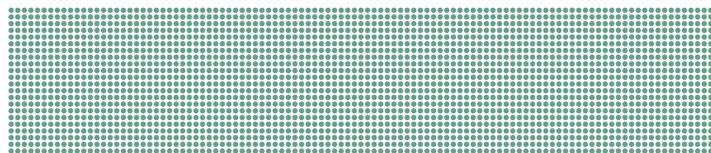
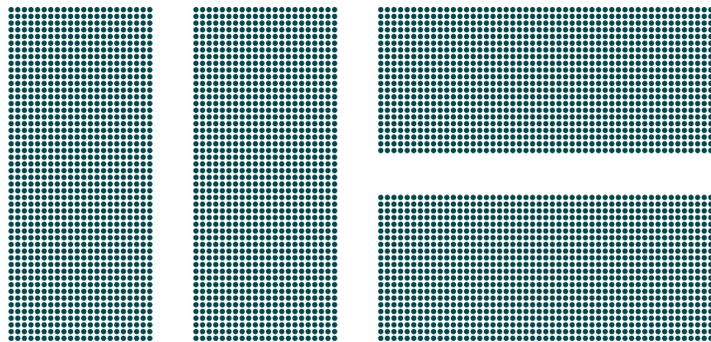
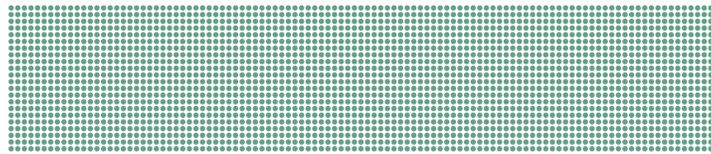




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會



Regulation for Quality Markets

Quarterly Report
October - December 2016

This third Quarterly Report of the Securities and Futures Commission for financial year 2016-17 covers the period from 1 October to 31 December 2016.

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Highlights

Regulatory enhancements

- **Listing regulatory structure:** We are working with Hong Kong Exchanges and Clearing Limited to analyse market responses to the joint consultation on proposed enhancements to the decision-making and governance structure for listing regulation.
- **Asset management review:** We began a public consultation on proposals to enhance asset management regulations and point-of-sale transparency.
- **MIC initiative:** We published a circular on the Manager-In-Charge (MIC) initiative, which aims to clarify the accountability of the senior management of licensed corporations.
- **Suitability circulars:** We issued circulars and updated our frequently asked questions to provide clarification and guidance on licensees' existing suitability obligations.
- **Mandatory online submissions:** We worked to implement the requirement that all individuals use the SFC Online Portal to submit their licensing applications, notifications and annual returns from 1 February 2017.

Listings and takeovers

- **Listing applications:** Under the dual filing regime, we vetted 193 listing applications alongside The Stock Exchange of Hong Kong Limited (SEHK) in the nine months to December, up 12.9% year-on-year.
- **Monitoring rights issues:** Together with SEHK, we are closely monitoring rights issues and open offers which substantially dilute the interests of non-subscribing minority shareholders and are reviewing the relevant Listing Rules.
- **Takeovers matters:** The Takeovers Executive¹ publicly censured Zheng Dunmu, chairman and executive director of Changgang Dunxin Enterprise Company Limited, for breaching mandatory offer requirements under the Takeovers Code.

Intermediaries

- **Licensees and registrants:** As of 31 December 2016, the total number of licensed corporations, individuals and registered institutions reached a record high of 42,665. The number of licensed corporations rose 11% to 2,411, also a record high.
- **Intermediary inspection:** We conducted 89 risk-based on-site inspections on licensed corporations to review their compliance with relevant regulatory requirements.

Market development

- **Stock Connect:** Trading under Shenzhen-Hong Kong Stock Connect began on 5 December.
- **MoU with Switzerland:** We signed a Memorandum of Understanding (MoU) with the Swiss Financial Market Supervisory Authority on mutual recognition of funds.

Enforcement

- **Disciplinary actions:** We disciplined five licensed corporations and 11 representatives, resulting in total fines of \$9.8 million.
- **Market surveillance:** We made 2,084 requests for trading and account records from intermediaries following our surveillance of untoward price and turnover movements.

Global engagement

- **IOSCO meeting:** We hosted the October meeting of the Board of the International Organization of Securities Commissions (IOSCO) in Hong Kong.

Stakeholder communication

- **Fintech:** We organised the SFC Regtech and Fintech Contact Day in November.

¹ This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

Intermediaries

Licensing applications

In the quarter, we received 1,786 licence applications¹, down 6.8% from the same quarter in 2015, while the number of corporate applications rose to 83, up from 53.

As of 31 December 2016, the number of licensees and registrants totalled 42,665, up 2.9% from a year earlier, while in the same period the number of licensed corporations grew 11% to 2,411. Both were record highs since the implementation of the regulatory regime under the Securities and Futures Ordinance on 1 April 2003.

Senior management accountability

In December, we issued a circular to all licensed corporations to introduce the Manager-In-Charge (MIC) initiative, which aims to clarify the accountability of the senior management of licensed firms and to promote awareness of senior management obligations under the current regulatory regime.

Under the new measures, from 18 April 2017, corporate licence applicants must submit management structure information and organisational charts to the SFC. Existing licensed corporations must submit this information between 18 April 2017 and 17 July 2017. In addition, MICs of the overall management oversight and key business line functions of licensed corporations who are not responsible officers should have applied to become responsible officers by 16 October 2017.

Together with the circular, we published more than 40 frequently asked questions (FAQs) to provide additional guidance. We organised a series of workshops in early 2017 to help the industry further understand the initiative.

Suitability obligations

Also in December, we issued circulars and updated our FAQs to provide clarification and guidance on licensees' existing suitability obligations². In particular, we clarified the application of these obligations under the Code of Conduct³ and provided guidance and examples for whether and when they would be triggered under certain scenarios. We also provided

further guidance on licensees' compliance with suitability obligations such as product due diligence and the documentation of the rationale for investment recommendations.

Mandatory online submissions

To improve the efficiency of the licensing application process, we announced in November that all individuals will be required to use the SFC Online Portal to submit their licensing applications, notifications and annual returns from 1 February 2017. Corporations may continue to submit licensing applications in a paper form or via the portal.

To prepare for the launch of the new requirement, in December we enhanced the portal and our licensing forms and conducted six briefing sessions for the industry.

Monitoring

During the quarter, we conducted 89 risk-based on-site inspections on licensed corporations to review their compliance with relevant regulatory requirements.

To help formulate policies to improve the overall resilience of the markets, we commenced a review in October to assess the cybersecurity features of the internet and mobile trading systems of licensed corporations as well as the industry's preparedness for and resilience to cyber risks.

In November, we commenced a thematic review of market practices in delivering best execution and providing client facilitation services. The review also considered the latest market developments and assessed licensed corporations' controls for complying with relevant regulatory requirements.

We also conducted a thematic review to assess whether selected licensed corporations have put in place appropriate and specific policies, procedures and controls in respect of algorithmic trading to comply with related requirements stipulated in the Code of Conduct. An advisory circular was issued in December to provide further guidance to the industry and to share observations and good practices noted during the review.

