

Securities and Futures Commission

Report on review of interim financial information To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Introduction

We have reviewed the interim financial information set out on pages 27 to 34, which comprises the condensed consolidated statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2021 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the SFC are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 November 2021

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income		
Levies	619,799	550,849
Fees and charges	41,603	55,481
Net investment (loss)/income		
Investment (loss)/income	(53,578)	127,137
Less: custody and advisory expenses	(2,927)	(2,481)
Recoveries from the Investor Compensation Fund	1,428	1,447
Exchange gain/(loss)	11,771	(381)
Other income	82	86
	618,178	732,138
Expenses		
Staff costs and directors' emoluments	348,442	386,063
Depreciation		
Fixed assets	22,690	22,817
Right-of-use assets	35,635	71,175
Other premises expenses	8,334	15,364
Finance costs	2,000	2,306
Other expenses	46,221	28,293
	463,322	526,018
Surplus and total comprehensive income for the quarter	154,856	206,120

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income			
Levies		1,153,923	964,960
Fees and charges		91,360	108,504
Net investment (loss)/income			
Investment (loss)/income		(20,876)	286,840
Less: custody and advisory expenses		(5,911)	(4,501)
Recoveries from the Investor Compensation Fund	6(a)	2,852	3,006
Exchange gain/(loss)		6,304	(624)
Other income		227	229
		1,227,879	1,358,414
Expenses			
Staff costs and directors' emoluments	6(b)	707,674	746,503
Depreciation			
Fixed assets		45,429	39,545
Right-of-use assets		71,271	158,980
Other premises expenses		16,529	34,838
Finance costs		4,074	4,788
Other expenses		84,980	62,632
		929,957	1,047,286
Surplus and total comprehensive income for the period		297,922	311,128

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Non-current assets			
Fixed assets		261,292	291,496
Right-of-use assets		906,990	978,261
Deposits for leases		37,800	37,656
Financial assets at amortised costs – debt securities		3,025,065	3,023,857
		4,231,147	4,331,270
Current assets			
Financial assets at amortised costs – debt securities		142,290	107,673
Financial assets at fair value through profit or loss			
Debt securities		424,765	425,610
Pooled funds		958,111	1,018,610
Debtors, deposits and prepayments		291,948	336,704
Fixed deposits with banks		3,118,415	2,641,008
Cash held for Grant Scheme	3	81,513	–
Cash at bank and in hand		48,632	65,287
		5,065,674	4,594,892
Current liabilities			
Fees received in advance		7,377	8,198
Creditors and accrued charges		328,645	186,408
Lease liabilities		137,726	137,461
Provisions for reinstatement cost		574	574
		474,322	332,641
Net current assets		4,591,352	4,262,251
Total assets less current liabilities		8,822,499	8,593,521
Non-current liabilities			
Lease liabilities		761,943	830,887
Provisions for reinstatement cost		88,346	88,346
		850,289	919,233
Net assets		7,972,210	7,674,288
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,125,000	3,125,000
Accumulated surplus		4,804,370	4,506,448
		7,972,210	7,674,288

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited			Total \$'000
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the period	–	–	311,128	311,128
Balance at 30 September 2020	42,840	3,000,000	3,963,208	7,006,048
Balance at 1 April 2021	42,840	3,125,000	4,506,448	7,674,288
Surplus and total comprehensive income for the period	–	–	297,922	297,922
Balance at 30 September 2021	42,840	3,125,000	4,804,370	7,972,210

