



**Vigilant | Protective | Impartial**

Quarterly Report  
July - September 2019

This second Quarterly Report of the Securities and Futures Commission for financial year 2019-20 covers the period from 1 July to 30 September 2019.

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# Highlights

## Regulatory enhancements

**Trustees and custodians of public funds:** We launched a consultation on proposals to regulate trustees and custodians of SFC-authorized collective investment schemes.

**Investor compensation:** We released consultation conclusions on proposed enhancements to the investor compensation regime.

**Securities margin financing:** We issued frequently asked questions to provide guidance on compliance with the new securities margin financing guidelines which came into effect on 4 October.

**Virtual assets:** We published a position paper on the regulation of virtual asset trading platforms together with a statement to warn investors about the risks associated with virtual asset futures contracts.

## Market development

**Products:** We authorised 22 unit trusts and mutual funds and 80 unlisted structured investment products for public offering. We also registered two private open-ended fund companies.

**Derivatives:** We approved 10 derivatives contracts proposed by Hong Kong Exchanges and Clearing Limited to meet the trading and hedging needs of market participants.

## Listing regulation

**Listing applications:** We vetted 86 new listing applications.

**Corporate conduct:** As part of our review of corporate disclosure, we issued section 179 directions to gather additional information in 15 cases and wrote to detail our concerns in four transactions.

**Corporate acquisitions:** A statement reminded directors and their advisers to comply with their statutory and other legal duties in corporate acquisitions and disposals.

**Backdoor listings:** We published a statement explaining our general approach to tackle backdoor listings and shell activities.

# Highlights

## Intermediaries

**Licensing:** As at 30 September, the number of licensees and registrants totalled 47,635, up 3.4% from last year, and the number of licensed corporations grew 7.2% to 3,048. Both were record highs.

**Inspections:** We conducted 106 on-site inspections of licensed corporations to review their compliance with regulatory requirements, up 28.8% year-on-year.

**Client assets:** We issued a circular reminding intermediaries of their obligations to adequately safeguard client assets.

**Data standards for order lifecycle:** We issued a circular on standards for the content and presentation format of trading data to be submitted to us by large securities brokers as we develop our data analytic capabilities.

**Key risk indicator data:** We launched a new platform on our online portal to collect and analyse key risk indicator data from global institutions to facilitate our supervision.

## Enforcement

**Disciplinary actions:** We disciplined six licensed corporations and nine licensed representatives, resulting in total fines of over \$15 million.

**Market surveillance:** We made 2,491 requests to intermediaries for trading and account records triggered by untoward price and turnover movements.

## Regulatory cooperation

**ICAC:** We entered into a memorandum of understanding with the Independent Commission Against Corruption (ICAC) to formalise and strengthen our cooperation in combating financial crime.

**Green finance:** We will join the International Platform on Sustainable Finance launched by the European Commission to exchange information, share best practices and coordinate regulatory initiatives.

# Operational Review

## Corporates

### Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 86 new listing applications.

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

### Corporate conduct

We conduct daily reviews 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 15 cases and wrote to detail our concerns in four transactions. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

We issued a statement on 4 July outlining recurring misconduct in corporate acquisitions and disposals which has prompted intervention by the SFC. The statement reminds directors and their advisers to comply with their statutory and other legal duties when evaluating or approving the acquisition or disposal of a company or business.

On 26 July, we published a statement explaining our general approach to tackle backdoor listings and shell activities. We take the facts and circumstances of each case into consideration before deciding whether to exercise our statutory powers<sup>2</sup>. This includes whether there are any red flags indicating a possible scheme designed to mislead regulators or the investing public or to circumvent applicable rules.

<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> Either our powers of investigation under the Securities and Futures Ordinance or our powers under the Securities and Futures (Stock Market Listing) Rules.

Listing applications and takeovers activities

	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
Listing applications	86	191	242	-21.1
Takeovers and share buy-backs transactions	89	192	192	0

Takeovers matters

In a decision published in October, the Takeovers and Mergers Panel ruled that Broadford Global Limited was not allowed to deduct the final dividend approved by shareholders of Dalian Port (PDA) Company Limited from its offer price in a possible mandatory general offer. The Panel considered that readers of the offer announcement would have expected Dalian Port’s shareholders to receive the full offer price.

In July, the Panel ruled that a waiver of the general offer obligation under the Takeovers Code should not be granted to China Baowu Steel Group Corporation Limited if it proceeds with the proposed acquisition of

a 51% interest in Magang (Group) Holding Company Limited — the controlling shareholder of Maanshan Iron & Steel Company Limited — at nil consideration<sup>3</sup>.

Also in July, we publicly criticised CM Asset Management (Hongkong) Company Limited for failing to disclose dealings in the shares of Mengke Holdings Limited<sup>4</sup> during an offer period as required by the Takeovers Code.

<sup>3</sup> Upon completion of the proposed transaction, China Baowu would trigger a mandatory general offer for Maanshan Iron & Steel Company Limited under the “chain principle” unless a waiver is obtained.

<sup>4</sup> Now known as Champion Alliance International Holdings Limited.

# Intermediaries

## Licence applications

In the quarter, we received 2,060 licence applications<sup>1</sup>, up 17.3% from the last quarter and down 12.5% year-on-year. The number of corporate applications increased 10.6% from the last quarter to 73, down 14.1% year-on-year.

As at 30 September 2019, the number of licensees and registrants totalled 47,635, up 3.4% from last year, and the number of licensed corporations grew 7.2% to 3,048. Both were record highs.

## Data standards for order life cycles

To facilitate our use of new technology to better supervise securities brokers' trading behaviour, we issued a circular in July to set out standards for the minimum content and presentation format of trading data to be submitted to the SFC upon request. Initially, only securities listed on The Stock Exchange of Hong Kong Limited (SEHK) and brokers whose trading turnover in a calendar year reaches or exceeds 2% of that year's total market trading volume will be considered in-scope. Brokers are expected to comply with the standards within 15 months.

## Client assets

In July, we issued a circular reminding intermediaries of their obligations to adequately safeguard client assets. By 31 July 2020, intermediaries are required to have in place acknowledgement letters which stipulate that authorised institutions<sup>2</sup> would not have any right of set-off or lien against client assets.

## Managing liquidity risks of funds

In August, we issued a circular to highlight deficiencies noted in fund managers' liquidity risk management practices and reminded fund managers to enhance their policies and processes. They should also perform more frequent and enhanced liquidity stress testing to assess the potential impact of market volatility on fund liquidity and the adequacy of their action plans and liquidity risk management tools.