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

² See also Investment products on page 6.

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

Promoting compliance

As part of our ongoing effort to promote compliance with anti-money laundering (AML) and counter-terrorist financing (CTF) requirements, we issued 10 advisory circulars in the quarter to enhance the industry's awareness of the latest developments in these areas. We also conducted three seminars in October with more than 800 industry participants including management and compliance personnel from licensed corporations.

In addition, we issued advisory circulars on:

- regulatory requirements on account opening as set out in the Code of Conduct, including the opening of accounts in non-face-to-face situations and the use of the certification services to verify clients' identities;
- regulatory requirements for providing securities dealing services under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and observations noted in recent inspections of these activities; and
- new statutory requirements set out in the Inland Revenue Ordinance regarding automatic exchange of financial account information.

Licensees and registrants

	As at 31.12.2016	As at 31.3.2016	Change (%)	As at 31.12.2015	YoY change (%)
Licensed corporations	2,411	2,208	9.2	2,172	11
Registered institutions	121	119	1.7	119	1.7
Licensed individuals	40,133	39,207	2.4	39,175	2.4
Total	42,665	41,534	2.7	41,466	2.9

Financial resolution regime

The Financial Services and the Treasury Bureau, the Hong Kong Monetary Authority, the Insurance Authority and the SFC continue to prepare for the launch of the new financial resolution regime and in November launched a two-month joint consultation on draft regulations for protected arrangements to be made under the Financial Institutions (Resolution) Ordinance⁴.

Survey on sale of non-exchange traded investment products

We published a biennial Survey on the Sale of Non-exchange Traded Investment Products⁵ in December. The survey was conducted with an aim to understand the industry landscape and to obtain an overview of the types and value of investment products sold by licensed corporations. It showed that the number of licensed corporations engaged in the sale of investment products during the year ended 31 March 2016 increased by 15% from the 2014 survey, while the aggregate transaction amount of investment products dropped by 19%. The survey helps us supervise the selling practices of licensed corporations.

⁴ The Financial Institutions (Resolution) Ordinance, gazetted on 30 June 2016, will become effective on a date to be appointed by the Secretary for Financial Services and the Treasury pending the passing of subsidiary legislation.

⁵ Previous surveys were conducted and published in 2012 and 2014.

Intermediaries

Licensing applications

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Applications to conduct new regulated activity	4,866	16,491	17,701	-6.8
Applications for SFC licences [#]	1,786	5,880	6,137	-4.2

[#] Figures do not include applications for provisional licences. During the quarter, we received 804 provisional licence applications compared with 1,051 in the same quarter last year.

Intermediary inspection

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Risk-based on-site inspections conducted	89	241	226	6.6

Investment products

Authorizations

As of 31 December, there were 2,779 SFC-authorized collective investment schemes (CIS) on offer to the public. During the quarter, we authorized 61 CIS, comprising 41 unit trusts and mutual funds and 20 mandatory provident fund (MPF) pooled investment funds. We also authorized 24 unlisted structured investment products for public offering.

Renminbi products

As of 31 December, the total number of renminbi-denominated SFC-authorized unlisted funds and exchange-traded funds (ETFs) investing onshore in the Mainland securities markets¹ were 68 and 26 respectively.

Suitability, platforms and advice

Following the issue on 23 December of further guidance (in the form of two circulars) on the existing suitability obligations of licensed or registered persons when recommending or soliciting investments, we plan to provide more tailored guidance to the industry on how the suitability requirement should be implemented in the context of online distribution and advisory platforms. We aim to launch a public consultation in the first quarter of 2017.

Leveraged and inverse products

Six months after the launch of the initial batch of leveraged and inverse (L&I) products, we extended these products' eligible indices to include liquid and broad-based Hong Kong equity indices and, on a case-by-case basis, non-equity indices. We began accepting applications for L&I products tracking such indices on 9 January 2017. Details are set out in a circular issued on 23 December. Previously, the only eligible indices for these products were foreign equity indices.

MPF default investment strategy

To prepare for the implementation of the MPF default investment strategy (DIS)², we authorized all DIS-related constituent fund (CF) applications³ as well as all relevant pooled investment fund applications.

Mutual recognition of funds

Switzerland

On 2 December, we signed a Memorandum of Understanding with the Swiss Financial Market Supervisory Authority on mutual recognition of funds (MRF). The agreement allows eligible Swiss and Hong Kong public funds to be distributed in the others' market through a streamlined vetting process, and establishes a framework for information exchange and regular dialogue as well as regulatory cooperation in relation to cross-border offerings of public funds. In addition, Switzerland is now included in the lists of recognised jurisdiction schemes⁴ and acceptable inspection regimes⁵. To give further details about the MRF scheme, we issued a circular, frequently asked questions (FAQs) and an information checklist. We also held four industry briefing sessions for Hong Kong asset managers and trustees in December 2016 and January 2017.

Mainland China

Under Mainland-Hong Kong MRF, as of 31 December, we authorized a total of 48 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission approved six Hong Kong funds.

With effect from 19 December, Mainland fund applications are classified as "Standard" or "Non-standard" under a two-stream approach⁶. To facilitate these applications, we updated the related circular, FAQs, information checklists and key facts statement template.

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

² The Mandatory Provident Fund Schemes Authority announced that the DIS will launch on 1 April 2017.

³ Comprising new CF applications for 29 MPF schemes, applications for converting existing CFs to DIS CFs for two schemes and applications for both new CFs and the conversion of existing CFs for two schemes.

⁴ Including schemes which the SFC accepts have complied in substance with certain provisions of the Code on Unit Trusts and Mutual Funds on the basis of prior authorization in another jurisdiction.

⁵ The investment management operations of a fund management company or an investment adviser are required to be based in a jurisdiction with an inspection regime acceptable to the SFC.

⁶ Under the two-stream approach adopted as part of the revamped fund authorization process, new fund applications will be processed as standard applications and fast tracked if certain criteria are met.

Investment products

Enhancing asset management regulation

To enhance asset management standards and point-of-sale transparency, we launched a consultation in November on proposals which cover topics including securities lending and repurchase agreements, custody of fund assets, liquidity risk management and disclosure of leverage by fund managers. The consultation closes on 22 February 2017.

Industry guidance

We continued to provide the industry with practical guidance, including an FAQ on the disclosure and approval requirements for investments made by authorized funds through Shenzhen-Hong Kong Stock Connect. We also issued a circular reminding issuers of SFC-authorized CIS to consider and assess the potential implications of the automatic exchange of financial account information (AEOI)⁷ on their business operations.

Authorized CIS^a

	As at 31.12.2016	As at 31.3.2016	Change (%)	As at 31.12.2015	YoY change (%)
Unit trusts and mutual funds	2,196	2,133	3	2,110	4.1
Investment-linked assurance schemes	300	301	-0.3	297	1
Pooled retirement funds	34	34	0	34	0
MPF schemes	35 ^b	37	-5.4	37	-5.4
MPF pooled investment funds	188 ^c	173	8.7	173	8.7
Others	26 ^d	26	0	24	8.3
Total	2,779	2,704	2.8	2,675	3.9

^a Excluding unlisted structured investment products.