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Cash flows from operating activities			
Surplus for the period		297,922	311,128
Adjustments for:			
Depreciation – Fixed assets		45,429	39,545
Depreciation – Right-of-use assets		71,271	158,980
Provisions for reinstatement cost		–	(12,196)
Finance costs		4,074	4,788
Interest income on deposits for leases		(143)	(141)
Investment loss/(income)		20,876	(286,840)
Exchange (gain)/loss		(6,338)	476
(Gain)/loss on disposal of fixed assets		(58)	4,889
		433,033	220,629
Increase in right-of-use assets		–	(40)
Decrease/(increase) in debtors, deposits and prepayments		44,601	(13,431)
Increase in cash held for Grant Scheme		(81,513)	–
Decrease in fees received in advance		(821)	(30,613)
Increase in creditors and accrued charges		150,859	68,714
Decrease in provisions for reinstatement		–	(28,426)
Net cash generated from operating activities		546,159	216,833
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		193,875	911,731
Interest received		51,612	67,363
Debt securities at fair value through profit or loss purchased		(344,879)	(122,672)
Debt securities at fair value through profit or loss sold or redeemed		346,978	116,259
Pooled funds sold		3,190	2,183
Debt securities at amortised cost purchased		(68,643)	(793,213)
Debt securities at amortised cost redeemed at maturity		22,530	604,613
Fixed assets purchased		(23,847)	(131,389)
Proceeds from fixed assets disposal		58	1
Net cash generated from investing activities		180,874	654,876
Cash flows from financing activities			
Principal element of lease payments		(68,679)	(80,833)
Interest element of lease payments		(4,074)	(4,788)
Net cash used in financing activities		(72,753)	(85,621)
Net increase in cash and cash equivalents		654,280	786,088
Cash and cash equivalents at the beginning of the six-month period		855,099	753,406
Cash and cash equivalents at the end of the six-month period	2	1,509,379	1,539,494

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	1,460,747	1,417,264
Cash at bank and in hand	48,632	122,230
	1,509,379	1,539,494

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have 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.

This 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 Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) 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 (HKFRS).

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 Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 30 September 2021. We eliminated all material intra-group 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 2021 to the interim financial information.

There were no significant changes in the operations of the Group for the six months ended 30 September 2021.

2. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank and in hand	48,632	65,287
Fixed deposits with banks	3,118,415	2,641,008
Amounts shown in the condensed consolidated statement of financial position	3,167,047	2,706,295
Less: Amounts with an original maturity beyond three months	(1,657,668)	(1,851,196)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,509,379	855,099

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

3. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government of the Hong Kong Special Administrative Region (the Government) to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in the creditors and accrued charges.

4. Exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

5. Investments 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 IFEC 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 IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 30 September 2021, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2021: \$0.2).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

6. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) – Dealers’ Deposits Fund and Commodities Trading Ordinance (Chapter 250) – Dealers’ Deposits Fund. In addition to the related parties transactions disclosed in elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions.

(a) Reimbursement from the ICF for all the ICC’s expenses, in accordance with Section 242(1) of the SFO

During the period, \$2,852,000 was recovered from the ICF for the ICC’s expenses (30 September 2020: \$3,006,000). As at 30 September 2021, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$486,000 (as at 31 March 2021: \$242,000).

(b) Remuneration of key management personnel

	Unaudited Six months ended	
	30 Sep 2021 \$’000	30 Sep 2020 \$’000
Directors’ fees and salaries, allowances and benefits in kind	16,742	17,109
Retirement scheme contributions	1,491	1,538
	18,233	18,647

The total remuneration is included in “staff costs and directors’ emoluments” on page 27. 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.

(c) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED had continued to provide services in respect of matters that commenced prior to his appointment on 1 August 2020. Fees paid or payable to him for such services amounted to \$242,000 (30 September 2020: nil) for the period under normal commercial terms and conditions.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

7. Fair value measurement

(a) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*, which is consistent with the hierarchy adopted in the consolidated financial statements for the year ended 31 March 2021.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>As at 30 September 2021 (Unaudited)</u>				
Debt securities	–	424,765	–	424,765
Pooled funds	958,111	–	–	958,111
	958,111	424,765	–	1,382,876
<u>As at 31 March 2021 (Audited)</u>				
Debt securities	–	425,610	–	425,610
Pooled funds	1,018,610	–	–	1,018,610
	1,018,610	425,610	–	1,444,220

During the six months ended 30 September 2021 and year ended 31 March 2021, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 September and 31 March 2021 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount \$'000	Fair value			Level 3 \$'000
		Total \$'000	Level 1 \$'000	Level 2 \$'000	
<u>As at 30 September 2021 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,167,355	3,208,851	–	3,208,851	–
<u>As at 31 March 2021 (Audited)</u>					
Financial assets at amortised costs					
– debt securities	3,131,530	3,159,434	–	3,159,434	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

The fair value of listed debt securities is based on quoted prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair value for unlisted debt investments are based on third-party quotes.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2021.

