

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 2021.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 June 2021, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 41 to 46.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Mr Thomas Allan Atkinson
Dr Lin, James C.
Mr Yiu Ka Yan Wilfred
Ms Kwok Hom Siu Sally

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

Rico Leung
Chairman

2 August 2021

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Income			
Interest income		44	382
Recoveries	2	–	3,626
		44	4,008
Expenses			
Auditor's remuneration		27	27
Surplus and total comprehensive income for the quarter		17	3,981

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Current assets			
Interest receivable		20	27
Fixed deposits with banks		97,569	97,518
Cash at bank		122	336
		97,711	97,881
Current liabilities			
Creditors and accrued charges		10,272	10,309
Relinquished trading rights payable to SEHK	4	1,450	1,500
		11,722	11,809
Net current assets		85,989	86,072
Net assets		85,989	86,072
Representing:			
Compensation fund		85,989	86,072

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to ICF \$'000		
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045	
Net contributions to SEHK	(250)	-	-	-	-	-	(250)	
Surplus and total comprehensive income for the quarter	-	-	-	-	3,981	-	3,981	
Balance at 30 June 2020	55,200	353,787	630,000	6,502	35,005	(994,718)	85,776	
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072	
Net contributions to SEHK	(100)	-	-	-	-	-	(100)	
Surplus and total comprehensive income for the quarter	-	-	-	-	17	-	17	
Balance at 30 June 2021	54,650	353,787	630,000	6,502	35,768	(994,718)	85,989	

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Cash flows from operating activities			
Surplus for the quarter		17	3,981
Adjustment for:			
Interest income		(44)	(382)
		(27)	3,599
Decrease in creditors and accrued charges		(37)	(34)
Decrease in relinquished trading rights payable to SEHK		(50)	(150)
Net cash (used in)/generated from operating activities		(114)	3,415
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		44,949	61,350
Interest received		51	426
Net cash generated from investing activities		45,000	61,776
Cash flows from financing activities			
Net trading rights deposits refunded to SEHK		(100)	(250)
Net cash used in financing activities		(100)	(250)
Net increase in cash and cash equivalents		44,786	64,941
Cash and cash equivalents at the beginning of the quarter		52,905	31,999
Cash and cash equivalents at the end of the quarter	3	97,691	96,940

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2021 \$'000	At 30 Jun 2020 \$'000
Fixed deposits with banks	97,569	96,606
Cash at bank	122	334
	97,691	96,940

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2021.

2. Recoveries/Equity securities received under subrogation

There was no recovery recorded for the quarter ended 30 June 2021. For the quarter ended 30 June 2020, the Fund recognised as recoveries the payment of \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd.

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

As at 30 June 2021, the equity securities received under subrogation amounted to \$159 (as at 31 March 2021: \$150). The balances as at 30 June 2021 and 31 March 2021 are too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	122	336
Fixed deposits with banks	97,569	97,518
Amounts shown in the condensed statement of financial position	97,691	97,854
Less: Amounts with an original maturity beyond three months	–	(44,949)
Cash and cash equivalents in the condensed statement of cash flows	97,691	52,905

4. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. 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 \$100,000 in respect of 2 new trading rights were received from SEHK and deposits of \$250,000 in respect of 5 relinquished trading rights were refunded to SEHK. As at 30 June 2021, 29 trading rights totalling \$1,450,000 were relinquished but not yet refunded (as at 31 March 2021: 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the quarter was as follows:

	Unaudited quarter ended	
	30 Jun 2021 \$'000	30 Jun 2020 \$'000
Balance brought forward	54,750	55,450
Add: new trading rights issued	100	200
Less: relinquished trading rights refunded	(250)	(600)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	50	150
Balance carried forward	54,650	55,200

5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the quarters ended 30 June 2021 and 2020.