

# 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 35 to 43, which comprises the condensed consolidated statement of financial position of Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2023 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 selected 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, 1 December 2023



## Securities and Futures Commission

### Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Income</b>		
Levies	353,947	371,176
Fees and charges	31,057	30,266
Net investment income/(loss)		
Investment income/(loss)	6,744	(77,318)
Less: custody and advisory expenses	(2,615)	(2,506)
Recoveries from the Investor Compensation Fund	1,532	1,473
Exchange (loss)/gain	(3,879)	1,789
Other income	109	78
	386,895	324,958
<b>Expenses</b>		
Staff costs and directors' emoluments	388,051	378,215
Depreciation		
Fixed assets	25,246	28,010
Right-of-use assets	36,602	36,521
Other premises expenses	9,025	8,884
Finance costs	1,543	1,707
Other expenses	49,029	49,517
	509,496	502,854
<b>Deficit and total comprehensive income for the quarter</b>	<b>(122,601)</b>	<b>(177,896)</b>

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2023 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 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Income</b>			
Levies		706,203	813,174
Fees and charges		55,961	55,675
Net investment income/(loss)			
Investment income/(loss)		52,083	(155,240)
Less: custody and advisory expenses		(5,471)	(5,082)
Recoveries from the Investor Compensation Fund	7(a)	3,052	2,957
Exchange (loss)/gain		(12,434)	11,229
Other income		853	1,449
		800,247	724,162
<b>Expenses</b>			
Staff costs and directors' emoluments		780,382	756,773
Depreciation			
Fixed assets		50,501	55,006
Right-of-use assets		73,222	73,043
Other premises expenses		17,939	17,591
Finance costs		3,085	3,488
Other expenses		98,780	90,967
		1,023,909	996,868
<b>Deficit and total comprehensive income for the period</b>		<b>(223,662)</b>	<b>(272,706)</b>

The notes on pages 39 to 43 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of financial position

As at 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
<b>Non-current assets</b>			
Fixed assets		196,952	216,366
Right-of-use assets		636,437	700,776
Deposits for leases		38,731	37,609
Financial assets at amortised costs – debt securities	8(b)	2,586,462	2,903,608
		3,458,582	3,858,359
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	8(b)	725,068	381,528
Financial assets at fair value through profit or loss			
Debt securities	8(a)	–	403,649
Pooled funds	8(a)	990,513	1,045,571
Debtors, deposits and prepayments		241,120	283,492
Fixed deposits with banks	3	3,193,881	2,845,253
Cash held for Grant Scheme	4	96,753	124,205
Cash at bank and in hand	3	76,888	66,647
		5,324,223	5,150,345
<b>Current liabilities</b>			
Fees received in advance		7,578	8,378
Creditors and accrued charges		335,938	274,732
Lease liabilities		144,209	141,385
Provisions for reinstatement cost		–	873
		487,725	425,368
<b>Net current assets</b>		4,836,498	4,724,977
<b>Total assets less current liabilities</b>		8,295,080	8,583,336
<b>Non-current liabilities</b>			
Lease liabilities		515,372	581,156
Provisions for reinstatement cost		89,237	88,047
		604,609	669,203
<b>Net assets</b>		7,690,471	7,914,133
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,375,000	3,375,000
Accumulated surplus		4,272,631	4,496,293
		7,690,471	7,914,133

The notes on pages 39 to 43 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 2023 (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 2022	42,840	3,250,000	4,722,183	8,015,023
Deficit and total comprehensive income for the period	–	–	(272,706)	(272,706)
Balance at 30 September 2022	42,840	3,250,000	4,449,477	7,742,317
Balance at 1 April 2023	42,840	3,375,000	4,496,293	7,914,133
Deficit and total comprehensive income for the period	–	–	(223,662)	(223,662)
Balance at 30 September 2023	42,840	3,375,000	4,272,631	7,690,471