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 30 September 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 37 to 43.

Members of the Committee

The members of the Committee during the six months ended 30 September 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 Kok Ka Keung Kenneth

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 six months.

On behalf of the Committee

Rico Leung
Chairman

24 November 2021

Investor Compensation Fund

Report on review of interim financial information To the Securities and Futures Commission

Introduction

We have reviewed the interim financial information set out on pages 38 to 43, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2021 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 November 2021

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income		
Interest income	1,357	5,306
Exchange gain/(loss)	3,278	(79)
	4,635	5,227
Expenses		
Investor Compensation Company Limited expenses	1,428	1,447
Auditor's remuneration	55	55
	1,483	1,502
Surplus and total comprehensive income for the quarter	3,152	3,725

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income			
Interest income		3,031	15,479
Exchange gain/(loss)		1,780	(157)
		4,811	15,322
Expenses			
Investor Compensation Company Limited expenses	2	2,852	3,006
Auditor's remuneration		110	110
		2,962	3,116
Surplus and total comprehensive income for the period		1,849	12,206

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Current assets			
Interest receivable		616	2,174
Due from Investor Compensation Company Limited		486	242
Fixed deposits with banks		2,447,843	2,444,671
Cash at bank		582	633
		2,449,527	2,447,720
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		232	274
		3,626	3,668
Net current assets		2,445,901	2,444,052
Net assets		2,445,901	2,444,052
Representing:			
Compensation fund		2,445,901	2,444,052

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the period	–	–	12,206	12,206
Balance at 30 September 2020	994,718	108,923	1,336,829	2,440,470
Balance at 1 April 2021	994,718	108,923	1,340,411	2,444,052
Surplus and total comprehensive income for the period	–	–	1,849	1,849
Balance at 30 September 2021	994,718	108,923	1,342,260	2,445,901

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Cash flows from operating activities			
Surplus for the period		1,849	12,206
Adjustments for:			
Interest income		(3,031)	(15,479)
Exchange (gain)/loss		(1,780)	157
		(2,962)	(3,116)
Increase in amount due from Investor Compensation Company Limited		(244)	(317)
Decrease in creditors and accrued charges		(42)	(36)
Net cash used in operating activities		(3,248)	(3,469)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		527,376	641,554
Interest received		4,589	18,404
Net cash generated from investing activities		531,965	659,958
Net increase in cash and cash equivalents		528,717	656,489
Cash and cash equivalents at the beginning of the six-month period		647,514	1,086,662
Cash and cash equivalents at the end of the six-month period	3	1,176,231	1,743,151

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	1,175,649	1,742,714
Cash at bank	582	437
	1,176,231	1,743,151

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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.

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 six months ended 30 September 2021.

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. The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2021, the ICC incurred costs of \$2,852,000 for its operation (for the six months ended 30 September 2020: \$3,006,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank	582	633
Fixed deposits with banks	2,447,843	2,444,671
Amounts shown in the condensed statement of financial position	2,448,425	2,445,304
Less: Amounts with an original maturity beyond three months	(1,272,194)	(1,797,790)
Cash and cash equivalents in the condensed statement of cash flows	1,176,231	647,514

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

4. Provision for compensation

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit to claims is \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

The provision of compensation as at 30 September 2021 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2021: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision was expected to be paid within one year.

5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 2021 and 2020.

6. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there are 12 outstanding claims as at the date of this report (10 outstanding claims as at the date of the report of 31 March 2021). The maximum liability in respect of these claims in aggregate is \$1,875,000 (31 March 2021: \$1,575,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

7. Exchange risk

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. As at 30 September 2021 and 31 March 2021, all financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the six months ended 30 September 2021 and 2020, the Fund's exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 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 September 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 September 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 52.

