

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | | Unaudited Three months ended | |
|--|------|--------------------------------|-----------------------|---------------------------------|-----------------------|
| | | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Income | | | | | |
| Levies | | 1,275,786 | 1,619,185 | 462,612 | 465,262 |
| Fees and charges | | 80,056 | 124,743 | 24,381 | 33,383 |
| Net investment (loss)/income | | | | | |
| Investment (loss)/income | | (10,091) | 8,418 | 145,149 | 29,294 |
| Less: custody and advisory expenses | | (7,537) | (8,810) | (2,455) | (2,899) |
| Recoveries from the Investor Compensation Fund | 7(a) | 4,437 | 4,258 | 1,480 | 1,406 |
| Exchange (loss)/gain | | (16,152) | 13,560 | (27,381) | 7,256 |
| Other income | | 1,668 | 1,425 | 219 | 1,198 |
| | | 1,328,167 | 1,762,779 | 604,005 | 534,900 |
| Expenses | | | | | |
| Staff costs and directors' emoluments | 7(b) | 1,132,896 | 1,060,078 | 376,123 | 352,404 |
| Depreciation | | | | | |
| Fixed assets | | 82,335 | 70,580 | 27,329 | 25,151 |
| Right-of-use assets | | 109,603 | 107,566 | 36,560 | 36,295 |
| Other premises expenses | | 26,517 | 25,062 | 8,926 | 8,533 |
| Finance costs | | 5,122 | 6,001 | 1,634 | 1,927 |
| Other expenses | | 146,260 | 121,247 | 55,293 | 36,267 |
| | | 1,502,733 | 1,390,534 | 505,865 | 460,577 |
| (Deficit)/surplus and total comprehensive income for the period | | (174,566) | 372,245 | 98,140 | 74,323 |

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

As at 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited At 31 Dec 2022 \$'000 | Audited At 31 Mar 2022 \$'000 |
|---|------|---------------------------------------|-------------------------------------|
| Non-current assets | | | |
| Fixed assets | | 230,750 | 263,235 |
| Right-of-use assets | | 737,352 | 846,508 |
| Deposits for leases | | 37,536 | 38,118 |
| Financial assets at amortised costs – debt securities | 8 | 2,940,113 | 3,007,591 |
| | | 3,945,751 | 4,155,452 |
| Current assets | | | |
| Financial assets at amortised costs – debt securities | 8 | 311,982 | 184,105 |
| Financial assets at fair value through profit or loss | | | |
| Debt securities | 8 | 393,478 | 403,442 |
| Pooled funds | 8 | 794,475 | 891,958 |
| Debtors, deposits and prepayments | | 265,712 | 310,861 |
| Fixed deposits with banks | 3 | 3,194,675 | 3,015,832 |
| Cash held for Grant Scheme | 4 | 129,563 | 69,296 |
| Cash at bank and in hand | 3 | 64,091 | 157,790 |
| | | 5,153,976 | 5,033,284 |
| Current liabilities | | | |
| Fees received in advance | | 7,976 | 7,689 |
| Creditors and accrued charges | | 427,048 | 235,589 |
| Lease liabilities | | 118,873 | 119,326 |
| Provisions for reinstatement cost | | 873 | – |
| | | 554,770 | 362,604 |
| Net current assets | | 4,599,206 | 4,670,680 |
| Total assets less current liabilities | | 8,544,957 | 8,826,132 |
| Non-current liabilities | | | |
| Lease liabilities | | 616,453 | 722,189 |
| Provisions for reinstatement cost | | 88,047 | 88,920 |
| | | 704,500 | 811,109 |
| Net assets | | 7,840,457 | 8,015,023 |
| Funding and reserves | | | |
| Initial funding by Government | | 42,840 | 42,840 |
| Reserve for property acquisition | | 3,250,000 | 3,250,000 |
| Accumulated surplus | | 4,547,617 | 4,722,183 |
| | | 7,840,457 | 8,015,023 |