^b 56 authorized constituent funds under these MPF schemes were DIS-related.

^c Of which 20 were DIS-related.

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

Unlisted structured investment products

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Unlisted structured investment products ^a	24	83	83	0
Authorizations granted under section 105 of the SFO ^b	14	62	65	-4.6

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

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

⁷ Under AEOI, financial institutions are required to identify financial accounts held by tax residents of reportable jurisdictions and provide this information annually to the Hong Kong Inland Revenue Department, which will exchange it on a reciprocal basis with appropriate tax authorities elsewhere.

Listings and takeovers

Listing regulatory structure

The SFC's joint consultation with Hong Kong Exchanges and Clearing Limited (HKEX) on proposed enhancements to The Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation ended on 18 November. We are working with HKEX to analyse market responses.

IPO applications

Under the dual filing regime, we received 38 listing applications via SEHK during the quarter, down 54.8% from 84 in the previous quarter and 20.8% from 48 in the same quarter last year. The number of listing applications in the nine months from April to December was up 12.9% compared to the same period in 2015.

During the quarter, four listing applications were returned and an eight-week moratorium¹ was imposed because the respective application proofs were not substantially complete.

Rights issues and open offers

Together with SEHK, we are closely monitoring rights issues and open offers which substantially dilute the interests of non-subscribing minority shareholders² and are reviewing the relevant Listing Rules. We are concerned that some corporate actions did not afford fair and equal treatment to all shareholders or cast doubt on whether the directors of the listed

companies complied with the requirement to act in the best interests of shareholders. In cases where the terms of the proposed offers were highly dilutive, or where issuers conducted fundraisings repeatedly over a relatively short period, we made enquiries to ascertain whether there has been a contravention of the Securities and Futures Ordinance (SFO).

Takeovers matters

In November, the Takeovers Executive³ publicly censured Zheng Dunmu, chairman and executive director of Changgang Dunxin, and imposed a 24-month cold shoulder order⁴ for breaching mandatory offer requirements under the Takeovers Code. Zheng failed to make a mandatory general offer when he acquired more than 2% of Changgang Dunxin increasing his stake from 46.18% to 50.16% in February 2015, depriving Changgang Dunxin's shareholders of the right to receive an offer as not all of them were given the opportunity to exit.

In December, we publicly criticised Southwest Securities International Investment Limited and related parties for acquiring shares in Southwest Securities International Securities Limited⁵ within six months after the close of an offer at above the offer price, in contravention of the Takeovers Code.

In the December issue of the *Takeovers Bulletin*, we published the Takeovers Team's new performance pledges in handling transactions and applications.

Listing applications and takeovers activities

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Listing applications filed under the dual filing regime	38	193	171	12.9
Takeovers and share buy-backs transactions	135	356	333	6.9

¹ The applicant can only submit a new listing application with a new application proof no less than eight weeks after the return.

² Rights issues are offers to existing shareholders to subscribe for new shares proportionate to their shareholdings. Open offers are similar to rights issues but the subscription rights are non-renounceable. The dilution impact of a rights issue or open offer is measured based on the offer ratio and the discount of the offer price to the share price prior to the announcement of the offer.

³ This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

⁴ A cold shoulder order is a sanction that prevents a person from trading in Hong Kong for a stated period.

⁵ Formerly known as Tanrich Financial Holdings Limited.

Listings and takeovers

Corporate regulation

During the quarter, we continued to conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. In 27 cases, we felt it appropriate to issue section 179⁶ directions to gather additional information. The underlying concerns were varied and included whether any information that may meet the tests for inside information had been disclosed in a timely manner.

As part of our initiative to enhance the quality of disclosures by listed companies and to improve corporate behaviour in general, we published the fourth issue of the *Corporate Regulation Newsletter*, which encouraged listed companies to provide more meaningful disclosures to the market and brought changes in accounting standards to their attention.

⁶ 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.

Market infrastructure and trading

Shenzhen-Hong Kong Stock Connect

Shenzhen-Hong Kong Stock Connect successfully launched on 5 December and has been running smoothly. We continuously monitor the operations of both Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect, and during the quarter we enhanced our monitoring systems to cover trading activities under the new Shenzhen link.

Position limit regime

In September, we launched a public consultation on proposed enhancements to the position limit regime for futures and options contracts which aim to expand the scope of the existing regime and make it more responsive to financial market developments. The majority of respondents indicated their support for the proposals. The consultation ended in November and we plan to publish the consultation conclusions in the first quarter of 2017.

ATS

	As at 31.12.2016	As at 31.3.2016	Change (%)	As at 31.12.2015	YoY change (%)
ATS authorizations under Part III	49	38	28.9	38	28.9
Corporations provide ATS under Part V	24	24	0	27	-11.1

Real-time trading monitoring

Jointly with Hong Kong Exchanges and Clearing Limited, we upgraded our real-time market surveillance system to cover the Closing Auction Session and to generate alerts if the Volatility Control Mechanism is triggered.

Automated trading services

As of 31 December 2016, the number of automated trading services¹ (ATS) authorizations under Part III of the Securities and Futures Ordinance (SFO) was 49, while 24 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.

¹ As a general principle under the SFC's Guidelines for the Regulation of Automated Trading Services, ATS providers which also perform traditional dealer functions (eg, agency broking, holding of clients' securities or funds) are expected to be licensed under Part V of the SFO, while those solely providing ATS are expected to be authorized under Part III of the SFO.

Enforcement

Market Misconduct Tribunal

- After finding Andrew Left of Citron Research guilty of disclosing false or misleading information in a research report on Evergrande Real Estate Group Limited, the Market Misconduct Tribunal (MMT) banned him from trading securities in Hong Kong for the maximum period of five years and ordered him to disgorge his profit of \$1.6 million from shorting Evergrande shares. Left's application to appeal against the MMT determination on questions of fact was dismissed by the Court of Appeal in January 2017.
- The MMT ruled that AcrossAsia Limited, its former chairman Albert Saychuan Cheok and its former chief executive officer Vicente Binalhay Ang, failed to disclose inside information as soon as reasonably practicable and fined them a total of \$2 million. The MMT also ordered Cheok and Ang to complete training on compliance with inside information disclosure requirements, directors' duties and corporate governance.
- The MMT found that between 2001 and 2005, Gu Chujun, the founder and former chairman of Greencool Technology Holdings Limited, along with four other senior executives, disclosed false or misleading information, overstated the deposits kept by Greencool's Mainland subsidiaries and concealed substantial loans granted to them. As a result, Greencool's net asset value on a consolidated basis was exaggerated in several annual reports and results announcements.
- We started proceedings in the MMT against a former senior executive of an affiliate of Titan Petrochemicals Group Limited, Augustine Cheong Kai Tjeh, and his mother for alleged insider dealing in Titan shares.