The notes on pages 39 to 43 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 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Cash flows from operating activities</b>			
Deficit for the period		(223,662)	(272,706)
Adjustments for:			
Depreciation – Fixed assets		50,501	55,006
Depreciation – Right-of-use assets		73,222	73,043
Finance costs		3,085	3,488
Interest income on deposits for leases		(146)	(144)
Investment (income)/loss		(52,083)	155,240
Exchange loss/(gain)		11,225	(11,237)
Loss/(gain) on disposal of fixed assets		16	(3)
		(137,842)	2,687
Increase in right-of-use assets		(7)	–
Decrease in debtors, deposits and prepayments		23,525	84,372
Decrease/(increase) in cash held for Grant Scheme		27,452	(71,097)
Decrease in fees received in advance		(800)	(223)
Increase in creditors and accrued charges		60,451	144,140
Net cash (used in)/generated from operating activities		(27,221)	159,879
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		1,551,881	(750,555)
Interest received		138,362	56,225
Debt securities at fair value through profit or loss purchased		(72,193)	(135,252)
Debt securities at fair value through profit or loss sold or redeemed		466,030	124,378
Pooled funds sold		3,054	2,637
Debt securities at amortised cost purchased		(321,868)	(119,349)
Debt securities at amortised cost redeemed at maturity		278,005	62,273
Fixed assets purchased		(30,348)	(37,694)
Proceeds from fixed assets disposal		–	9
Net cash generated from/(used in) investing activities		2,012,923	(797,328)
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(71,519)	(71,024)
Interest element of lease payments		(3,085)	(3,488)
Net cash used in financing activities		(74,604)	(74,512)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,911,098</b>	<b>(711,961)</b>
Cash and cash equivalents at the beginning of the six-month period		407,901	973,151
<b>Cash and cash equivalents at the end of the six-month period</b>	3	<b>2,318,999</b>	<b>261,190</b>

#### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2023 \$'000	At 30 Sep 2022 \$'000
Fixed deposits with banks	2,242,111	187,337
Cash at bank and in hand	76,888	73,853
	<b>2,318,999</b>	<b>261,190</b>

The notes on pages 39 to 43 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 2023 (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 (SFC) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2023. 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 2023 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, the Investor Compensation Company Limited (ICC) and the Investor and Financial Education Council (IFEC), are made up to 30 September 2023. 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 2023 to the interim financial information.

There were no significant changes in the operations of the Group for the six months ended 30 September 2023.

### 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). The 3-month USD LIBOR continues to be published under a synthetic methodology. These exposures will remain outstanding until the synthetic USD LIBOR 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.

As at 30 September 2023, the carrying amounts of debt securities at amortised cost that are referenced to synthetic USD LIBOR and have yet to be transitioned to an alternate benchmark was \$35,278,000 (as at 31 March 2023: \$116,105,000). The total notional contract amount was \$35,243,000 (as at 31 March 2023: \$115,967,000).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank and in hand	76,888	66,647
Fixed deposits with banks	3,193,881	2,845,253
Amounts shown in the condensed consolidated statement of financial position	3,270,769	2,911,900
Less: Amounts with an original maturity beyond three months	(951,770)	(2,503,999)
Cash and cash equivalents in the condensed consolidated statement of cash flows	2,318,999	407,901

#### 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 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.

#### 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 USD denominated financial assets.

#### 6. Consolidation

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 2023, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2023: \$0.2).



## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

#### 7. Related party transactions

The Group has related party relationships with the ICF and the Unified Exchange Compensation Fund. In addition to the related party transactions disclosed elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions and balances.

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

During the period, \$3,052,000 was recovered from the ICF for the ICC's expenses (30 September 2022: \$2,957,000). As at 30 September 2023, the ICC had an amount due to the ICF of \$101,000 (as at 31 March 2023: amount due from the ICF of \$208,000).