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Unaudited | | | |
|---|---|--|-------------------------------|------------------|
| | Initial funding by Government \$'000 | Reserve for property acquisition \$'000 | Accumulated surplus \$'000 | Total \$'000 |
| Balance at 1 April 2021 | 42,840 | 3,125,000 | 4,506,448 | 7,674,288 |
| Surplus and total comprehensive income for the period | – | – | 372,245 | 372,245 |
| Balance at 31 December 2021 | 42,840 | 3,125,000 | 4,878,693 | 8,046,533 |
| Balance at 1 April 2022 | 42,840 | 3,250,000 | 4,722,183 | 8,015,023 |
| Deficit and total comprehensive income for the period | – | – | (174,566) | (174,566) |
| Balance at 31 December 2022 | 42,840 | 3,250,000 | 4,547,617 | 7,840,457 |

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited nine months ended | |
|---|------|-----------------------------|-----------------------|
| | | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Cash flows from operating activities | | | |
| (Deficit)/surplus for the period | | (174,566) | 372,245 |
| Adjustments for: | | | |
| Depreciation – Fixed assets | | 82,335 | 70,580 |
| Depreciation – Right-of-use assets | | 109,603 | 107,566 |
| Finance costs | | 5,122 | 6,001 |
| Interest income on deposits for leases | | (217) | (214) |
| Investment loss/(income) | | 10,091 | (8,418) |
| Exchange loss/(gain) | | 16,133 | (13,599) |
| Gain on disposal of fixed assets | | (3) | (58) |
| | | 48,498 | 534,103 |
| Increase in right-of-use assets | | (5) | (1) |
| Decrease in debtors, deposits and prepayments | | 75,828 | 88,734 |
| Increase in cash held for Grant Scheme | | (60,267) | (76,552) |
| Increase/(decrease) in fees received in advance | | 287 | (871) |
| Increase in creditors and accrued charges | | 190,920 | 207,822 |
| Net cash generated from operating activities | | 255,261 | 753,235 |
| Cash flows from investing activities | | | |
| Increase in fixed deposits other than cash and cash equivalents | | (373,393) | (801,116) |
| Interest received | | 92,681 | 77,212 |
| Debt securities at fair value through profit or loss purchased | | (174,227) | (411,358) |
| Debt securities at fair value through profit or loss sold or redeemed | | 160,761 | 403,936 |
| Pooled funds sold | | 3,819 | 4,700 |
| Debt securities at amortised cost purchased | | (223,979) | (92,016) |
| Debt securities at amortised cost redeemed at maturity | | 132,922 | 22,530 |
| Fixed assets purchased | | (49,317) | (60,826) |
| Proceeds from fixed assets disposal | | 9 | 58 |
| Net cash used in investing activities | | (430,724) | (856,880) |
| Cash flows from financing activities | | | |
| Principal element of lease payments | | (106,631) | (103,762) |
| Interest element of lease payments | | (5,122) | (6,001) |
| Net cash used in financing activities | | (111,753) | (109,763) |
| Net decrease in cash and cash equivalents | | (287,216) | (213,408) |
| Cash and cash equivalents at the beginning of the nine-month period | | 973,151 | 855,099 |
| Cash and cash equivalents at the end of the nine-month period | 3 | 685,935 | 641,691 |

Analysis of the balance of cash and cash equivalents

| | Unaudited | |
|---------------------------|--------------------------|--------------------------|
| | At 31 Dec 2022 \$'000 | At 31 Dec 2021 \$'000 |
| Fixed deposits with banks | 621,844 | 594,290 |
| Cash at bank and in hand | 64,091 | 47,401 |
| | 685,935 | 641,691 |

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2022 (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* issued 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 the financial position and performance of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2022. 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 (HKFRSs).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2022 included in this report as comparative information 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 31 December 2022. 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 2022 to the interim financial information.

There were no significant changes in the operations of the Group for the nine months ended 31 December 2022.