Restriction Notice

In December, we issued restriction notices to Interactive Brokers LLC and Interactive Brokers Hong Kong Limited to prohibit them from dealing with certain client assets that are the suspected proceeds of market manipulation or fraud. They are not suspects in the investigation.

Disciplinary actions

We disciplined five corporations and 11 licensed representatives, resulting in total fines¹ of \$9.8 million, including the following actions:

- J.P. Morgan Securities (Asia Pacific) Limited and JPMorgan Chase Bank, National Association were reprimanded and fined \$3 million and \$2.6 million respectively for regulatory breaches in a number of areas.
- FXCM Asia Limited² was reprimanded and fined \$4 million for regulatory breaches in relation to its foreign exchange order execution practices.
- The licences of Richmond Asset Management Limited and Graham Frank Bibby, its responsible officer and sole owner, were revoked and Bibby was banned from re-entering the industry for 10 years for soliciting clients to invest in a company and a plot of land in Thailand in which Bibby and his wife held substantial undisclosed interests.
- The licences of Goodcape Securities Limited and its responsible officers, Tang Lin Sun and Chang Siu Ming, were revoked for misappropriating client funds. Tang and Chang were prohibited from re-entering the industry for life and three years respectively.
- Chen Chia Hui, a former employee of The Hongkong and Shanghai Banking Corporation (HSBC), was banned from re-entering the industry for life following her conviction for bribery.
- Lam Yuk Wai, a former staff of four HSBC broking companies, was banned from re-entering the industry for life for misconduct, including over 100 unauthorized transactions.
- Derek Ong, a former representative of Deutsche Securities Asia Limited, was prohibited from re-entering the industry for 10 years for conspiring to manipulate the Korean Composite Stock Price Index 200.
- Benedict Ku Ka Tat, a former employee of The Pride Fund Management Limited, was prohibited from re-entering the industry for one year and fined \$150,000 for failing to disclose his commission and performing proper customer due diligence.

¹ Fines paid to or recovered by the SFC go into the general revenue of the Government.

² Now known as Rakuten Securities Hong Kong Limited.

Court proceedings

- We commenced legal proceedings in the Court of First Instance to seek disqualification orders against Quincy Hui Kwong Hei (managing director), Andrew Liu (former non-executive director) and eight current and former directors of Freeman Financial Corporation Limited³ for breaching directors' duties in Freeman's acquisition and disposal of a stake in Liu's Holdings Limited. We sought a court order that Hui and Liu compensated Freeman \$76.8 million, equivalent to the loss it suffered in the transactions.
- The Eastern Magistrates' Court convicted and fined Gold Root Global Investments Limited for dealing in futures contracts through its online trading platform without an appropriate licence. We also prosecuted Jacky Chan Cheuk Ki, its former dealing director and Chiang Ching Fung, former chief executive officer.

- The Court of Final Appeal dismissed the application of C.L. Management Services Limited and its sole owner and director, Clarea Au Suet Ming, to appeal against their convictions for unlicensed corporate finance activities. They were previously fined \$1.5 million and Au was sentenced to six months' imprisonment suspended for 18 months.

Market surveillance

We made 2,084 requests for trading and account records from intermediaries in the quarter. In addition, we posted eight high shareholding concentration announcements on our website to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Enforcement activities

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
S179 ^a inquiries commenced	4	18	17	5.9
S181 ^b inquiries commenced (number of letters sent)	66 (2,084)	207 (6,488)	206 (5,750)	0.5
S182 ^c directions issued	67	313	384	-18.5
Investigations started	66	317	390	-18.7
Investigations completed	163	457	327	39.8
Investigations completed within seven months (%)	80 (49%)	221 (48%)	171 (52%)	29.2
Individuals/corporations charged in criminal proceedings	0	4	12	-66.7
Criminal charges laid	0	15	58	-74.1
Notices of Proposed Disciplinary Action ^d issued	17	42	30	40
Notices of decision ^e issued	16	39	27	44.4
Individuals/corporations subject to ongoing civil proceedings	109	109	99	10.1
Compliance advice letters issued	141	409	290	41
Cases with search warrants executed	5	24	24	0

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

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

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

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

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

³ Now known as Freeman FinTech Corporation Limited.

Global regulatory engagement

IOSCO

Since Mr Ashley Alder, our Chief Executive officer, was appointed as Chair of the Board of the International Organization of Securities Commissions (IOSCO) in May, we have been working closely with the IOSCO Secretariat to enhance the relevance of IOSCO's work to its wider membership, clarify the intersection between IOSCO's policy work and that of the Financial Stability Board (FSB), and promote interaction between IOSCO members from growth and emerging markets and those from advanced economies. In October, we hosted and chaired an IOSCO Board meeting in Hong Kong.

As Chair of the IOSCO Board, Mr Alder co-chaired the October meeting of the Committee on Payments and Market Infrastructures - IOSCO Steering Group, which discussed central clearing counterparty resilience, recovery and resolution. Mr Alder also chairs the IOSCO Task Force on Market Conduct, which plans to issue a report setting out measures to promote proper conduct by market participants in wholesale markets.

We actively participated in the work of the IOSCO Asia-Pacific Regional Committee (APRC) and provided input to an APRC letter to the US Commodity Futures Trading Commission, highlighting the extraterritorial impact of its proposed cross-border swap rule on Asia-Pacific markets.

We worked closely with the European Commission to establish the inaugural EU-Asia Forum which took place in October. Mr Alder and other senior regulators from the two regions participated in a panel discussion on cross-border regulatory issues and EU regulations that affect Hong Kong.

We also hosted a meeting in Hong Kong of the IOSCO Committee on Enforcement and the Exchange of Information from 29 November to 1 December.

FSB

In November, Mr Alder attended the FSB plenary meeting to discuss, among other things, market liquidity, structural vulnerabilities related to asset management activities, and governance frameworks to mitigate misconduct.

We coordinated with the Government, Hong Kong Monetary Authority (HKMA), and the Office of the Commissioner of Insurance to respond to FSB's annual

monitoring exercise on shadow banking as well as to discuss the scope of the proposed peer review of Hong Kong with the FSB Secretariat. In addition, we provided input to various other surveys being undertaken by the FSB standing committees. We also provided support to the HKMA for its participation in other FSB committees.

In December, Mr Keith Lui, Executive Director of Supervision of Markets, attended a meeting of the FSB Standing Committee on Standards Implementation which discussed, among other matters, the timing and scope of the peer review of Hong Kong. Mr Lui also participated in a meeting of the FSB Regional Consultative Group for Asia which discussed vulnerabilities and financial stability issues affecting the region.

Mainland China

During the quarter, we worked closely with the China Securities Regulatory Commission (CSRC) and other regulatory authorities to launch Shenzhen-Hong Kong Stock Connect. We also held a number of meetings with the CSRC to discuss issues including cooperation on supervision of listed companies, cross-boundary market surveillance and monitoring, and enforcement cooperation. In November, we arranged a joint training session with the CSRC on market manipulation in Xi'an. Also in November, we organised a seminar with the CSRC in Shanghai for Mainland brokers and fund managers with business operations in Hong Kong.