## Launch of key risk indicator platform

Also in August, we launched a new platform on WINGS, our online portal, to collect and analyse Key Risk Indicator (KRI) data from 22 global financial institutions which are considered systemically important. The KRI platform will enhance our information gathering and analytical capabilities to facilitate supervision. Starting from 31 January 2020, licensed corporations from these global financial institutions are required to submit KRI data on a regular basis.

## FAQs on securities margin financing

In September, we issued frequently asked questions (FAQs) on the new Guidelines for Securities Margin Financing Activities which took effect on 4 October. The guidelines aim to help brokers identify financial risks and to assist them in properly managing risks to their excess liquid capital buffers. The FAQs address industry concerns about compliance with the guidelines and also clarify the application and interpretation of some specific requirements.

## Virtual assets

On 6 November, we announced a regulatory framework for licensing virtual asset trading platforms under our existing powers. A position paper set out the features of the regulatory regime, including specific licensing conditions for platform operators.

Also on 6 November, we issued a statement warning investors to be wary of investing in virtual assets futures contracts and setting out our view that platforms offering these contracts may be in breach of the laws of Hong Kong.

<sup>1</sup> The figure does not include applications for provisional licences. See the table on licensing applications on page 7 for details.

<sup>2</sup> Banks authorised by the Hong Kong Monetary Authority.

## Intermediaries

### Licenses and registrants

	As at 30.9.2019	As at 31.3.2019	Change (%)	As at 30.9.2018	YoY change (%)
Licensed corporations	3,048	2,960	3	2,844	7.2
Registered institutions	115	116	-0.9	118	-2.5
Licensed individuals	44,472	43,602	2	43,101	3.2
<b>Total</b>	<b>47,635</b>	<b>46,678</b>	<b>2.1</b>	<b>46,063</b>	<b>3.4</b>

### Licensing applications

	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
Applications to conduct new regulated activity	6,395	11,496	13,138	-12.5
Applications for SFC licences <sup>#</sup>	2,060	3,816	4,384	-13

<sup>#</sup> Figures do not include applications for provisional licences. During the quarter, we received 1,182 provisional licence applications compared with 1,418 in the same quarter last year.

### Intermediary inspections

	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
On-site inspections conducted	106	188	146	28.8



# Products

## Authorisations and registrations

As of 30 September, 2,789 SFC-authorized and registered collective investment schemes were available to the public. During the quarter, we authorised 22 unit trusts and mutual funds and 80 unlisted structured investment products for public offering. We also registered two private open-ended fund companies.

## Mutual recognition of funds (MRF)

### Mainland China

Under the Mainland-Hong Kong MRF scheme, as of 30 September, we had authorised a total of 51 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission had approved 20 Hong Kong funds.

As of 30 September, the cumulative net subscription for Mainland funds was about RMB271 million and that for Hong Kong funds was about RMB16.7 billion. This quarter, Mainland funds recorded a net redemption of about RMB29 million whilst Hong Kong funds recorded a net subscription of about RMB3.7 billion.

### United Kingdom (UK)

We entered into an addendum to the memorandum of understanding with the UK Financial Conduct Authority on the UK-Hong Kong MRF arrangement to ensure that it operates in a smooth manner after the UK's withdrawal from the European Union.

## Trustees and custodians of public funds

In September, we launched a three-month consultation on the proposed regulation of depositaries<sup>1</sup> of SFC-authorized collective investment schemes (CIS). Under the proposal, depositaries operating in Hong Kong would be licensed by or registered with the SFC

for a new type of regulated activity, RA 13, and be subject to the ongoing supervision of the SFC or the Hong Kong Monetary Authority. The regime would provide better protection for scheme assets and help safeguard the interests of retail investors. It would also better align with standards set by the International Organization of Securities Commissions and practices in major overseas jurisdictions.

## Asset and Wealth Management Activities Survey

In July, we released the *Asset and Wealth Management Activities Survey* for 2018. The scope of this year's survey was extended to cover the assets held by firms providing trust services to give a more comprehensive overview of the industry in Hong Kong. The survey findings showed that the assets under management (AUM) of the asset and wealth management business in Hong Kong amounted to \$23,955 billion as at 31 December 2018<sup>2</sup>. Net fund inflows of \$783 billion were recorded in 2018 despite a 5% year-on-year decline in the adjusted AUM<sup>3</sup>.

## Investments in debt instruments with loss-absorption features

In September, we published frequently asked questions to provide guidance on the disclosure and other requirements for SFC-authorized public funds which may invest in debt instruments with loss-absorption features.

<sup>1</sup> Depositaries are trustees for CIS in unit trust form, and custodians for CIS in other forms, who are at the top of the custodial chain.

<sup>2</sup> Comparative figures are not available, due to the extension of the scope of the survey.

<sup>3</sup> Year-on-year change in the AUM of the asset and wealth management business between December 2017 and December 2018, adjusted to exclude assets held under trusts by non-licensed corporations and registered institutions due to the extension of the scope of the survey. The adjusted AUM of the asset and wealth management business was \$23,047 billion.

## Products

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

	As at 30.9.2019	As at 31.3.2019	Change (%)	As at 30.9.2018	YoY change (%)
Unit trusts and mutual funds	2,209	2,216	-0.3	2,185	1.1
Investment-linked assurance schemes	299	300	-0.3	300	-0.3
Pooled retirement funds	33	34	-2.9	34	-2.9
Mandatory provident fund (MPF) schemes	29	31	-6.5	31	-6.5
MPF pooled investment funds	192	191	0.5	194	-1
Private open-ended fund companies	2	0	N/A	0	N/A
Others	25 <sup>b</sup>	25	0	26	-3.8
<b>Total</b>	<b>2,789</b>	<b>2,797</b>	<b>-0.3</b>	<b>2,770</b>	<b>0.7</b>

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

<sup>b</sup> Comprising 14 paper gold schemes and 11 real estate investment trusts (REITs).

### Unlisted structured investment products

	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
Unlisted structured investment products <sup>a</sup>	80	98	80	22.5
Authorisations granted under section 105 of the Securities and Futures Ordinance <sup>b</sup>	50	68	57	19.3

<sup>a</sup> On a "one product per key facts statement" basis, the number of unlisted structured investment products authorised during the period, including equity-linked investments and deposits.

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

## Products

### SFC-authorized renminbi investment products

	As at 30.9.2019
<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	62
Unlisted funds (non-renminbi denominated) with renminbi share classes	210
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	51
Unlisted structured investment products issued in renminbi <sup>b</sup>	146
<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
ETFs (non-renminbi denominated) with renminbi trading counters	20
Renminbi gold ETFs <sup>c</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> The number is on a "one product per key facts statement" basis.