2. Recent developments in HKFRSs

Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 16

The Group has certain debt securities at amortised cost that are referenced to the 3-month USD London Interbank Offered Rate (LIBOR). These exposures will remain outstanding until the Interbank Offered Rate (IBOR) ceases and will therefore transit in the future. The Group has assessed the impact and there was no significant effect on the condensed consolidated financial statements. The Group is closely monitoring the market and managing the transition to a new benchmark interest rate, including announcements made by the relevant IBOR regulators.

As at 31 December 2022, the carrying amounts of debt securities at amortised cost that are referenced to USD LIBOR and have yet to be transitioned to an alternate benchmark was \$120,931,000 (as at 31 March 2022: \$121,436,000). The total notional contract amount was \$120,766,000 (as at 31 March 2022: \$121,728,000).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

| | Unaudited At 31 Dec 2022 \$'000 | Audited At 31 Mar 2022 \$'000 |
|---|---------------------------------------|-------------------------------------|
| Cash at bank and in hand | 64,091 | 157,790 |
| Fixed deposits with banks | 3,194,675 | 3,015,832 |
| Amounts shown in the condensed consolidated statement of financial position | 3,258,766 | 3,173,622 |
| Less: Amounts with an original maturity beyond three months | (2,572,831) | (2,200,471) |
| Cash and cash equivalents in the condensed consolidated statement of cash flows | 685,935 | 973,151 |

4. 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 is solely restricted for the use of such subsidies and is 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.

5. 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 (loss)/gain was mainly driven by the revaluation of financial assets denominated in USD.

6. 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 31 December 2022, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2022: \$0.2).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

7. 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 party transactions disclosed 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, \$4,437,000 was recovered from the ICF for the ICC’s expenses (31 December 2021: \$4,258,000). As at 31 December 2022, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$325,000 (as at 31 March 2022: \$106,000).

(b) Remuneration of key management personnel

| | Unaudited Nine months ended | |
|---|--------------------------------|-----------------------|
| | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Directors’ fees and salaries, allowances and benefits in kind | 20,892 | 24,095 |
| Retirement scheme contributions | 1,803 | 2,136 |
| | 22,695 | 26,231 |

The total remuneration is included in “staff costs and directors’ emoluments” on page 30. Directors’ emoluments are for services in connection with management of the affairs of the SFC. 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 \$88,000 (31 December 2021: \$242,000) for the period under normal commercial terms and conditions.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

8. 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 2022.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| <u>At 31 December 2022 (Unaudited)</u> | | | | |
| Debt securities | – | 393,478 | – | 393,478 |
| Pooled funds | 794,475 | – | – | 794,475 |
| | 794,475 | 393,478 | – | 1,187,953 |
| <u>At 31 March 2022 (Audited)</u> | | | | |
| Debt securities | – | 403,442 | – | 403,442 |
| Pooled funds | 891,958 | – | – | 891,958 |
| | 891,958 | 403,442 | – | 1,295,400 |

During the nine months ended 31 December 2022 and year ended 31 March 2022, 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 31 December 2022 and 31 March 2022 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 | | | |
|--|---------------------------|-----------------|-------------------|-------------------|-------------------|
| | | Total \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| <u>At 31 December 2022 (Unaudited)</u> | | | | | |
| Financial assets at amortised costs | | | | | |
| – debt securities | 3,252,095 | 2,985,510 | – | 2,985,510 | – |
| <u>At 31 March 2022 (Audited)</u> | | | | | |
| Financial assets at amortised costs | | | | | |
| – debt securities | 3,191,696 | 3,057,436 | – | 3,057,436 | – |

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 this report together with the unaudited condensed financial statements for the nine months ended 31 December 2022.

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 period ended 31 December 2022 and the financial position of the Fund 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 period and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Dr Lin, James C.

Ms Kwok Hom Siu Sally

Mr Wan Chi Yiu, Andrew

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 reporting period.

