

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 quarter ended 30 June 2017.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2017 and the financial position of the Fund's affairs as at that date are set out in the unaudited condensed financial statements on pages 39 to 44.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2017 and up to the date of this report were:

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

Interests in contracts

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

On behalf of the Committee

Keith Lui
 Chairman

7 August 2017

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Income		
Interest income	160	126
Expenses		
Recoveries re-distributed	–	1,152
Auditor's remuneration	14	14
Professional fees	10	9
Bank charges	–	3
	24	1,178
Surplus/(loss) and total comprehensive income for the quarter	136	(1,052)

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		66	77
Fixed deposits with banks		84,341	83,744
Accounts receivable		10	–
Cash at bank		550	332
		84,968	84,154
Current liabilities			
Creditors and accrued charges		10,591	10,663
Relinquished trading rights payable to SEHK	3	800	600
		11,391	11,263
Net current assets			
		73,577	72,891
Net assets			
		73,577	72,891
Representing:			
Compensation fund			
Contributions from SEHK	3	51,750	51,200
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		26,256	26,120
		1,068,295	1,067,609
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		73,577	72,891

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Contributions from SEHK \$'000	Excess transaction levy from SEHK \$'000	Special contributions and special levy surplus \$'000	Additional contributions from SEHK and the SFC \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund \$'000	Total \$'000
Balance at 1 April 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411
Net contributions from SEHK	150	-	-	-	-	-	150
Loss and total comprehensive income for the quarter	-	-	-	-	(1,052)	-	(1,052)
Balance at 30 June 2016	49,200	353,787	6,502	630,000	25,738	(994,718)	70,509
Balance at 1 April 2017	51,200	353,787	6,502	630,000	26,120	(994,718)	72,891
Net contributions from SEHK	550	-	-	-	-	-	550
Surplus and total comprehensive income for the quarter	-	-	-	-	136	-	136
Balance at 30 June 2017	51,750	353,787	6,502	630,000	26,256	(994,718)	73,577

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Cash flows from operating activities		
Surplus/(loss) for the quarter	136	(1,052)
Adjustment for:		
Interest income	(160)	(126)
	(24)	(1,178)
Increase in accounts receivable	(10)	–
(Decrease)/increase in creditors and accrued charges	(72)	26
Increase in relinquished trading rights payable to SEHK	200	200
<i>Net cash generated from/(used in) operating activities</i>	94	(952)
Cash flows from investing activities		
Interest received	171	138
<i>Net cash generated from investing activities</i>	171	138
Cash flows from financing activities		
Net contributions from SEHK	550	150
<i>Net cash generated from financing activities</i>	550	150
Net increase/(decrease) in cash and cash equivalents	815	(664)
Cash and cash equivalents at beginning of the quarter	84,076	82,457
Cash and cash equivalents at end of the quarter	84,891	81,793

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2017 \$'000	Unaudited at 30 June 2016 \$'000
Fixed deposits with banks	84,341	81,619
Cash at bank	550	174
	84,891	81,793

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

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

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

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

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2017.

2. Equity securities received under subrogation

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

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

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

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

During the quarter, deposits of \$750,000 in respect of 15 new trading rights were received from SEHK and no trading rights was refunded.

At 30 June 2017, there were 16 trading rights in total of \$800,000 that have been relinquished but not yet refunded (at 31 March 2017: 12). The net contributions from SEHK at 30 June 2017, excluding the relinquished trading rights payable, amounted to \$51,750,000 (at 31 March 2017: \$51,200,000).

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

4. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the quarters ended 30 June 2016 and 2017.

5. Contingent liabilities

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

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