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

# Markets

## OTC derivatives

In July, OTC Clearing Hong Kong Limited launched an enhanced bulk settlement system for trades with notional exchanges such as cross currency swaps, following our June approval of related rule changes. In August, we approved a proposal to expand the scope of cleared trades by extending the maximum residual terms of interest rate products.

## Derivatives contracts

We approved 10 derivatives contracts proposed by Hong Kong Exchanges and Clearing Limited (HKEX) to meet the trading and hedging needs of market participants.

## New derivatives products

	Trading commencement date
<b>USD London Metal Mini Futures</b> <ul style="list-style-type: none"> <li>▪ USD London Aluminium Mini Futures</li> <li>▪ USD London Zinc Mini Futures</li> <li>▪ USD London Copper Mini Futures</li> <li>▪ USD London Nickel Mini Futures</li> <li>▪ USD London Tin Mini Futures</li> <li>▪ USD London Lead Mini Futures</li> </ul>	5 August 2019
<b>Weekly Index Options</b> <ul style="list-style-type: none"> <li>▪ Weekly Hang Seng Index Options</li> <li>▪ Weekly Hang Seng China Enterprises Index Options</li> </ul>	16 September 2019
<b>Indian Rupee Currency Futures</b> <ul style="list-style-type: none"> <li>▪ Indian Rupee vs Renminbi (Hong Kong) Futures</li> <li>▪ Indian Rupee vs US Dollar Futures</li> </ul>	4 November 2019

## ATS providers

	As at 30.09.2019	As at 31.03.2019	Change (%)	As at 30.09.2018	YoY change (%)
Under Part III	49	50	-2	47 <sup>#</sup>	4.3
Under Part V	25	24	4	25	0

<sup>#</sup> The number of ATS providers, some of which have more than one authorisation. In previous reports, the number given indicated the number of authorisations.

<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.

## Investor compensation

In October, we released consultation conclusions on proposed enhancements to the investor compensation regime. Key proposals included raising the compensation limit from \$150,000 to \$500,000 per investor per default and covering northbound trading under Mainland-Hong Kong Stock Connect.

## Automated trading services

As of 30 September, the number of automated trading services (ATS)<sup>1</sup> providers authorised under Part III of the Securities and Futures Ordinance (SFO) was 49, while 25 corporations, including 15 dark pool operators, were licensed under Part V of the SFO to provide ATS.

# Enforcement

## Market Misconduct Tribunal

During the quarter, we commenced Market Misconduct Tribunal proceedings against Tom Tang Chung Yen, former chairman and an executive director of Meadville Holdings Limited, and Li Yik Shuen, for alleged insider dealing in the company's shares in 2009.

## Court proceedings

We obtained a disqualification order under section 214<sup>1</sup> of the Securities and Futures Ordinance (SFO) in the Court of First Instance (CFI) against Michelle Kwok Choi Ha, a former executive director of Tack Fat Group International Limited<sup>2</sup>. She was disqualified from being a director or being involved in the management of any listed or unlisted corporation for six years for breaching her director's duties in failing to exercise reasonable care and diligence in managing the company and to act in good faith and in the best interests of the company.

We commenced proceedings under section 213 of the SFO<sup>3</sup> against a group of local and overseas individuals and corporate entities for suspected manipulation of the shares of Ching Lee Holdings Limited. We obtained interim injunctions in the CFI to freeze assets of up to \$124.9 million held by 15 local and overseas entities, representing the combined profit made by them and their nominees from the suspected manipulation.

## Disciplinary actions

We disciplined six licensed corporations and nine licensed representatives during the quarter, resulting in total fines<sup>4</sup> of over \$15 million.

## Mishandling client money

- We reprimanded and fined Celestial Commodities Limited \$4.9 million and Celestial Securities Limited \$1.4 million for regulatory breaches and internal control failures relating to mishandling client money.

## Unauthorised transactions

- We banned Jacky Cheung Chiu Hung, a former employee of Hang Seng Bank Limited, for two years for conducting unauthorised transactions in a customer's accounts and forging a customer's signature.
- We banned Song Peng, a former account executive of Phillip Securities (Hong Kong) Limited, from re-entering the industry for 10 months for effecting transactions in a client's accounts without the client's prior written authorisation and without the knowledge and approval of his then employer.
- We banned Samuel Lee Kwok Tung, a former account executive of DBS Vickers (Hong Kong) Limited, from re-entering the industry for eight months for impersonating a client to confirm trade orders.

## Internal control deficiencies

- We reprimanded and fined Sincere Securities Limited \$5 million for deficiencies in its business operations and internal controls.
- We reprimanded and fined The Hongkong and Shanghai Banking Corporation Limited \$2.1 million for failing to put in place effective internal control procedures to ensure compliance with the telephone recording requirements under the Code of Conduct<sup>5</sup>.
- We reprimanded and fined Glory Sun Securities Limited \$1.2 million for failing to diligently supervise its account executives and implement effective controls to comply with short selling requirements. We also suspended Eva Wong and Alfred Lam Wai Kwong, the firm's current and former responsible officers, for six months.

<sup>1</sup> Under section 214 of the SFO, the court may make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for a period of up to 15 years.

<sup>2</sup> Tack Fat changed its name to Tack Fiori International Group Limited on 23 November 2011 and to Life Healthcare Group Limited on 2 May 2017.

<sup>3</sup> Section 213 of the SFO gives the SFC the power to apply to the CFI for injunctions and other orders under specified conditions.

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

<sup>5</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Enforcement

- We reprimanded and fined Lee's Securities Company Limited \$520,000 for internal control failures relating to the segregation of duties and handling of client securities.

### Other regulatory breaches

- We banned Tim Leissner, a former responsible officer of Goldman Sachs (Asia) L.L.C., from re-entering the industry for life following his conviction for conspiring to commit money laundering and violate the US Foreign Corrupt Practices Act.
- We banned two individuals from re-entering the industry for life following their convictions for bribery. They are Tu Bing, a former associate director of UBS AG, Hong Kong Branch, and Ye Feng, a former vice president of Bank of Communications Co., Ltd.
- We suspended the licence of Hui Kwok Piu for 16 months following his conviction for illegal short selling in the shares of Coslight Technology International Group Limited.

### Restriction notice

We issued a restriction notice to a broker prohibiting it from dealing with or processing assets held in several client accounts which are beneficially owned by an individual who is suspected of breaching his duties towards a listed corporation.

### Collaboration with ICAC

Following our joint operation with the Independent Commission Against Corruption (ICAC) in December 2017 involving Convoy Global Holdings Limited, the ICAC charged five individuals with conspiracy to defraud<sup>6</sup>. These came after the ICAC first charged Cho Kwai Chee, a former executive director of Convoy Global, with conspiracy to defraud in May 2019.