We maintained good communication with the Mainland's regional authorities and provided analytical support to the Government to strengthen Hong Kong's cooperative relationship with Guangdong, Shenzhen, and Shanghai, among other places. We participated in the eighth Meeting of the Expert Group on Hong Kong-Guangdong Financial Co-operation in Hong Kong to discuss financial cooperation initiatives.

Other collaboration

In December, we signed a Memorandum of Understanding (MoU) with the Swiss Financial Market Supervisory Authority concerning Switzerland-Hong Kong Mutual Recognition of Funds¹. At the eighth MoU meeting with the Taiwan Financial Services Commission in November, we discussed Fintech development, anti-money laundering and green finance.

¹ See Investment products on page 6 for details.

Stakeholder communication

We engage with stakeholders in a proactive and timely manner to explain our work and keep them informed about regulatory updates.

In November, we launched a consultation proposing enhancements to the regulation of the asset management industry in Hong Kong¹. Also in November, jointly with the Financial Services and the Treasury Bureau, the Hong Kong Monetary Authority and the Insurance Authority, we published a consultation paper on regulations under subsidiary legislation for the new resolution regime for financial institutions in Hong Kong.

Our senior executives attended a meeting of the Legislative Council Financial Affairs Panel in December to explain the proposals in our consultation on expanding the scope of the position limit regime.

During the quarter, our senior executives spoke at 51 local and international conferences to share our regulatory approaches on various areas. Separately, we supported eight industry events.

To enhance understanding of emerging regulatory and financial technologies and how they intersect with securities regulation, we organised the SFC Regtech and Fintech Contact Day² on 7 November with more than 150 senior delegates from financial institutions in attendance.



SFC Regtech and Fintech Contact Day

We conducted briefing sessions to the industry on preparations for the mandatory online submission of disclosure of interests in listed companies and licensing applications and notifications³.

We issued a variety of industry-related publications, including:

- the first issue of a new series of the *Enforcement Reporter*, to provide the market with updates on the SFC's enforcement approach and priorities
- the *Corporate Regulation Newsletter*, to remind the industry about timely and accurate disclosure of inside information
- the *Takeovers Bulletin*, which explained our case management procedures as well as our performance pledges on takeovers and mergers matters; and
- the biennial *Survey on the Sale of Non-exchange Traded Investment Products*, covering the types and value of investment products sold by licensed corporations.

We issued 29 circulars to inform industry participants about a wide range of initiatives, including the accountability of senior management, licensees' suitability obligations regarding sales of financial products, Shenzhen-Hong Kong Stock Connect, the over-the-counter derivatives regime and anti-money laundering.

We met with university students to introduce the SFC's regulatory work, including participants in the Hong Kong Institute of Chartered Secretaries' Student Ambassadors Programme and visitors from the Singapore Management University.

¹ See Investment products on page 7 for details.

² A part of the inaugural Hong Kong Fintech Week, the event was sponsored by InvestHK and supported by the Asia Securities Industry and Financial Markets Association and the Hong Kong Investment Funds Association.

³ See Intermediaries on page 3 for details.

Stakeholder communication

Publications and other communications

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY Change (%)
Press releases	42	98	85	15.3
Consultation papers	2	4	4	0
Consultation conclusions	0	1	5	-80
Industry-related publications	4	9	7	28.6
Codes and guidelines	0	2	2	0
Circulars to industry	29	55	50	10
Corporate website average daily page views ¹	57,465	57,455	50,746	13.2
General enquiries	1,372	4,671	5,165	-9.6

¹ The average number of web pages browsed per day during the reporting period.

Corporate Developments

The Government appointed Mr Edward Cheng as Non-Executive Director (NED) for a two-year term effective from 1 January 2017. At the same time, Prof Leonard Cheng stepped down as NED having reached the end of his six-year term. Dr Kelvin Wong was reappointed as NED for a two-year term effective from 20 October and was appointed as the Chairman of the Investor Education Centre¹ effective from 1 January 2017.

Our income for the quarter was \$283 million, 23.9% lower than the previous quarter. In the quarter, average daily turnover in Hong Kong's securities market was \$66 billion, down 7% from the last quarter. Our expenditure for the quarter was \$430 million, 1.7% higher than the previous quarter. We recorded a deficit of \$147 million this quarter. As at 31 December, our reserves stood at \$7 billion, of which \$3 billion was set aside for possible future acquisition of office premises.

Finances

(\$ million)	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Income	283	942	1,320	-28.6
Expenses including depreciation	430	1,268	1,171	8.3

During the quarter, we upgraded our information technology systems to monitor trading activities conducted under Shenzhen-Hong Kong Stock Connect and to enhance our real-time surveillance of derivatives trading on the exchange². In addition, we upgraded the SFC Online Portal for the implementation of mandatory electronic submissions³.

As of 31 December, we had 867 staff members, up from 823 a year ago.

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

² See Market infrastructure and trading on page 10 for details.

³ See Intermediaries on page 3 for details.

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	9	16	-43.8
Failure to safekeep client securities	19	42	34	23.5
Failure to maintain proper books and records	11	29	20	45
Failure to safekeep client money	17	47	38	23.7
Unlicensed dealing and other registration issues	3	12	23	-47.8
Breach of licensing conditions	3	4	7	-42.9
Breach of requirements of contract notes/statements of account/receipts	29	64	59	8.5
Failure to make filing/notification	2	5	5	0
Breach of margin requirements	3	4	5	-20
Marketing malpractices	1	1	0	N/A
Illegal short selling of securities	0	0	1	-100
Dealing malpractices	1	7	2	250
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	120	360	268	34.3
Breach of Corporate Finance Adviser Code of Conduct	0	16	9	77.8
Breach of Fund Manager Code of Conduct	17	52	45	15.6
Breach of regulation of on-line trading	1	7	13	-46.2
Non-compliance with anti-money laundering guidelines	50	168	174	-3.4
Breach of other rules and regulations of the Exchanges ²	4	12	9	33.3
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	0	0
Internal control weaknesses ³	202	461	454	1.5
Others	19	59	114	-48.2
Total	504	1,359	1,296	4.9

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

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

³ Comprising deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.

Table 2 Authorized unit trusts and mutual funds – by type and number

	Number as at 31.12.2016	Number as at 31.3.2016	Change (%)	Number as at 31.12.2015	YoY change (%)
Bond	425	404	5.2	402	5.7
Equity	1,028	1,031	-0.3	1,024	0.4
Diversified	161	140	15	128	25.8
Money market	44	46	-4.3	50	-12
Fund of funds	113	102	10.8	102	10.8
Index ¹	170	161	5.6	156	9
Guaranteed	3	3	0	3	0
Hedge	2	3	-33.3	3	-33.3
Other specialised ²	10	14	-28.6	14	-28.6
Sub-total	1,956	1,904	2.7	1,882	3.9
Umbrella structures	240	229	4.8	228	5.3
Total	2,196	2,133	3	2,110	4.1

¹ Including leveraged and inverse products.

