net cash generated from investing activities		977,190	86,716
<b>Net increase in cash and cash equivalents</b>		971,406	80,780
<b>Cash and cash equivalents at beginning of the six-month period</b>		55,933	44,971
<b>Cash and cash equivalents at end of the six-month period</b>	4	1,027,339	125,751

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2018 \$'000	At 30 Sep 2017 \$'000
Fixed deposits with banks	1,026,649	80,564
Cash at bank	690	45,187
	1,027,339	125,751

The notes on pages 39 to 40 form part of the condensed financial statements.

## Notes to the condensed financial statements

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the 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).

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2018. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 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 2018 to this interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, Financial Instruments as issued by the HKICPA, with a date of transition of 1 January 2018. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2018.

### 2. Changes in accounting policies

#### Impact on the interim financial information

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the condensed financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, continue to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement.

There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

### 3. Investor Compensation Company Limited expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2018, the ICC incurred costs of \$2,962,000 for its operations (for the six months ended 30 September 2017: \$2,883,000) which were reimbursed by the Fund.

## Investor Compensation Fund

### 4. Cash and cash equivalents

	Unaudited At 30 Sep 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank	690	3,347
Fixed deposits with banks	2,078,801	52,586
Amounts shown in the condensed statement of financial position	2,079,491	55,933
Less: Amounts with an original maturity of beyond three months	(1,052,152)	–
Cash and cash equivalents in the condensed statement of cash flows	1,027,339	55,933

### 5. Material related party transactions

We have related party relationships with the Securities and Futures Commission, ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 2018 and 2017.

### 6. Contingent liabilities

As at the date of this report, 13 claims have been received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims in aggregate is \$1,803,000 (31 March 2018: \$2,375,000). 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 2018.

### 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 2018, 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 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 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 43 to 49.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2018 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)

### 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, 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

16 November 2018

# Unified Exchange Compensation Fund

## Report On Review of Interim Financial Information

To the Securities and Futures Commission

### Introduction

We have reviewed the interim financial information set out on pages 44 to 49, 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 2018 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting.

### PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16 November 2018

## Unified Exchange Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Income</b>		
Interest income	408	132
Recoveries	1	-
	409	132
<b>Expenses</b>		
Auditor's remuneration	25	24
	25	24
<b>Surplus and total comprehensive income for the quarter</b>	<b>384</b>	<b>108</b>

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## Unified Exchange Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Income</b>		
Interest income	679	292
Recoveries	1	–
	680	292
<b>Expenses</b>		
Auditor's remuneration	50	48
	50	48
<b>Surplus and total comprehensive income for the period</b>	<b>630</b>	<b>244</b>

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The notes on pages 48 to 49 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

At 30 September 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2018 \$'000	Audited At 31 Mar 2018 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	3	1	1
Interest receivable		179	98
Accounts receivable		9	9
Fixed deposits with banks		87,492	86,525
Cash at bank		448	224
		<b>88,129</b>	86,857
<b>Current liabilities</b>			
Creditors and accrued charges		10,295	10,303
Relinquished trading rights payable to SEHK	4	800	750
		<b>11,095</b>	11,053
<b>Net current assets</b>		<b>77,034</b>	75,804
<b>Net assets</b>		<b>77,034</b>	75,804
Representing:			
<b>Compensation fund</b>		<b>77,034</b>	75,804

The notes on pages 48 to 49 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Unaudited						
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund \$'000	Total \$'000
Balance at 1 April 2017	51,200	353,787	630,000	6,502	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	630,000	6,502	26,364	(994,718)	74,535
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804
Net contributions from SEHK	600	-	-	-	-	-	600
Surplus and total comprehensive income for the period	-	-	-	-	630	-	630
Balance at 30 September 2018	54,100	353,787	630,000	6,502	27,363	(994,718)	77,034

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The notes on pages 48 to 49 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2018 \$'000	30 Sep 2017 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	630	244
Adjustment for:		
Interest income	(679)	(292)
	(49)	(48)
Increase in accounts receivable	–	(9)
Decrease in creditors and accrued charges	(8)	(345)
Increase in relinquished trading rights payable to SEHK	50	100
Net cash used in operating activities	(7)	(302)
<b>Cash flows from investing activities</b>		
Interest received	598	307
Net cash generated from investing activities	598	307
<b>Cash flows from financing activities</b>		
Net trading rights deposits from SEHK	600	1,400
Net cash generated from financing activities	600	1,400
<b>Net increase in cash and cash equivalents</b>	<b>1,191</b>	<b>1,405</b>
<b>Cash and cash equivalents at beginning of the six-month period</b>	<b>86,749</b>	<b>84,076</b>
<b>Cash and cash equivalents at end of the six-month period</b>	<b>87,940</b>	<b>85,481</b>

#### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2018 \$'000	At 30 Sep 2017 \$'000
Fixed deposits with banks	87,492	85,268
Cash at bank	448	213
	87,940	85,481

The notes on pages 48 to 49 form part of the condensed financial statements.

## Notes to the condensed financial statements

For the six months ended 30 September 2018 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA). As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has prepared the interim financial information on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

This interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2018. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 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 2018 to this interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, Financial Instruments as issued by the HKICPA, with a date of transition of 1 January 2018. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the Fund for the six month ended 30 September 2018.

### 2. Changes in accounting policies

#### Impact on the interim financial information

HKFRS 9 replaces the provisions of HKAS 39, Financial instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the condensed financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement with the adoption of HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

### 3. 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 Securities and Futures Commission (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 2018 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 financial assets at fair value through profit or loss in accordance with HKFRS 9. 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".

### 4. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the 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 \$750,000 in respect of 15 new trading rights were received from SEHK and deposits of \$100,000 in respect of two relinquished trading rights were refunded to SEHK.

At 30 September 2018, there were 16 trading rights in total of \$800,000 that have been relinquished but not yet refunded (at 31 March 2018: 15). The net trading right deposits from SEHK at 30 September 2018, excluding the relinquished trading rights payable, amounted to \$54,100,000 (at 31 March 2018: \$53,500,000).

### 5. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 2018 and 2017.

## **Securities and Futures Commission**

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