We entered into a memorandum of understanding with the ICAC in August 2019 to formalise and strengthen our cooperation in combating financial crimes. We also held a three-day joint training workshop for investigators from both the SFC and the ICAC.

### Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,491 requests for trading and account records from intermediaries in the quarter. In addition, we published two high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

<sup>6</sup> These included Chan Lai Yee, Byron Tan Ye Kai and Mak Kwong Yiu, all former executive directors of Convoy Global; Wong Shuk On, a former manager of Convoy Global; and Lee Yick Ming, a general manager of Gransing Securities Co., Limited.

## Enforcement

### Enforcement activities

	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
S179 <sup>a</sup> inquiries commenced	12	21	12	75
S181 <sup>b</sup> inquiries commenced (number of letters sent)	66 (2,491)	128 (5,070)	145 (4,137)	22.6
S182 <sup>c</sup> directions issued	68	120	120	0
Investigations started	71	126	123	2.4
Investigations completed	53	90	122	-26
Individuals and corporations charged in criminal proceedings	2	5	4	25
Criminal charges laid	3	8	37	-78.4
Notices of Proposed Disciplinary Action <sup>d</sup> issued	9	17	8	112.5
Notices of Decision <sup>e</sup> issued	11	26	21	23.8
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	146	146	110	32.7
Compliance advice letters issued	69	133	122	9
Cases with search warrants executed	2	8	15	-46.7

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

<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> Notices 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> Notices that set 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 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 committees and the Asia-Pacific Regional Committee. Mr Alder chaired the IOSCO Board meeting in October.

Mr Alder also co-chaired the October meeting of the CPMI<sup>1</sup>-IOSCO Steering Group, which coordinates regulatory policy work for the oversight and supervision of central counterparties.

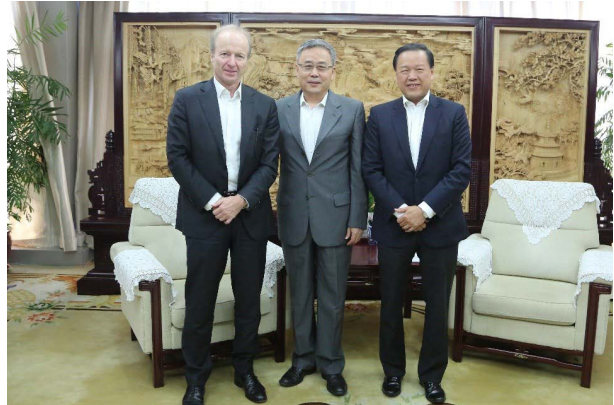
In the same month, Mr Alder participated with fellow regulators in the EU-Asia Pacific Forum on Financial Regulation to discuss cross-border regulatory issues arising from EU regulations which have an impact on Hong Kong and the region. Mr Tim Lui, our Chairman, attended the Asia Pacific Regional Committee meeting to discuss market conduct issues, sustainable finance and regional supervisory cooperation.

## FSB

As part of Mr Alder's participation in the Financial Stability Board (FSB), he attended the Steering Committee meeting, the plenary conference call and the Standing Committee on Supervisory and Regulatory Cooperation conference call in October. These discussed, among other things, current vulnerabilities in the global financial system, stablecoins, market fragmentation and asset management. We are actively involved in the work of the FSB Standing Committee on Standards Implementation.

## Mainland China

In July, Mr Lui and Mr Alder met Mr Guo Shuqing, Chairman of the China Banking and Insurance Regulatory Commission (CBIRC), in Beijing to discuss collaborative initiatives between the SFC and the CBIRC, particularly in the supervision of the Hong Kong subsidiaries of Mainland banks and insurance companies.



From left: Mr Alder, Mr Guo and Mr Lui

During the quarter, we visited our counterparts and other authorities on the Mainland to exchange views on how to deepen cooperation between the Hong Kong and Mainland capital markets.

## Green finance

We will join the European Commission's International Platform on Sustainable Finance which launched in October as a platform for finance ministries and other public authorities to exchange information, share best practices and coordinate regulatory and policy tools to reorient capital flows towards sustainable uses and embed sustainability in the financial sector.

During the quarter, we participated in local and international conferences on green finance. Mr Lui gave opening remarks at the Climate Finance and Sustainable Investing Conference organised by the United Nations Economic and Social Commission for Asia and the Pacific in October. Mr Alder spoke about international green finance development at the Hong Kong Green Finance Association Annual Forum in September.

## Other regulatory engagement

During the quarter, we met with overseas regulators and government representatives to keep abreast of emerging regulatory developments. Mr Alder participated in high-level meetings to discuss issues of regulatory concern, including the Bank for International Settlements Conference on global stablecoins and the US Department of the Treasury Roundtable.

<sup>1</sup> The Committee on Payments and Market Infrastructures.



# Stakeholders

We engage with stakeholders to help them understand our work and provide them with up-to-date regulatory information.

During the quarter, we supported three industry events and our senior executives spoke at 11 local and international conferences. We also met with industry associations to understand their views on regulatory issues. At a compliance roundtable with over 150 industry participants hosted by Hong Kong Exchanges and Clearing Limited on 18 September, we discussed the key issues identified in our thematic review of sponsors and our expected standards for sponsor work.

We supported the Hong Kong FinTech Week 2019 Main Conference on 6-7 November as a regulatory partner and our Chief Executive Officer Mr Ashley Alder delivered a keynote speech on regulatory issues related to the development of financial technology.

We released the following publications in the quarter:

- The *Asset and Wealth Management Activities Survey 2018* 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 *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>1</sup> participants in the first half of 2019.
- The September issue of the *Takeovers Bulletin* discussed the Takeovers Panel's recent decision concerning a mandatory general offer obligation and reminded listed companies about revisions to Practice Note 19<sup>2</sup>.

We issued 14 circulars informing industry participants about a wide range of matters, including the protection of client assets, new Guidelines for Securities Margin Financing Activities and the launch of the Key Risk Indicator Platform<sup>3</sup>.

## Publications and other communications

	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
Press releases	30	64	66	-3
Consultation papers	1	2	4	-50
Consultation conclusions	0	2	5	-60
Industry-related publications	5	7	8	-12.5
Codes and guidelines <sup>a</sup>	3	5	5	0
Circulars to industry	14	40	44	-9.1
Corporate website average daily page views <sup>b</sup>	38,780	53,945	58,263	-7.4
General enquiries	1,750	3,298	3,539	-6.8

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

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

<sup>1</sup> The Stock Exchange of Hong Kong Limited.

<sup>2</sup> Practice Note 19 provides guidance on how to determine a chain principle offer price.

<sup>3</sup> The platform allows the SFC to collect and analyse key risk indicator data from certain licensed corporations.