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

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

	Total NAV (US\$ million) as at 31.12.2016 ¹	Total NAV (US\$ million) as at 31.3.2016	Change (%)	Total NAV (US\$ million) as at 31.12.2015	YoY change (%)
Bond	438,219	423,758 ²	3.4	414,296	5.8
Equity	599,102	608,782	-1.6	616,477	-2.8
Diversified	120,538	117,242	2.8	116,908	3.1
Money market	20,076	21,315	-5.8	20,267	-0.9
Fund of funds	18,530	15,651	18.4	15,829	17.1
Index ³	86,165	87,530	-1.6	78,249	10.1
Guaranteed	64	69	-7.2	72	-11.1
Hedge	29	110	-73.6	85	-65.9
Other specialised ⁴	1,379	1,576	-12.5	1,531	-9.9
Total	1,284,103⁵	1,276,033²	0.6	1,263,715⁵	1.6

¹ Beginning from 30 June 2016, total net asset value (NAV) is presented in quarterly reports. For comparison purposes, total NAV figures as of 31 March 2016 and 31 December 2015 are also presented.

² This figure differs from that disclosed in the *Annual Report 2015-16* due to revised figures reported by fund managers after the report's issuance.

³ Including leveraged and inverse products.

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

⁵ Figure does not add up to total due to rounding.

Activity Data

Table 4 Authorized unit trusts and mutual funds – by origin and number

	Number as at 31.12.2016	Number as at 31.3.2016	Change (%)	Number as at 31.12.2015	YoY change (%)
Hong Kong	705	656	7.5	636	10.8
Luxembourg	1,008	1,004	0.4	1,010	-0.2
Ireland	264	277	-4.7	280	-5.7
United Kingdom	69	65	6.2	65	6.2
Mainland China	48	27	77.8	0	N/A
Other Europe	3	0	N/A	0	N/A
Bermuda	5	5	0	5	0
Cayman Islands	86	90	-4.4	92	-6.5
Others	8	9	-11.1	22	-63.6
Total	2,196	2,133	3	2,110	4.1

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

	Total NAV (US\$ million) as at 31.12.2016 ¹	Total NAV (US\$ million) as at 31.3.2016	Change (%)	Total NAV (US\$ million) as at 31.12.2015	YoY change (%)
Hong Kong	122,667	118,172 ²	3.8	114,851	6.8
Luxembourg	850,708	860,620	-1.2	865,780	-1.7
Ireland	155,488	150,267	3.5	150,644	3.2
United Kingdom	90,499	78,830	14.8	80,035	13.1
Mainland China	15,406	10,880	41.6	5,845	163.6
Other Europe	87	0	N/A	0	N/A
Bermuda	230	292	-21.2	286	-19.6
Cayman Islands	11,226	15,253	-26.4	14,984	-25.1
Others	37,793	41,719	-9.4	31,290	20.8
Total	1,284,103³	1,276,033 ²	0.6	1,263,715	1.6

¹ Beginning from 30 June 2016, total NAV is presented in quarterly reports. For comparison purposes, total NAV figures as of 31 March 2016 and 31 December 2015 are also presented.

² This figure differs from that disclosed in the *Annual Report 2015-16* due to revised figures reported by fund managers after the report's issuance.

³ Figure does not add up to total due to rounding.

Table 6 Takeovers activities

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	27	56	35	60
Privatisations	2	10	6	66.7
Whitewash waiver applications	10	26	39	-33.3
Other applications under Code on Takeovers and Mergers ¹	93	260	249	4.4
Off-market and general offer share buy-backs	1	2	1	100
Other applications under Code on Share Buy-backs ¹	2	2	3	-33.3
Total	135	356	333	6.9
Executive Statements				
Sanctions imposed with parties' agreement ²	2	4	0	N/A
Takeovers and Mergers Panel				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	0	2	2	0
Statements issued by the Panel ³	1	2	4	-50

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

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

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

Table 7 Complaints against intermediaries and market activities

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Conduct of licensees	100	278	239	16.3
Conduct of registered institutions	7	32	22	45.5
Listing-related matters and disclosure of interests	242	571	504	13.3
Market misconduct ¹	56	154	138	11.6
Product disclosure	2	7	0	N/A
Unlicensed activities	34	92	99	-7.1
Breach of offers of investments	57	79	10	690
Other financial activities ²	170	495	565	-12.4
Total	668	1,708	1,577	8.3

¹ Primarily, alleged market manipulation and insider dealing.

² Comprising boiler rooms, insurance and bullion activities, identity frauds, etc.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2016 \$'000	Unaudited Three months ended 31 December 2015 \$'000
Income				
Levies	744,321	1,210,529	242,102	274,798
Fees and charges	105,992	100,581	37,900	30,058
Investment income	91,901	6,455	3,696	41,714
Less : custody and advisory expenses	(4,220)	(2,636)	(1,537)	(851)
Investment income net of third party expenses	87,681	3,819	2,159	40,863
Recoveries from the Investor Compensation Fund	4,133	4,015	1,353	1,328
Other income	452	1,372	11	536
	942,579	1,320,316	283,525	347,583
Expenses				
Staff costs and directors' emoluments 8(b)	903,634	824,848	301,679	275,077
Premises				
Rent	156,333	151,544	52,411	50,518
Rates, management fees and others	37,305	34,529	12,474	11,616
Other expenses	137,692	123,799	51,486	65,647
Depreciation	33,485	36,835	12,140	13,216
	1,268,449	1,171,555	430,190	416,074
(Deficit)/surplus and total comprehensive income for the period	(325,870)	148,761	(146,665)	(68,491)

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 31 December 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		63,968	73,247
Held-to-maturity debt securities	2	–	30,009
		63,968	103,256
Current assets			
Held-to-maturity debt securities	2	30,004	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		755,432	–
Pooled funds		850,908	654,585
Debtors, deposits and prepayments		129,594	122,458
Fixed deposits with banks		5,356,065	6,066,032
Cash at bank and in hand		39,620	25,649
		7,161,623	7,330,505
Current liabilities			
Fees received in advance		7,640	8,405
Creditors and accrued charges		234,859	121,969
		242,499	130,374
Net current assets		6,919,124	7,200,131
Total assets less current liabilities		6,983,092	7,303,387
Non-current liabilities	4	31,422	25,847
Net assets		6,951,670	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		3,908,830	7,234,700
		6,951,670	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 31 December 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		63,619	72,701
Held-to-maturity debt securities	2	–	30,009
		63,619	102,710
Current assets			
Held-to-maturity debt securities	2	30,004	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		755,432	–
Pooled funds		850,908	654,585
Debtors, deposits and prepayments		144,230	134,872
Fixed deposits with banks		5,356,065	6,066,032
Cash at bank and in hand		18,827	5,058
		7,155,466	7,322,328
Current liabilities			
Fees received in advance		7,640	8,405
Creditors and accrued charges		228,353	113,246
		235,993	121,651
Net current assets		6,919,473	7,200,677
Total assets less current liabilities		6,983,092	7,303,387
Non-current liabilities	4	31,422	25,847
Net assets		6,951,670	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		3,908,830	7,234,700
		6,951,670	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Reserve for property acquisition \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2015	42,840	–	7,198,353	7,241,193
Surplus and total comprehensive income for the period	–	–	148,761	148,761
Balance at 31 December 2015	42,840	–	7,347,114	7,389,954
Balance at 1 April 2016	42,840	–	7,234,700	7,277,540
Transfer to reserve for property acquisition	–	–	(3,000,000)	(3,000,000)
Reserve for property acquisition	–	3,000,000	–	3,000,000
Loss and total comprehensive income for the period	–	–	(325,870)	(325,870)
Balance at 31 December 2016	42,840	3,000,000	3,908,830	6,951,670