On behalf of the Committee

Rico Leung

Chairman

23 February 2023

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | | Unaudited Three months ended | |
|--|------|--------------------------------|-----------------------|---------------------------------|-----------------------|
| | | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Income | | | | | |
| Interest income | | 40,107 | 4,544 | 22,169 | 1,512 |
| Exchange (loss)/gain | | (4,731) | 3,812 | (7,967) | 2,032 |
| Recoveries | | - | 119 | - | 119 |
| | | 35,376 | 8,475 | 14,202 | 3,663 |
| Expenses | | | | | |
| Investor Compensation Company Limited expenses | 2 | 4,437 | 4,258 | 1,480 | 1,406 |
| Auditor's remuneration | | 148 | 148 | 38 | 38 |
| | | 4,585 | 4,406 | 1,518 | 1,444 |
| Surplus and total comprehensive income for the period | | 30,791 | 4,069 | 12,684 | 2,219 |

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

Investor Compensation Fund

Condensed statement of financial position

As at 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited At 31 Dec 2022 \$'000 | Audited At 31 Mar 2022 \$'000 |
|--|------|---------------------------------------|-------------------------------------|
| Current assets | | | |
| Interest receivable | | 28,835 | 1,689 |
| Due from Investor Compensation Company Limited | | 325 | 106 |
| Fixed deposits with banks | | 2,459,350 | 2,455,431 |
| Cash at bank | | 815 | 1,346 |
| | | 2,489,325 | 2,458,572 |
| Current liabilities | | | |
| Provision for compensation | 4 | 3,394 | 3,394 |
| Creditors and accrued charges | | 236 | 274 |
| | | 3,630 | 3,668 |
| Net current assets | | 2,485,695 | 2,454,904 |
| Net assets | | 2,485,695 | 2,454,904 |
| Representing: | | | |
| Compensation fund | | 2,485,695 | 2,454,904 |

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

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2022 (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 2021 | 994,718 | 108,923 | 1,340,411 | 2,444,052 |
| Surplus and total comprehensive income for the period | – | – | 4,069 | 4,069 |
| Balance at 31 December 2021 | 994,718 | 108,923 | 1,344,480 | 2,448,121 |
| Balance at 1 April 2022 | 994,718 | 108,923 | 1,351,263 | 2,454,904 |
| Surplus and total comprehensive income for the period | – | – | 30,791 | 30,791 |
| Balance at 31 December 2022 | 994,718 | 108,923 | 1,382,054 | 2,485,695 |

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

Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | |
|--|------|--------------------------------|-----------------------|
| | | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Cash flows from operating activities | | | |
| Surplus for the period | | 30,791 | 4,069 |
| Adjustments for: | | | |
| Interest income | | (40,107) | (4,544) |
| Exchange loss/(gain) | | 4,731 | (3,812) |
| | | (4,585) | (4,287) |
| Increase in amount due from Investor Compensation Company Limited | | (219) | (34) |
| Decrease in creditors and accrued charges | | (38) | (38) |
| Net cash used in operating activities | | (4,842) | (4,359) |
| Cash flows from investing activities | | | |
| Increase in fixed deposits other than cash and cash equivalents | | (306,926) | (175,646) |
| Interest received | | 12,883 | 5,485 |
| Net cash used in investing activities | | (294,043) | (170,161) |
| Net decrease in cash and cash equivalents | | (298,885) | (174,520) |
| Cash and cash equivalents at the beginning of the nine-month period | | 451,903 | 647,514 |
| Cash and cash equivalents at the end of the nine-month period | 3 | 153,018 | 472,994 |

Analysis of the balance of cash and cash equivalents

| | Unaudited | |
|---------------------------|--------------------------|--------------------------|
| | At 31 Dec 2022 \$'000 | At 31 Dec 2021 \$'000 |
| Fixed deposits with banks | 152,203 | 472,408 |
| Cash at bank | 815 | 586 |
| | 153,018 | 472,994 |

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

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2022 (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 issued 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 events and transactions that are significant to an understanding of the changes in the financial position and performance of the Investor Compensation Fund (the Fund) since the annual financial statements for the year ended 31 March 2022. 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 2022 included in this report as comparative information 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 2022 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2022.