# Corporate Developments

## Board

The Financial Secretary appointed Mr Rico Leung Chun-yin as Executive Director (ED) for a three-year term beginning 28 August. Mr Leung succeeded Mr Keith Lui Kei-kwong, who stepped down as ED.

Ms Christina Choi Fung-yea was reappointed as ED for three years, effective 1 August. In July, Mr Lester Garson Huang was reappointed as Non-Executive Director for two years, effective 15 November.

## Finance

Our income for the quarter was \$378 million, 8% lower than the previous quarter and 13% lower than the same quarter last year. Average daily turnover in

Hong Kong's securities market was \$80 billion for the quarter, 18% lower than the \$97 billion recorded in the previous quarter. Our expenditure for the quarter was \$489 million, 5% higher than that in the last quarter and 10% higher than the same quarter last year.

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$3.9 billion as of 30 September.

## Staffing

As of 30 September, we had 907 staff members, up from 894 a year ago.

## Finance

(\$ million)	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
Income	378	790	872	-9%
Expenses including depreciation	489	954	878	9%
Loss	(111)	(164)	(6)	N/A

# Activity Data

Table 1 Breaches noted during on-site inspections

	Quarter ended 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	4	5	-20
Failure to safekeep client securities	5	14	15	-6.7
Failure to maintain proper books and records	5	12	11	9.1
Failure to safekeep client money	3	21	18	16.7
Unlicensed dealing and other registration issues	5	11	7	57.1
Breach of licensing conditions	1	3	1	200
Breach of requirements of contract notes/ statements of account/receipts	8	14	18	-22.2
Failure to make filing/notification	2	2	0	N/A
Breach of margin requirements	0	3	7	-57.1
Dealing malpractices	3	5	1	400
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>1</sup>	64	157	167	-6
Breach of Corporate Finance Adviser Code of Conduct	1	2	0	N/A
Breach of Fund Manager Code of Conduct	20	37	24	54.2
Breach of regulation of on-line trading	0	4	2	100
Non-compliance with anti-money laundering guidelines	91	190	75	153.3
Breach of other rules and regulations of the Exchanges <sup>2</sup>	1	6	9	-33.3
Internal control weaknesses <sup>3</sup>	116	215	229	-6.1
Others	51	107	41	161
<b>Total</b>	<b>378</b>	<b>807</b>	<b>630</b>	<b>28</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 30.9.2019	As at 31.3.2019	Change (%)	As at 30.9.2018	YoY change (%)
Bond	472	474	-0.4	454	4
Equity	992	1,005	-1.3	1,000	-0.8
Diversified	181	181	0	178	1.7
Money market	43	44	-2.3	43	0
Fund of funds	108	110	-1.8	111	-2.7
Index <sup>1</sup>	172	162	6.2	158	8.9
Guaranteed	3	3	0	3	0
Other specialised <sup>2</sup>	5	5	0	5	0
Sub-total	1,976	1,984	-0.4	1,952	1.2
Umbrella structures	233	234	-0.4	233	0
<b>Total</b>	<b>2,209</b>	<b>2,218</b>	<b>-0.4</b>	<b>2,185</b>	<b>1.1</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.

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

	Total NAV (US\$ million) as at 30.9.2019	Total NAV (US\$ million) as at 31.3.2019	Change (%)	Total NAV (US\$ million) as at 30.9.2018	YoY change (%)
Bond	587,089	534,298	10	507,140	15.8
Equity	693,504	721,365	-3.9	736,035	-5.8
Diversified	160,224	165,708	-3.3	173,811	-7.8
Money market	22,738	22,284	2	21,553	5.5
Fund of funds	22,226	22,581	-1.6	22,593	-1.6
Index <sup>1</sup>	108,069	96,164	12.4	88,934	21.5
Guaranteed	66	72	-8.3	90	-26.7
Other specialised <sup>2</sup>	622	748	-17	923	-32.6
<b>Total</b>	<b>1,594,538</b>	<b>1,563,220</b>	<b>2</b>	<b>1,551,079</b>	<b>2.8</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 30.9.2019	As at 31.3.2019	Change (%)	As at 30.9.2018	YoY change (%)
Hong Kong	792	789	0.4	762	3.9
Luxembourg	1,055	1,064	-0.8	1,037	1.7
Ireland	217	218	-0.5	231	-6.1
United Kingdom	53	53	0	53	0
Mainland China	51	50	2	50	2
Other Europe	3	3	0	3	0
Bermuda	1	1	0	1	0
Cayman Islands	30	30	0	40	-25
Others	7	8	-13	8	-13
<b>Total</b>	<b>2,209</b>	<b>2,216</b>	<b>-0.3</b>	<b>2,185</b>	<b>1.1</b>

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

	Total NAV (US\$ million) as at 30.9.2019	Total NAV (US\$ million) as at 31.3.2019	Change (%)	Total NAV (US\$ million) as at 30.9.2018	YoY change (%)
Hong Kong	151,663	154,831	-2	146,811	3.3
Luxembourg	1,056,143	1,059,476	-0.3	1,065,067	-0.8
Ireland	234,449	207,154	13.2	203,060	15.5
United Kingdom	75,046	73,987	1.4	74,643	0.5
Mainland China	18,461	19,615	-5.9	16,807	9.8
Other Europe	137	140	-2.1	125	9.6
Bermuda	156	153	2.0	156	0
Cayman Islands	7,820	7,718	1.3	8,384	-6.7
Others	50,663	40,146	26.2	36,026	41
<b>Total</b>	<b>1,594,538</b>	<b>1,563,220</b>	<b>2</b>	<b>1,551,079</b>	<b>2.8</b>

## Activity Data

**Table 6 Takeovers activities**

	Quarter ended 30.9.2019	Quarter ended 30.6.2019	Change (%)	Quarter ended 30.9.2018	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>					
General and partial offers under Code on Takeovers and Mergers	15	6	150	14	7.1
Privatisations	3	4	-25	2	50
Whitewash waiver applications	2	6	-66.7	2	0
Other applications under Code on Takeovers and Mergers <sup>1</sup>	66	83	-20.5	59	11.9
Off-market and general offer share buy-backs	2	3	-33.3	2	0
Other applications under Code on Share Buy-backs <sup>1</sup>	1	1	0	2	-50
<b>Total</b>	<b>89</b>	<b>103</b>	<b>-13.6</b>	<b>81</b>	<b>9.9</b>
<b>Executive Statements</b>					
Sanctions imposed with parties' agreement <sup>2</sup>	0	0	0	1	-100
<b>Takeovers and Mergers Panel</b>					
Hearings before the Panel (disciplinary and non-disciplinary)	1	1	0	0	N/A
Statements issued by the Panel <sup>3</sup>	0	1	-100	0	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 30.9.2019	Six months ended 30.9.2019	Six months ended 30.9.2018	YoY change (%)
Conduct of licensees	115	264	225	17.3
Conduct of registered institutions	3	19	7	171.4
Listed companies and disclosure of interests	363	796	2,161	-63.2
Market misconduct <sup>1</sup>	151	355	187	89.8
Product disclosure	1	4	2	100
Unlicensed activities	26	76	91	-16.5
Breach of offers of investments	16	85	15	466.7
Boiler rooms and suspicious websites	133	282	163	73
Scams and frauds <sup>2</sup>	93	143	151	-5.3
Other financial activities not regulated by SFC <sup>3</sup>	68	145	387	-62.5
<b>Total</b>	<b>969</b>	<b>2,169</b>	<b>3,389</b>	<b>-36</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 complaints.