##### (b) Remuneration of key management personnel

	Unaudited six months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Directors' fees and salaries, allowances and benefits in kind	15,544	13,022
Retirement scheme contributions	1,365	1,114
	16,909	14,136

The total remuneration is included in the staff costs and directors' emoluments. Directors' emoluments are for services in connection with the 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 were nil (30 September 2022: \$88,000) for the period and provided under normal commercial terms and conditions.



## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023 (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 2023.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>At 30 September 2023 (Unaudited)</u>				
Debt securities	–	–	–	–
Pooled funds	990,513	–	–	990,513
	990,513	–	–	990,513
<u>At 31 March 2023 (Audited)</u>				
Debt securities	–	403,649	–	403,649
Pooled funds	1,045,571	–	–	1,045,571
	1,045,571	403,649	–	1,449,220

During the six months ended 30 September 2023 and year ended 31 March 2023, 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.

The fair value of debt securities is based on evaluated prices at the end of the reporting period using current bid prices without any deduction for transaction costs. The fair value of the investment in the pooled funds is determined based on the net asset values of the pooled funds which are publicly available in the active market.

##### (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 were not materially different from their fair values as at 30 September 2023 and 31 March 2023 except for the following financial instruments, for which their carrying amount, fair value and the level of fair value hierarchy were disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>At 30 September 2023 (Unaudited)</u>					
Financial assets at amortised costs – debt securities	3,311,530	3,059,425	–	3,059,425	–
<u>At 31 March 2023 (Audited)</u>					
Financial assets at amortised costs – debt securities	3,285,136	3,066,896	–	3,066,896	–

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

#### 9. Subsequent event

On 17 November 2023, a Sales and Purchase agreement was entered into between the SFC and its landlord with a consideration of \$5.4 billion to acquire office floors in the premises presently rented by the SFC. This transaction is expected to conclude before the end of the current financial year.

Purchase of the office will be funded by the property acquisition reserve and financed from a bank loan that is approved according to the requirements under Section (5)(4)(d) of the SFO. There is no net material financial impact on the ongoing operations of the Group from this acquisition.



# 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 together with the unaudited condensed financial statements for the six months ended 30 September 2023.

## 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 30 September 2023 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 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

24 November 2023

# 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 47 to 52, 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 2023 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 selected 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 2023



## Investor Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Income</b>		
Interest income	30,997	11,655
Exchange (loss)/gain	(846)	518
	30,151	12,173
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,532	1,473
Auditor's remuneration	57	55
	1,589	1,528
<b>Surplus and total comprehensive income for the quarter</b>	<b>28,562</b>	<b>10,645</b>

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2023 is for information only.

## Investor Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Income</b>			
Interest income		57,532	17,938
Exchange (loss)/gain		(3,255)	3,236
		54,277	21,174
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	3,052	2,957
Auditor's remuneration		114	110
		3,166	3,067
<b>Surplus and total comprehensive income for the period</b>		<b>51,111</b>	<b>18,107</b>

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



## Investor Compensation Fund

### Condensed statement of financial position

As at 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
<b>Current assets</b>			
Interest receivable		41,135	47,392
Amount due from the Investor Compensation Company Limited		101	–
Fixed deposits with banks	3	2,536,051	2,472,685
Cash at bank	3	588	847
		2,577,875	2,520,924
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		235	274
Amount due to the Investor Compensation Company Limited		–	208
		3,629	3,876
<b>Net current assets</b>		2,574,246	2,517,048
<b>Net assets</b>		2,574,246	2,517,048
Representing:			
<b>Compensation fund</b>		2,574,246	2,517,048

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



## Investor Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited					
	Contributions from the Unified Exchange Compensation Fund \$'000	Contributions from the Commodity Exchange Compensation Fund \$'000	Contributions from the Securities Dealers' Deposits Fund (note 5) \$'000	Contributions from the Commodities Dealers' Deposits Fund (note 5) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2022	994,718	108,923	–	–	1,351,263	2,454,904
Surplus and total comprehensive income for the period	–	–	–	–	18,107	18,107
Balance at 30 September 2022	994,718	108,923	–	–	1,369,370	2,473,011
Balance at 1 April 2023	994,718	108,923	–	–	1,413,407	2,517,048
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund	–	–	5,470	617	–	6,087
Surplus and total comprehensive income for the period	–	–	–	–	51,111	51,111
Balance at 30 September 2023	994,718	108,923	5,470	617	1,464,518	2,574,246