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 of 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 nine months ended 31 December 2022, the ICC incurred costs of \$4,437,000 for its operation (for the nine months ended 31 December 2021: \$4,258,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

| | Unaudited At 31 Dec 2022 \$'000 | Audited At 31 Mar 2022 \$'000 |
|--|---------------------------------------|-------------------------------------|
| Cash at bank | 815 | 1,346 |
| Fixed deposits with banks | 2,459,350 | 2,455,431 |
| Amounts shown in the condensed statement of financial position | 2,460,165 | 2,456,777 |
| Less: Amounts with an original maturity beyond three months | (2,307,147) | (2,004,874) |
| Cash and cash equivalents in the condensed statement of cash flows | 153,018 | 451,903 |

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2022 (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 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 31 December 2022 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2022: \$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 nine months ended 31 December 2022 and 2021.

6. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 14 outstanding claims as at 31 December 2022 (12 outstanding claims as at 31 March 2022). The maximum liability in respect of these claims in aggregate was \$2,430,000 (as at 31 March 2022: \$1,875,000). 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. All financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the nine months ended 31 December 2022 and 2021, the Fund's exchange gain/loss was mainly driven by the revaluation of 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 this report together with the unaudited condensed financial statements for the nine months ended 31 December 2022.

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 31 December 2022, 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 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 period ended 31 December 2022 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 51.

Members of the Committee

The members of the Committee during the period and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Dr Lin, James C.
Mr Yiu Ka Yan Wilfred
Ms Kwok Hom Siu Sally
Mr Wan Chi Yiu Andrew

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 reporting period.

On behalf of the Committee

Rico Leung
Chairman

8 February 2023

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Unaudited Nine months ended | | Unaudited Three months ended | |
|--|--------------------------------|-----------------------|---------------------------------|-----------------------|
| | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Income | | | | |
| Interest income | 1,340 | 123 | 832 | 43 |
| Expenses | | | | |
| Recoveries re-distributed | 22 | – | – | – |
| Auditor's remuneration | 70 | 70 | 16 | 16 |
| | 92 | 70 | 16 | 16 |
| Surplus and total comprehensive income for the period | 1,248 | 53 | 816 | 27 |

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited At 31 Dec 2022 \$'000 | Audited At 31 Mar 2022 \$'000 |
|---|------|---------------------------------------|-------------------------------------|
| Current assets | | | |
| Interest receivable | | 517 | 34 |
| Fixed deposits with banks | | 97,203 | 97,670 |
| Cash at bank | | 262 | 180 |
| | | 97,982 | 97,884 |
| Current liabilities | | | |
| Creditors and accrued charges | | 10,309 | 10,309 |
| Relinquished trading rights payable to the SEHK | 4 | 1,600 | 1,850 |
| | | 11,909 | 12,159 |
| Net current assets | | 86,073 | 85,725 |
| Net assets | | 86,073 | 85,725 |
| Representing: | | | |
| Compensation fund | | 86,073 | 85,725 |

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Unaudited | | | | | | |
|---|--|---|--|-------------------------------|-------------------------------|------------------------------------|-----------------|
| | Trading rights deposits from the SEHK (note 4) \$'000 | Excess transaction levy from the SEHK \$'000 | Additional contributions from the SEHK and the SFC \$'000 | Other contributions \$'000 | Accumulated surplus \$'000 | Contributions to the ICF \$'000 | Total \$'000 |
| Balance at 1 April 2021 | 54,750 | 353,787 | 630,000 | 6,502 | 35,751 | (994,718) | 86,072 |
| Net contributions to the SEHK | (200) | - | - | - | - | - | (200) |
| Surplus and total comprehensive income for the period | - | - | - | - | 53 | - | 53 |
| Balance at 31 December 2021 | 54,550 | 353,787 | 630,000 | 6,502 | 35,804 | (994,718) | 85,925 |
| Balance at 1 April 2022 | 54,300 | 353,787 | 630,000 | 6,502 | 35,854 | (994,718) | 85,725 |
| Net contributions to the SEHK | (900) | - | - | - | - | - | (900) |
| Surplus and total comprehensive income for the period | - | - | - | - | 1,248 | - | 1,248 |
| Balance at 31 December 2022 | 53,400 | 353,787 | 630,000 | 6,502 | 37,102 | (994,718) | 86,073 |