# Securities and Futures Commission

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

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

### Introduction

We have reviewed the interim financial information set out on pages 24 to 32, 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 2019 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

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

### Conclusion

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

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 28 November, 2019

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

For the three months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>		
Levies	320,995	373,311
Fees and charges	36,337	38,647
Investment income net of third party expenses		
Investment income	7,805	20,863
Less: custody and advisory expenses	(1,968)	(1,963)
Recoveries from the Investor Compensation Fund	1,524	1,478
Exchange income/(loss)	13,046	(10,230)
Other income	6	11,233
	<b>377,745</b>	433,339
<b>Expense</b>		
Staff costs and directors' emoluments	359,019	332,739
Premises		
Rent	-	50,170
Rates, management fees and others	10,405	11,557
Other expenses	57,458	43,238
Depreciation		
Fixed assets	10,546	8,503
Right-of-use assets	50,322	-
Finance costs	1,086	-
	<b>488,836</b>	446,207
<b>(Loss) and total comprehensive income for the quarter</b>	<b>(111,091)</b>	(12,868)



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

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>			
Levies		665,336	764,869
Fees and charges		73,769	68,641
Investment income net of third party expenses			
Investment income		57,160	40,597
Less: custody and advisory expenses		(3,939)	(3,959)
Recoveries from the Investor Compensation Fund	8(a)	3,041	2,962
Exchange loss		(5,661)	(12,351)
Other income		100	11,364
		<b>789,806</b>	872,123
<b>Expense</b>			
Staff costs and directors' emoluments	8(b)	707,426	663,593
Premises			
Rent	2	–	100,342
Rates, management fees and others		22,133	23,008
Other expenses		100,714	74,344
Depreciation			
Fixed assets		20,527	16,366
Right-of-use assets	2	100,618	–
Finance costs	2	2,170	–
		<b>953,588</b>	877,653
<b>(Loss) and total comprehensive income for the period</b>		<b>(163,782)</b>	(5,530)

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of financial position

As at 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		103,276	94,835
Right-of-use assets	2	185,319	–
Financial assets at amortised costs – debt securities		367,765	981,502
		656,360	1,076,337
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		976,971	563,877
Financial assets at fair value through profit or loss			
Debt securities		815,521	795,946
Pooled funds		748,449	925,476
Debtors, deposits and prepayments		250,104	227,018
Fixed deposits with banks		3,887,054	3,653,456
Cash at bank and in hand		75,247	71,908
		6,753,346	6,237,681
<b>Current liabilities</b>			
Fees received in advance		44,461	8,850
Creditors and accrued charges	8(a)	225,484	189,855
Lease liabilities	2	180,996	–
Provisions	4	50,874	–
		501,815	198,705
<b>Net current assets</b>		6,251,531	6,038,976
<b>Total assets less current liabilities</b>		6,907,891	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	761	–
Provisions	4	690	45,091
		1,451	45,091
<b>Net assets</b>		6,906,440	7,070,222
<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		3,863,600	4,027,382
		6,906,440	7,070,222

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

## Condensed statement of financial position

As at 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		103,201	94,738
Right-of-use assets	2	185,319	–
Financial assets at amortised costs – debt securities		367,765	981,502
		656,285	1,076,240
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		976,971	563,877
Financial assets at fair value through profit or loss			
Debt securities		815,521	795,946
Pooled funds		748,449	925,476
Debtors, deposits and prepayments		247,694	233,187
Fixed deposits with banks		3,887,054	3,653,456
Cash at bank and in hand		69,394	49,747
		6,745,083	6,221,689
<b>Current liabilities</b>			
Fees received in advance		44,461	8,850
Creditors and accrued charges		217,146	173,766
Lease liabilities	2	180,996	–
Provisions	4	50,874	–
		493,477	182,616
<b>Net current assets</b>		6,251,606	6,039,073
<b>Total assets less current liabilities</b>		6,907,891	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	761	–
Provisions	4	690	45,091
		1,451	45,091
<b>Net assets</b>		6,906,440	7,070,222
<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		3,863,600	4,027,382
		6,906,440	7,070,222

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the six months ended 30 September 2019 (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 2018	42,840	3,000,000	4,121,924	7,164,764
(Loss) and total comprehensive income for the period	–	–	(5,530)	(5,530)
Balance at 30 September 2018	42,840	3,000,000	4,116,394	7,159,234
Balance at 1 April 2019	<b>42,840</b>	<b>3,000,000</b>	<b>4,027,382</b>	<b>7,070,222</b>
(Loss) and total comprehensive income for the period	–	–	<b>(163,782)</b>	<b>(163,782)</b>
Balance at 30 September 2019	<b>42,840</b>	<b>3,000,000</b>	<b>3,863,600</b>	<b>6,906,440</b>

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Cash flows from operating activities</b>			
Loss for the period		(163,782)	(5,530)
Adjustments for:			
Depreciation – Fixed assets		20,527	16,366
Depreciation – Right-of-use assets		100,618	–
Finance costs		2,170	–
Investment income		(57,160)	(40,597)
Exchange difference		5,661	10,403
Loss on disposal of fixed assets		2	–
		(91,964)	(19,358)
(Increase)/decrease in debtors, deposits and prepayments		(26,452)	25,257
Increase/(decrease) in fees received in advance		35,611	(936)
Increase in creditors and accrued charges		36,306	83,526
Increase in non-current liabilities		–	2,107
Net cash (used in)/generated from operating activities		(46,499)	90,596
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		319,139	(179,626)
Interest received		75,376	59,268
Debt securities at fair value through profit or loss purchased		(277,846)	(125,816)
Debt securities at fair value through profit or loss sold or redeemed		265,556	123,321
Pooled funds sold		152,241	2,312
Debt securities at amortised cost redeemed at maturity		197,945	–
Fixed assets purchased		(28,970)	(26,280)
Net cash generated from/(used in) investing activities		703,441	(146,821)
<b>Cash flows from financing activities</b>			
Lease payments		(100,554)	–
Net cash used in financing activities		(100,554)	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>556,388</b>	<b>(56,225)</b>
<b>Cash and cash equivalents at the beginning of the six-month period</b>		<b>289,657</b>	<b>292,105</b>
<b>Cash and cash equivalents at the end of the six-month period</b>	3	<b>846,045</b>	<b>235,880</b>

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

	Unaudited	
	At 30 Sep 2019 \$'000	At 30 Sep 2018 \$'000
Fixed deposits with banks	770,798	179,750
Cash at bank and in hand	75,247	56,130
	<b>846,045</b>	<b>235,880</b>

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2019 (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 events and transactions that are significant to an understanding of the changes in financial position and performance of the Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2019. 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 2019 included in this report does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 30 September 2019. We eliminated all material intra group balances and transactions in preparing the condensed consolidated financial statements.

