

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 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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 31 December 2017, 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 2017 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 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 nine months.

On behalf of the Committee

Keith Lui
 Chairman

5 February 2018

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended		Unaudited Three months ended	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Income				
Interest income	456	375	164	129
Expenses				
Recoveries re-distributed	–	1,152	–	–
Auditors' remuneration	63	60	14	14
Sundry expenses	–	3	–	–
	63	1,215	14	14
Surplus/(loss) and total comprehensive income for the period	393	(840)	150	115

Highlights

Operational Review

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

Unified Exchange Compensation Fund

Condensed statement of financial position

At 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2017 \$'000	Audited At 31 Mar 2017 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		80	77
Accounts receivable		59	-
Fixed deposits with banks		85,708	83,744
Cash at bank		563	332
		86,411	84,154
Current liabilities			
Creditors and accrued charges		10,327	10,663
Relinquished trading rights payable to SEHK	4	700	600
		11,027	11,263
Net current assets			
		75,384	72,891
Net assets			
Representing :			
Compensation fund			
Contributions from SEHK	4	53,300	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		26,513	26,120
		1,070,102	1,067,609
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		75,384	72,891

Highlights

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Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Unaudited						Total
	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	\$'000
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
Balance at 1 April 2017	51,200	353,787	6,502	630,000	26,120	(994,718)	72,891
Net contributions from SEHK	2,100	-	-	-	-	-	2,100
Surplus and total comprehensive income for the period	-	-	-	-	393	-	393
Balance at 31 December 2017	53,300	353,787	6,502	630,000	26,513	(994,718)	75,384

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

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
Cash flows from operating activities			
Surplus/(loss) for the period		393	(840)
Adjustments for:			
Interest income		(456)	(375)
		(63)	(1,215)
Increase in accounts receivable		(59)	-
(Decrease)/increase in creditors and accrued charges		(336)	478
Increase/(decrease) in relinquished trading rights payable to SEHK		100	(200)
<i>Net cash used in operating activities</i>		(358)	(937)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(20,891)	-
Interest received		453	376
<i>Net cash (used in)/generated from investing activities</i>		(20,438)	376
Cash flows from financing activities			
Net contributions from SEHK		2,100	1,500
<i>Net cash generated from financing activities</i>		2,100	1,500
Net (decrease)/increase in cash and cash equivalents		(18,696)	939
Cash and cash equivalents at beginning of the nine-month period		84,076	82,457
Cash and cash equivalents at end of the nine-month period	3	65,380	83,396

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2017 \$'000	At 31 Dec 2016 \$'000
Fixed deposits with banks	64,817	83,303
Cash at bank	563	93
	65,380	83,396

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

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 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 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, *Fair value measurement*. According to HKFRS 13, *Financial Instruments: Recognition and 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. Cash and cash equivalents

Reconciliation with the condensed statement of financial position

	Unaudited At 31 Dec 2017 \$'000	Audited At 31 Mar 2017 \$'000
Cash at bank	563	332
Fixed deposits with banks	85,708	83,744
Amounts shown in the condensed statement of financial position	86,271	84,076
Less : Amounts with an original maturity of beyond three months	(20,891)	-
Cash and cash equivalents in the condensed statement of cash flows	65,380	84,076

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2017 (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 \$2,450,000 in respect of 49 new trading rights were received from SEHK and deposits of \$250,000 in respect of 5 relinquished trading rights were refunded to SEHK.

At 31 December 2017, there were 14 trading rights in total of \$700,000 that have been relinquished but not yet refunded (at 31 March 2017: 12). The net contributions from SEHK at 31 December 2017, excluding the relinquished trading rights payable, amounted to \$53,300,000 (at 31 March 2017: \$51,200,000).

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 2016 and 2017.

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.