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | |
|--|------|--------------------------------|-----------------------|
| | | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Cash flows from operating activities | | | |
| Surplus for the period | | 1,248 | 53 |
| Adjustment for: | | | |
| Interest income | | (1,340) | (123) |
| | | (92) | (70) |
| Decrease in creditors and accrued charges | | – | (16) |
| (Decrease)/Increase in relinquished trading rights payable to the SEHK | | (250) | 250 |
| Net cash (used in)/generated from operating activities | | (342) | 164 |
| Cash flows from investing activities | | | |
| Decrease in fixed deposits other than cash and cash equivalents | | 10,055 | 15,570 |
| Interest received | | 857 | 132 |
| Net cash generated from investing activities | | 10,912 | 15,702 |
| Cash flows from financing activities | | | |
| Net trading rights deposits refunded to the SEHK | | (900) | (200) |
| Net cash used in financing activities | | (900) | (200) |
| Net increase in cash and cash equivalents | | 9,670 | 15,666 |
| Cash and cash equivalents at the beginning of the nine-month period | | 71,486 | 52,905 |
| Cash and cash equivalents at the end of the nine-month period | 3 | 81,156 | 68,571 |

Analysis of the balance of cash and cash equivalents

| | Unaudited | |
|---------------------------|--------------------------|--------------------------|
| | At 31 Dec 2022 \$'000 | At 31 Dec 2021 \$'000 |
| Fixed deposits with banks | 80,894 | 68,241 |
| Cash at bank | 262 | 330 |
| | 81,156 | 68,571 |

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2022 (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 issued by the Hong Kong Institute of Certified Public Accountants. As the Unified Exchange Compensation Fund (the Fund) will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, we have 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 events and transactions that are significant to an understanding of the changes in the financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2022. 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 2022 included in this report as comparative information 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 2022 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2022.

2. Equity securities received under subrogation

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 31 December 2022, the equity securities received under subrogation amounted to \$47 (as at 31 March 2022: \$68). The balances as at 31 December 2022 and 31 March 2022 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 nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

| | Unaudited At 31 Dec 2022 \$'000 | Audited At 31 Mar 2022 \$'000 |
|--|---------------------------------------|-------------------------------------|
| Cash at bank | 262 | 180 |
| Fixed deposits with banks | 97,203 | 97,670 |
| Amounts shown in the condensed statement of financial position | 97,465 | 97,850 |
| Less: Amounts with an original maturity beyond three months | (16,309) | (26,364) |
| Cash and cash equivalents in the condensed statement of cash flows | 81,156 | 71,486 |

4. Trading rights deposits from the SEHK/Relinquished trading rights payable to the 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 the SEHK the deposit within six months after the trading right was relinquished. During the nine-month period, deposits of \$250,000 in respect of 5 new trading rights were received from the SEHK and deposits of \$1,400,000 in respect of 28 relinquished trading rights were refunded to the SEHK. As at 31 December 2022, 32 trading rights totalling \$1,600,000 were relinquished but not yet refunded (as at 31 March 2022: 37 trading rights totalling \$1,850,000 were relinquished but not yet refunded).

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

| | Unaudited Nine months ended | |
|--|--------------------------------|-----------------------|
| | 31 Dec 2022 \$'000 | 31 Dec 2021 \$'000 |
| Balance at the beginning of the nine-month period | 54,300 | 54,750 |
| Add: new trading rights issued | 250 | 850 |
| Less: relinquished trading rights refunded | (1,400) | (800) |
| Adjustment for: net decrease/(increase) in relinquished trading rights payable to the SEHK | 250 | (250) |
| Balance at the end of the nine-month period | 53,400 | 54,550 |

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 nine months ended 31 December 2022 and 2021.