We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2019 to the interim financial information, except for the adoption of HKFRS 16, *Leases* as issued by the HKICPA and effective for accounting periods beginning on or after 1 April 2019. The impact of the adoption of HKFRS 16 is disclosed in note 2.

There were no significant changes in the operations of the Group for the six months ended 30 September 2019.

### 2. Changes in accounting policies

#### Impact on the interim financial information

The Group has applied HKFRS 16 from 1 April 2019. The Group applied the simplified transition approach and did not restate comparative amounts. In applying HKFRS 16 for the first time, the Group has adopted the following practical expedients as permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019; and
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 2. Changes in accounting policies (continued)

#### Impact on the interim financial information (continued)

Upon adoption of HKFRS 16, leases that were previously been classified as 'operating leases' under the HKAS 17 *Leases* are now recognised in the condensed consolidated statement of financial position as lease liabilities with a corresponding right-of-use assets. The lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period. The right-of-use assets are measured at the amount equal to the lease liability, adjusted for any prepaid or accrued lease payments or provisions for reinstatement relating to that lease as at 31 March 2019. The right-of-use assets are depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis.

As at 31 March 2019, the Group has non-cancellable operating lease commitments for properties of \$285,809,000. As a result of initially applying HKFRS 16, the Group recognised right-of-use assets of \$285,936,000 and lease liabilities of \$280,141,000 discounted at 1.55% as at 1 April 2019.

For the six months ended 30 September 2018, the Group recognised rent expense for the operating lease of \$100,342,000. Following the adoption of HKFRS 16, the Group recognised depreciation expense for right-of-use assets of \$100,618,000 and interest expense on lease liabilities of \$2,170,000 for the six months ended 30 September 2019.

During the period, the Group has entered into a new operating lease for the office premise for eight years commencing on 1 February 2020. Minimum lease payment throughout the lease term is \$1,036,692,000.

### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank and in hand	75,247	71,908
Fixed deposits with banks	3,887,054	3,653,456
Amounts shown in the condensed consolidated statement of financial position	3,962,301	3,725,364
Less: Amounts with an original maturity beyond three months	(3,116,256)	(3,435,707)
Cash and cash equivalents in the condensed consolidated statement of cash flows	846,045	289,657

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 4. Provisions

Provisions represent premises reinstatement cost to restore the premises to its original condition when the lease expires.

### 5. Ageing analysis of debtors and creditors

There was no material overdue debtors and creditors balance included in "debtors, deposits and prepayment" and "creditors and accrued charges" respectively as at 30 September 2019. Therefore, an ageing analysis of debtors and creditors is not provided.

### 6. Exchange risk

The Group'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, the exposure to exchange rate risk is not considered significant.

### 7. Investments in subsidiaries

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

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

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

As at 30 September 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2019: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.



## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 8. Related party transactions

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

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

During the period, \$3,041,000 was recovered from the ICF for the ICC's expenses (2018: \$2,962,000). As at 30 September 2019, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$576,000 (as at 31 March 2019: \$54,000).

#### (b) Remuneration of key management personnel

	Unaudited six months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
Directors' fees and salaries, allowances and benefits in kind	18,285	16,660
Retirement scheme contributions	1,551	1,527
	19,836	18,187

The total remuneration is included in "staff costs and directors' emoluments" on page 24. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2019.

### 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 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 35 to 41.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2019 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	
Mr Tai Chi Kin, Calvin	

### Interests in contracts

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

On behalf of the Committee

**Rico Leung**  
Chairman

28 November 2019

# Investor 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 36 to 41, 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 2019 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

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

### Conclusion

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

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 28 November 2019

## Investor Compensation Fund

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

For the three months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>		
Net investment income	15,963	14,299
Exchange difference	4,578	(3,411)
	20,541	10,888
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,524	1,478
Auditor's remuneration	54	51
Bank charges	-	165
Professional fees	-	385
	1,578	2,079
<b>Surplus and total comprehensive income for the quarter</b>	<b>18,963</b>	<b>8,809</b>

## Investor Compensation Fund

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

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>			
Net investment income	2	31,934	8,271
Exchange difference		(1,764)	(4,678)
		30,170	3,593
<b>Expenses</b>			
Investor Compensation Company Limited expenses	3	3,041	2,962
Auditor's remuneration		106	102
Bank charges		-	395
Professional fees		-	1,449
		3,147	4,908
<b>Surplus/(loss) and total comprehensive income for the period</b>		<b>27,023</b>	<b>(1,315)</b>

The notes on pages 40 and 41 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

As at 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Current assets</b>		
Interest receivable	20,516	25,425
Due from Investor Compensation Company Limited	576	54
Fixed deposits with banks	2,397,242	2,365,483
Cash at bank	422	845
	<b>2,418,756</b>	2,391,807
<b>Current liabilities</b>		
Creditors and accrued charges	228	302
	<b>228</b>	302
<b>Net current assets</b>	<b>2,418,528</b>	2,391,505
<b>Net assets</b>	<b>2,418,528</b>	2,391,505
Representing:		
<b>Compensation fund</b>	<b>2,418,528</b>	2,391,505

The notes on pages 40 and 41 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2019 (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 2018	994,718	108,923	1,257,509	2,361,150
Loss and total comprehensive income for the period	–	–	(1,315)	(1,315)
Balance at 30 September 2018	994,718	108,923	1,256,194	2,359,835
Balance at 1 April 2019	<b>994,718</b>	<b>108,923</b>	<b>1,287,864</b>	<b>2,391,505</b>
Surplus and total comprehensive income for the period	–	–	27,023	27,023
Balance at 30 September 2019	<b>994,718</b>	<b>108,923</b>	<b>1,314,887</b>	<b>2,418,528</b>