Members of the Committee

The members of the Committee during the six months ended 30 September 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 six months.

On behalf of the Committee

Rico Leung
Chairman

11 November 2021

Unified Exchange Compensation Fund

Report on review of interim financial information To the Securities and Futures Commission

Introduction

We have reviewed the interim financial information set out on pages 47 to 52, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2021 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 November 2021

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income		
Interest income	36	189
Expense		
Auditor's remuneration	27	27
Surplus and total comprehensive income for the quarter	9	162

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income			
Interest income		80	571
Recoveries	2	–	3,626
		80	4,197
Expense			
Auditor's remuneration		54	54
Surplus and total comprehensive income for the period		26	4,143

The notes on pages 51 and 52 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Current assets			
Interest receivable		16	27
Fixed deposits with banks		97,579	97,518
Cash at bank		502	336
		98,097	97,881
Current liabilities			
Creditors and accrued charges		10,299	10,309
Relinquished trading rights payable to SEHK	4	1,500	1,500
		11,799	11,809
Net current assets		86,298	86,072
Net assets		86,298	86,072
Representing:			
Compensation fund		86,298	86,072

The notes on pages 51 and 52 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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 the 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	(350)	-	-	-	-	-	(350)	
Surplus and total comprehensive income for the period	-	-	-	-	4,143	-	4,143	
Balance at 30 September 2020	55,100	353,787	630,000	6,502	35,167	(994,718)	85,838	
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072	
Net contributions from SEHK	200	-	-	-	-	-	200	
Surplus and total comprehensive income for the period	-	-	-	-	26	-	26	
Balance at 30 September 2021	54,950	353,787	630,000	6,502	35,777	(994,718)	86,298	

The notes on pages 51 and 52 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Cash flows from operating activities			
Surplus for the period		26	4,143
Adjustment for:			
Interest income		(80)	(571)
		(54)	3,572
Decrease in creditors and accrued charges		(10)	(7)
Increase in relinquished trading rights payable to SEHK		–	50
Net cash (used in)/generated from operating activities		(64)	3,615
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		23,877	53,055
Interest received		91	758
Net cash generated from investing activities		23,968	53,813
Cash flows from financing activities			
Net trading rights deposits received from/(refunded to) SEHK		200	(350)
Net cash generated from/(used in) financing activities		200	(350)
Net increase in cash and cash equivalents		24,104	57,078
Cash and cash equivalents at the beginning of the six-month period		52,905	31,999
Cash and cash equivalents at the end of the six-month period	3	77,009	89,077

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	76,507	88,807
Cash at bank	502	270
	77,009	89,077

The notes on pages 51 and 52 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 2021.

2. Recoveries/Equity securities received under subrogation

There was no recovery recorded for the six months ended 30 September 2021. For the six months ended 30 September 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 September 2021, the equity securities received under subrogation amounted to \$130 (as at 31 March 2021: \$150). The balances as at 30 September 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 six months ended 30 September 2021 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank	502	336
Fixed deposits with banks	97,579	97,518
Amounts shown in the condensed statement of financial position	98,081	97,854
Less: Amounts with an original maturity beyond three months	(21,072)	(44,949)
Cash and cash equivalents in the condensed statement of cash flows	77,009	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 six-month period, deposits of \$700,000 in respect of 14 new trading rights were received from SEHK and deposits of \$500,000 in respect of 10 relinquished trading rights were refunded to SEHK. As at 30 September 2021, 30 trading rights totalling \$1,500,000 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 period was as follows:

	Unaudited Six months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
Balance at the beginning of the six-month period	54,750	55,450
Add: new trading rights issued	700	300
Less: relinquished trading rights refunded	(500)	(600)
Adjustment for: net increase in relinquished trading rights payable to SEHK	-	(50)
Balance at the end of the six-month period	54,950	55,100

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 six months ended 30 September 2021 and 2020.