

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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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.