The notes on pages 40 and 41 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Cash flows from operating activities</b>			
Surplus/(loss) for the period		27,023	(1,315)
Adjustments for:			
Net investment income		(31,934)	(8,271)
Exchange difference		1,764	4,678
		(3,147)	(4,908)
Increase in amount due from Investor Compensation Company Limited		(522)	(218)
Decrease in creditors and accrued charges		(74)	(658)
Net cash used in operating activities		(3,743)	(5,784)
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		68,608	(1,052,152)
Debt securities purchased		–	(165,306)
Debt securities sold or redeemed		–	1,818,518
Pooled fund sold		–	338,934
Interest received		36,832	37,196
Net cash generated from investing activities		105,440	977,190
<b>Net increase in cash and cash equivalents</b>		101,697	971,406
<b>Cash and cash equivalents at the beginning of the six-month period</b>		32,944	55,933
<b>Cash and cash equivalents at the end of the six-month period</b>	4	134,641	1,027,339

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

	Unaudited	
	At 30 Sep 2019 \$'000	At 30 Sep 2018 \$'000
Fixed deposits with banks	134,219	1,026,649
Cash at bank	422	690
	134,641	1,027,339

The notes on pages 40 and 41 form part of the condensed financial statements.



## Notes to the condensed financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2019. 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 2019 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2019.

### 2. Net investment income

	Unaudited Six months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
Interest income from bank deposits	31,934	5,189
Interest income on financial assets at fair value through profit or loss	-	22,217
Realised loss on disposal of pooled fund	-	(10,350)
Realised loss on redemption/disposal of debt securities	-	(6,969)
Loss on revaluation of debt securities	-	(1,816)
Net investment income	31,934	8,271

## Investor Compensation Fund

### Notes to the condensed financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

#### 3. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2019, the ICC incurred costs of \$3,041,000 for its operation (for the six months ended 30 September 2018: \$2,962,000) which were reimbursed by the Fund.

#### 4. Cash and cash equivalents

	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank	422	845
Fixed deposits with banks	2,397,242	2,365,483
Amounts shown in the condensed statement of financial position	2,397,664	2,366,328
Less: Amounts with an original maturity of beyond three months	(2,263,023)	(2,333,384)
Cash and cash equivalents in the condensed statement of cash flows	134,641	32,944

#### 5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 2018 and 2019.

#### 6. Contingent liabilities

As at the date of this report, there are 16 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims in aggregate is \$2,210,000 at 30 September 2019 (at 31 March 2019: \$2,121,000). 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 2019.

### Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 September 2019, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

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

### Financial statements

The financial performance of the Fund for the reporting period ended 30 September 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 44 to 50.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2019 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	
Mr Tai Chi Kin, Calvin	
Ms Mak Po Shuen	

### Interests in contracts

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

On behalf of the Committee

**Rico Leung**  
Chairman

21 November 2019

# 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 45 to 50, 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 2019 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

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

### Conclusion

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

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 21 November 2019

## Unified Exchange Compensation Fund

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

For the three months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>		
Interest income	473	408
Recoveries	–	1
	473	409
<b>Expenses</b>		
Auditor's remuneration	26	25
<b>Surplus and total comprehensive income for the quarter</b>	<b>447</b>	<b>384</b>

## Unified Exchange Compensation Fund

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

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>			
Interest income		863	679
Recoveries	2	(1)	1
		862	680
<b>Expenses</b>			
Auditor's remuneration		52	50
<b>Surplus and total comprehensive income for the period</b>		<b>810</b>	630

The notes on pages 49 and 50 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

As at 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	–	1
Interest receivable		258	187
Accounts receivable		9	9
Fixed deposits with banks		91,481	88,338
Cash at bank		391	1,922
		<b>92,139</b>	90,457
<b>Current liabilities</b>			
Creditors and accrued charges		10,297	10,325
Relinquished trading rights payable to SEHK	3	850	800
		<b>11,147</b>	11,125
<b>Net current assets</b>		<b>80,992</b>	79,332
<b>Net assets</b>		<b>80,992</b>	79,332
Representing:			
<b>Compensation fund</b>		<b>80,992</b>	79,332

The notes on pages 49 and 50 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited						
	Trading rights deposits from SEHK (note 3) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000	Total \$'000
Balance at 1 April 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
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	850	-	-	-	-	-	850
Surplus and total comprehensive income for the period	-	-	-	-	810	-	810
Balance at 30 September 2019	55,350	353,787	630,000	6,502	30,071	(994,718)	80,992

The notes on pages 49 and 50 form part of the condensed financial statements.



## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	810	630
Adjustments for:		
Interest income	(863)	(679)
Recoveries	1	–
	(52)	(49)
Decrease in creditors and accrued charges	(28)	(8)
Increase in relinquished trading rights payable to SEHK	50	50
Net cash used in operating activities	(30)	(7)
<b>Cash flows from investing activities</b>		
Interest received	792	598
Net cash generated from investing activities	792	598
<b>Cash flows from financing activities</b>		
Net trading rights deposits from SEHK	850	600
Net cash generated from financing activities	850	600
<b>Net increase in cash and cash equivalents</b>	<b>1,612</b>	<b>1,191</b>
<b>Cash and cash equivalents at the beginning of the six-month period</b>	<b>90,260</b>	<b>86,749</b>
<b>Cash and cash equivalents at the end of the six-month period</b>	<b>91,872</b>	<b>87,940</b>

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

	Unaudited	
	At 30 Sep 2019 \$'000	At 30 Sep 2018 \$'000
Fixed deposits with banks	91,481	87,492
Cash at bank	391	448
	<b>91,872</b>	<b>87,940</b>

The notes on pages 49 and 50 form part of the condensed financial statements.

## Notes to the condensed financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2019. 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 2019 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2019.

### 2. Recoveries/Equity securities received under subrogation

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

As at 30 September 2019, the equity securities received under subrogation amounted to \$255 (as at 31 March 2019: \$1,191). The balance as at 30 September 2019 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

### 3. 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 Securities and Futures Commission (SFC) must refund to SEHK the deposit within six months after the trading right was relinquished.

During the six-month period, deposits of \$1,100,000 in respect of 22 new trading rights were received from SEHK and deposits of \$200,000 in respect of four relinquished trading rights were refunded to SEHK.

As at 30 September 2019, there were 17 trading rights in total of \$850,000 that have been relinquished but not yet refunded (as at 31 March 2019: 16). The net trading right deposits from SEHK as at 30 September 2019, excluding the relinquished trading rights payable, amounted to \$55,350,000 (as at 31 March 2019: \$54,500,000).

# Unified Exchange Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 4. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the six months ended 30 September 2019 and 2018.

## **Securities and Futures Commission**

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