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000
Cash flows from operating activities		
(Deficit)/surplus for the period	(325,870)	148,761
Adjustments for:		
Depreciation	33,281	36,835
Investment income	(91,901)	(6,455)
Exchange difference	1,819	539
Loss on disposal of fixed assets	7	11
	(382,664)	179,691
Decrease in debtors, deposits and prepayments	453	22,400
Increase in creditors and accrued charges	112,890	134,338
Decrease in fees received in advance	(765)	(1,420)
Increase in non-current liabilities	5,575	3,492
Net cash (used in)/generated from operating activities	(264,511)	338,501
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	(636,644)	(1,792,487)
Interest received	49,951	54,703
Held-to-maturity debt securities redeemed at maturity	460,553	380,305
Debt securities purchased	(1,267,501)	–
Debt securities sold	502,830	–
Pooled funds purchased	(155,133)	–
Pooled funds sold	1,824	1,909
Fixed assets purchased	(24,009)	(22,403)
Net cash used in investing activities	(1,068,129)	(1,377,973)
Net decrease in cash and cash equivalents	(1,332,640)	(1,039,472)
Cash and cash equivalents at beginning of the nine-month period	1,522,116	2,104,324
Cash and cash equivalents at end of the nine-month period	189,476	1,064,852

Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2016 \$'000	Unaudited At 31 December 2015 \$'000
Fixed deposits with banks	149,856	1,048,302
Cash at bank and in hand	39,620	16,550
	189,476	1,064,852

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the SFC since the annual financial statements for the year ended 31 March 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the SFC's statutory annual financial statements for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 31 December 2016. 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 2016 to the condensed interim financial information.

There were no significant changes in the operations of the SFC for the nine months ended 31 December 2016.

2. Held-to-maturity debt securities

As of 31 December 2016, the total carrying cost of held-to-maturity debt securities amounted to \$30,004,000 (at 31 March 2016: \$491,790,000), with a market value of \$29,984,000 (at 31 March 2016: \$492,756,000).

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Cash at bank and in hand	39,620	25,649
Fixed deposits with banks	5,356,065	6,066,032
Amounts shown in the condensed consolidated statement of financial position	5,395,685	6,091,681
Less : Amounts with an original maturity of beyond three months	(5,206,209)	(4,569,565)
Cash and cash equivalents in the condensed consolidated statement of cash flows	189,476	1,522,116

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

4. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our condensed consolidated statement of profit or loss and other comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of rental expense.

5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 31 December 2016. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange fluctuation

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

7. Investment in subsidiaries

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

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

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

As at 31 December 2016, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2016: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

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

8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group 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 \$4,133,000 (2015: \$4,015,000), which is in accordance with section 242(1) of the SFO. As at 31 December 2016, the amount due to the ICF from the ICC was \$334,000 (at 31 March 2016: \$73,000).

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

8. Related party transactions (cont'd)

(b) Remuneration of key management personnel comprised:

	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000
Directors' fees and salaries, allowances and benefits in kind	23,354	23,109
Retirement scheme contributions	2,092	2,102
	25,446	25,211

The total remuneration is included in "staff costs and directors' emoluments" on page 21. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

9. Commitment to pay rents for offices

At 31 December 2016 the minimum amount we are committed to pay in rent for our offices up to 31 August 2020, being the rent review date as set out in the lease agreements, are as follows:

	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Payable next year	209,707	208,294
Payable in one to five years	527,048	87,619
Payable in more than five years	-	-
	736,755	295,913

During the period, \$156,333,000 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 (2015: \$151,544,000).

10. Funding and reserve management

During the period, the SFC has earmarked \$3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2016.

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 31 December 2016 and the financial position of the Fund as at that date are set out in the financial statements on pages 30 to 35.

Members of the Committee

The members of the Committee during the nine months ended 31 December 2016 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	(appointed on 28 September 2016)

Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman

17 February 2017

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2016 \$'000	Unaudited Three months ended 31 December 2015 \$'000
Income				
Net investment income/(loss)	26,092	(18,743)	(28,438)	10,672
Exchange difference	(736)	(571)	(576)	18
Recovery income	1	–	1	–
	25,357	(19,314)	(29,013)	10,690
Expenses				
Investor Compensation Company Limited expenses	2 4,133	4,015	1,353	1,327
Compensation expenses/(write-backs)	3 6	5,636	11	(3,800)
Auditor's remuneration	98	93	33	31
Bank charges	727	709	245	235
Professional fees	2,908	2,850	964	922
	7,872	13,303	2,606	(1,285)
Surplus/(loss) and total comprehensive income for the period	17,485	(32,617)	(31,619)	11,975

The notes on pages 34 to 35 form part of the condensed financial statements.

Condensed statement of financial position

At 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Current assets		
Financial assets designated at fair value through profit or loss		
	1,910,861	1,866,404
	293,676	282,860
	12,756	13,367
	334	73
	9,195	7,788
	3,325	43,175
	2,230,147	2,213,667
Current liabilities		
3	339	1,412
	1,444	1,376
	1,783	2,788
Net current assets		
	2,228,364	2,210,879
Net assets		
	2,228,364	2,210,879
Representing:		
Compensation fund		
	994,718	994,718
	108,923	108,923
	1,124,723	1,107,238
	2,228,364	2,210,879

The notes on pages 34 to 35 form part of the condensed financial statements.

Condensed statement of changes in equity

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Contributions from Unified Exchange Compensation Fund \$'000	Unaudited Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2015	994,718	108,923	1,111,180	2,214,821
Loss and total comprehensive income for the period	–	–	(32,617)	(32,617)
Balance at 31 December 2015	994,718	108,923	1,078,563	2,182,204
Balance at 1 April 2016	994,718	108,923	1,107,238	2,210,879
Surplus and total comprehensive income for the period	–	–	17,485	17,485
Balance at 31 December 2016	994,718	108,923	1,124,723	2,228,364

The notes on pages 34 to 35 form part of the condensed financial statements.