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



## Investor Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		51,111	18,107
Adjustments for:			
Interest income		(57,532)	(17,938)
Exchange loss/(gain)		3,255	(3,236)
		(3,166)	(3,067)
Change in amount due from/to the Investor Compensation Company Limited		(309)	(526)
Decrease in creditors and accrued charges		(39)	(42)
Net cash used in operating activities		(3,514)	(3,635)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(78,230)	(453,896)
Interest received		63,728	6,003
Net cash used in investing activities		(14,502)	(447,893)
<b>Cash flows from financing activities</b>			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		6,087	–
<b>Net cash generated from financing activities</b>		6,087	–
Net decrease in cash and cash equivalents		(11,929)	(451,528)
<b>Cash and cash equivalents at the beginning of the six-month period</b>		164,980	451,903
<b>Cash and cash equivalents at the end of the six-month period</b>	3	153,051	375

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2023 \$'000	At 30 Sep 2022 \$'000
Fixed deposits with banks	152,463	–
Cash at bank	588	375
	153,051	375

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

# Investor Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 2023 (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 2023. 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 2023 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 2023 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2023.

### 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 (SFO). The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2023, the ICC incurred costs of \$3,052,000 for its operation (for the six months ended 30 September 2022: \$2,957,000).

### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	588	847
Fixed deposits with banks	2,536,051	2,472,685
Amounts shown in the condensed statement of financial position	2,536,639	2,473,532
Less: Amounts with an original maturity beyond three months	(2,383,588)	(2,308,552)
Cash and cash equivalents in the condensed statement of cash flows	153,051	164,980



# Investor Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 2023 (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 or \$500,000 per claimant for each default case occurring on or after 1 January 2020.

The provision of compensation as at 30 September 2023 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2023: \$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 is expected to be paid within one year.

### 5. Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund

Under Section 76 (11) of Schedule 10 of the SFO, the SFC shall pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund (SDD) and the Commodities Dealers' Deposits Fund (CDD) after repaying the dealers' deposits and any money due to the registered dealers.

During the six months ended 30 September 2023, the SFC had \$5,470,000 and \$617,000 paid into the Fund from the SDD and the CDD respectively.

### 6. Related party transactions

The Fund has related party relationships with the SFC, the ICC, the Unified Exchange Compensation Fund, the SDD and the CDD. The SDD and the CDD were wound up in June 2023. 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 2023 and 2022.

### 7. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 14 outstanding claims as at 30 September 2023 (14 outstanding claims as at 31 March 2023). The maximum liability in respect of these claims in aggregate was \$2,312,000 (as at 31 March 2023: \$2,430,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

### 8. 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 six months ended 30 September 2023 and 2022, the Fund's exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.

# 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 together with the unaudited condensed financial statements for the six months ended 30 September 2023.

## 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 2023, 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 30 September 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 55 to 61.

## 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)

Ms Kwok Hom Siu Sally

Ms Lai Chun Mei Hilda

(appointed on 1 July 2023)

Mr Yiu Ka Yan Wilfred

(retired on 30 June 2023)

Dr Lin, James C.

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

13 November 2023



# 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 56 to 61, 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 2023 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 selected 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”.

### Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the interim financial information are set out in note 1 to the interim financial information. Our conclusion is not modified in respect of this matter.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 13 November 2023

## Unified Exchange Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Income</b>		
Interest income	1,148	374
<b>Expense</b>		
Auditor's remuneration	27	27
<b>Surplus and total comprehensive income for the quarter</b>	<b>1,121</b>	<b>347</b>

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2023 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 2023 (Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Income</b>		
Interest income	2,052	508
<b>Expenses</b>		
Recoveries re-distributed	–	22
Auditor's remuneration	54	54
	54	76
<b>Surplus and total comprehensive income for the period</b>	<b>1,998</b>	<b>432</b>

The notes on pages 60 and 61 form part of these condensed financial statements.



## Unified Exchange Compensation Fund

### Condensed statement of financial position

As at 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
<b>Current assets</b>			
Interest receivable		586	454
Fixed deposits with banks		97,494	96,869
Cash at bank		477	491
		98,557	97,814
<b>Current liabilities</b>			
Creditors and accrued charges		10,320	10,325
Relinquished trading rights payable to SEHK	4	1,500	1,650
		11,820	11,975
<b>Net current assets</b>		86,737	85,839
<b>Net assets</b>		86,737	85,839
Representing:			
<b>Compensation fund</b>		86,737	85,839

The notes on pages 60 and 61 form part of these condensed financial statements.



## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited						
	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	Total \$'000
Balance at 1 April 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725
Net contributions to SEHK	(450)	–	–	–	–	–	(450)
Surplus and total comprehensive income for the period	–	–	–	–	432	–	432
Balance at 30 September 2022	53,850	353,787	630,000	6,502	36,286	(994,718)	85,707
Balance at 1 April 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(1,100)	–	–	–	–	–	(1,100)
Surplus and total comprehensive income for the period	–	–	–	–	1,998	–	1,998
Balance at 30 September 2023	51,050	353,787	630,000	6,502	40,116	(994,718)	86,737

The notes on pages 60 and 61 form part of these condensed financial statements.



## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		1,998	432
Adjustment for:			
Interest income		(2,052)	(508)
		(54)	(76)
Decrease in creditors and accrued charges		(5)	(10)
Decrease in relinquished trading rights payable to SEHK		(150)	(400)
Net cash used in operating activities		(209)	(486)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		24,194	22,764
Interest received		1,920	284
Net cash generated from investing activities		26,114	23,048
<b>Cash flows from financing activities</b>			
Net trading rights deposits refunded to SEHK		(1,100)	(450)
<b>Net cash used in financing activities</b>		(1,100)	(450)
Net increase in cash and cash equivalents		24,805	22,112
<b>Cash and cash equivalents at the beginning of the six-month period</b>		69,384	71,486
<b>Cash and cash equivalents at the end of the six-month period</b>	3	94,189	93,598

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2023 \$'000	At 30 Sep 2022 \$'000
Fixed deposits with banks	93,712	93,075
Cash at bank	477	523
	94,189	93,598

The notes on pages 60 and 61 form part of these condensed financial statements.



# Unified Exchange Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 2023 (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 2023. 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 2023 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 2023 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2023.

### 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 30 September 2023, the equity securities received under subrogation amounted to \$18 (as at 31 March 2023: \$30). The balances as at 30 September 2023 and 31 March 2023 are too small to present 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 2023 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	477	491
Fixed deposits with banks	97,494	96,869
Amounts shown in the condensed statement of financial position	97,971	97,360
Less: Amounts with an original maturity beyond three months	(3,782)	(27,976)
Cash and cash equivalents in the condensed statement of cash flows	94,189	69,384

#### 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 \$150,000 in respect of 3 new trading rights were received from SEHK and deposits of \$1,400,000 in respect of 28 relinquished trading rights were refunded to SEHK. As at 30 September 2023, 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded (as at 31 March 2023: 33 trading rights totalling \$1,650,000 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 2023 \$'000	30 Sep 2022 \$'000
Balance at the beginning of the six-month period	52,150	54,300
Add: new trading rights issued	150	200
Less: relinquished trading rights refunded	(1,400)	(1,050)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	150	400
Balance at the end of the six-month period	51,050	53,850

#### 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 2023 and 2022.