Condensed statement of cash flows

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000
Cash flows from operating activities		
Surplus/(loss) for the period	17,485	(32,617)
Adjustments for:		
Net investment (income)/loss	(26,092)	18,743
Exchange difference	736	571
	(7,871)	(13,303)
Increase in amount due from Investor Compensation Company Limited	(261)	(102)
Decrease in provision for compensation	(1,073)	(25,729)
Increase/(decrease) in creditors and accrued charges	68	(17)
Net cash used in operating activities	(9,137)	(39,151)
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	–	(3,035)
Purchase of debt securities	(407,885)	(440,175)
Sale or maturity of debt securities	341,989	397,362
Sale of equity securities	1,081	1,107
Interest received	35,509	36,619
Net cash used in investing activities	(29,306)	(8,122)
Net decrease in cash and cash equivalents	(38,443)	(47,273)
Cash and cash equivalents at beginning of the nine-month period	50,963	54,045
Cash and cash equivalents at end of the nine-month period	12,520	6,772

Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2016 \$'000	Unaudited At 31 December 2015 \$'000
Fixed deposits with banks	9,195	4,411
Cash at bank	3,325	2,361
	12,520	6,772

The notes on pages 34 to 35 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2016. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 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 2016 to the condensed interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2016.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of the ICC. For the nine months ended 31 December 2016, the ICC incurred \$4,133,000 for its operations (for the nine months ended 31 December 2015: \$4,015,000).

3. Provision for compensation

	\$'000
Balance as at 1 April 2015	43,808
Add: compensation expenses during the year ended 31 March 2016	11,142
Less: compensation write-backs during the year ended 31 March 2016	(3,801)
Less: compensation paid during the year ended 31 March 2016	(49,737)
Balance as at 31 March 2016 and 1 April 2016	1,412
Add: compensation expenses during the nine months ended 31 December 2016	300
Less: compensation write-backs during the nine months ended 31 December 2016	(294)
Less: compensation paid during the nine months ended 31 December 2016	(1,079)
Balance as at 31 December 2016	339

As at 31 December 2016, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 31 December 2016 was \$339,000 (31 March 2016: \$1,412,000). As at 31 December 2016, all provisions were expected to be paid within one year.

Notes to the condensed financial statements

For the Nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

4. Material related party transactions

We have related party relationships with the SFC, the ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the nine months ended 31 December 2015 and 2016.

5. Contingent liabilities

As at the date of this report, in addition to the provision made as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims is \$3,008,000 (31 March 2016: \$2,619,000). 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 quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2016.

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 31 December 2016, the Fund transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

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

Financial statements

The financial performance of the Fund for the reporting period ended 31 December 2016 and the financial position of the Fund as at that date are set out in the financial statements on pages 37 to 42.

Members of the Committee

The members of the Committee during the nine months ended 31 December 2016 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	(appointed on 28 September 2016)

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 nine months.

On behalf of the Committee

Keith Lui
Chairman

13 February 2017

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2016 \$'000	Unaudited Three months ended 31 December 2015 \$'000
Income				
Interest income	375	389	129	118
Expenses				
Recoveries re-distributed	1,152	–	–	–
Auditor's remuneration	41	39	14	13
Professional fees	19	18	–	–
Sundry expenses	3	–	–	–
	1,215	57	14	13
(Loss)/surplus and total comprehensive income for the period	(840)	332	115	105

The notes on pages 41 to 42 form part of the condensed financial statements.

Condensed statement of financial position

At 31 December 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		58	59
Fixed deposits with banks		83,303	82,179
Cash at bank		93	278
		83,455	82,517
Current liabilities			
Relinquished trading rights payable to SEHK	4	600	800
Creditors and accrued charges		10,784	10,306
		11,384	11,106
Net current assets			
Net assets			
Representing:			
Compensation fund			
Contributions from SEHK	4	50,550	49,050
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		25,950	26,790
		1,066,789	1,066,129
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		72,071	71,411

The notes on pages 41 to 42 form part of the condensed financial statements.

Condensed statement of changes in equity

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Contributions from SEHK \$'000	Unaudited Excess transaction levy from SEHK \$'000	Unaudited Special contributions and special levy surplus \$'000	Unaudited Additional contributions from SEHK and the SFC \$'000	Unaudited Accumulated surplus \$'000	Unaudited Contributions to Investor Compensation Fund \$'000	Unaudited Total \$'000
Balance at 1 April 2015	48,100	353,787	6,502	630,000	26,342	(994,718)	70,013
Net contributions from SEHK	650	-	-	-	-	-	650
Surplus and total comprehensive income for the period	-	-	-	-	332	-	332
Balance at 31 December 2015	48,750	353,787	6,502	630,000	26,674	(994,718)	70,995
Balance at 1 April 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411
Net contributions from SEHK	1,500	-	-	-	-	-	1,500
Loss and total comprehensive income for the period	-	-	-	-	(840)	-	(840)
Balance at 31 December 2016	50,550	353,787	6,502	630,000	25,950	(994,718)	72,071

The notes on pages 41 to 42 form part of the condensed financial statements.

Condensed statement of cash flows

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000
Cash flows from operating activities		
(Loss)/surplus for the period	(840)	332
Adjustments for:		
Interest income	(375)	(389)
	(1,215)	(57)
Decrease in relinquished trading rights payable to SEHK	(200)	(1,150)
Increase/(decrease) in creditors and accrued charges	478	(11)
Net cash used in operating activities	(937)	(1,218)
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	–	(28,074)
Interest received	376	397
Net cash generated from/(used in) investing activities	376	(27,677)
Cash flows from financing activities		
Net contributions from SEHK	1,500	650
Net cash generated from financing activities	1,500	650
Net increase/(decrease) in cash and cash equivalents	939	(28,245)
Cash and cash equivalents at beginning of the nine-month period	82,457	82,357
Cash and cash equivalents at end of the nine-month period	83,396	54,112

Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2016 \$'000	Unaudited At 31 December 2015 \$'000
Fixed deposits with banks	83,303	53,988
Cash at bank	93	124
	83,396	54,112

The notes on pages 41 to 42 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2016. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 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 2016 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2016.

2. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 December 2016 after deducting relevant processing fees and charges for collecting and selling the shares received.

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

3. Recoveries re-distributed

The Fund received recoveries by virtue of the SFC's subrogation rights in respect of claimants who received compensation payments from the Fund. On 17 May 2016, the Securities Compensation Fund Committee of the SFC decided to return the excess amount and relevant interest amount totalled to \$1,152,000 to some of the claimants of the C.A. Pacific case. The excess amount for each claimant represents the excess of total recovered amount from the liquidators over the compensation amount paid to the claimant.

Notes to the condensed financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

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

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished.

During the nine-month period, deposits of \$1,700,000 in respect of 34 new trading rights were received from SEHK and deposits of \$400,000 in respect of eight trading rights were refunded to SEHK.

At 31 December 2016, there were 12 trading rights for \$600,000 in total that have been relinquished but not yet refunded (at 31 March 2016: 16). The net contributions from SEHK at 31 December 2016, excluding the relinquished trading rights payable, amounted to \$50,550,000 (at 31 March 2016: \$49,050,000).

5. Material related party transactions

We have related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the nine months ended 31 December 2015 and 2016.

6. Contingent liabilities

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

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

Securities and Futures Commission

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