

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Income					
Levies		1,032,329	1,275,786	326,126	462,612
Fees and charges		85,770	80,056	29,809	24,381
Net investment income/(loss)					
Investment income/(loss)		153,003	(10,091)	100,920	145,149
Less: custody and advisory expenses		(7,988)	(7,537)	(2,517)	(2,455)
Recoveries from the Investor Compensation Fund	8(a)	4,566	4,437	1,514	1,480
Exchange loss		(26,187)	(16,152)	(13,753)	(27,381)
Other income	3	113,026	1,668	112,173	219
		1,354,519	1,328,167	554,272	604,005
Expenses					
Staff costs and directors' emoluments	8(b)	1,177,642	1,132,896	397,260	376,123
Depreciation					
Fixed assets		82,450	82,335	31,949	27,329
Right-of-use assets		106,184	109,603	32,962	36,560
Other premises expenses		27,275	26,517	9,336	8,926
Bank loans interest expenses		2,874	–	2,874	–
Finance costs		4,403	5,122	1,318	1,634
Other expenses		154,692	146,260	55,912	55,293
		1,555,520	1,502,733	531,611	505,865
(Deficit)/surplus and total comprehensive income for the period		(201,001)	(174,566)	22,661	98,140

The notes on pages 42 to 46 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

As at 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Non-current assets			
Fixed assets	3	4,442,695	216,366
Right-of-use assets		24,220	700,776
Deposits for leases		976	37,609
Financial assets at amortised costs – debt securities	9(b)	2,350,104	2,903,608
		6,817,995	3,858,359
Current assets			
Financial assets at amortised costs – debt securities	9(b)	817,015	381,528
Financial assets at fair value through profit or loss			
Debt securities	9(a)	–	403,649
Pooled funds	9(a)	1,035,142	1,045,571
Debtors, deposits and prepayments		535,675	283,492
Fixed deposits with banks	4	789,756	2,845,253
Cash held for Grant Scheme	5	82,944	124,205
Cash at bank and in hand	4	105,846	66,647
		3,366,378	5,150,345
Current liabilities			
Fees received in advance		7,705	8,378
Creditors and accrued charges		417,936	274,732
Bank loans	3	18,262	–
Lease liabilities		10,199	141,385
Provisions for reinstatement cost		574	873
		454,676	425,368
Net current assets		2,911,702	4,724,977
Total assets less current liabilities		9,729,697	8,583,336
Non-current liabilities			
Bank loans	3	2,000,812	–
Lease liabilities		14,563	581,156
Provisions for reinstatement cost		1,190	88,047
		2,016,565	669,203
Net assets		7,713,132	7,914,133
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		1,061,800	3,375,000
Accumulated surplus		6,608,492	4,496,293
		7,713,132	7,914,133

The notes on pages 42 to 46 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 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	–	–	(174,566)	(174,566)
Balance at 31 December 2022	42,840	3,250,000	4,547,617	7,840,457
Balance at 1 April 2023	42,840	3,375,000	4,496,293	7,914,133
Deficit and total comprehensive income for the period	–	–	(201,001)	(201,001)
Transfer between reserves	–	(2,313,200)	2,313,200	–
Balance at 31 December 2023	42,840	1,061,800	6,608,492	7,713,132

The notes on pages 42 to 46 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 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Deficit for the period		(201,001)	(174,566)
Adjustments for:			
Depreciation – Fixed assets		82,450	82,335
Depreciation – Right-of-use assets		106,183	109,603
Bank loans interest expenses		2,874	–
Interest expense and other finance costs		4,463	5,122
Interest income on deposits for leases		(211)	(217)
Investment (income)/loss		(153,003)	10,091
Exchange loss		23,917	16,133
Loss/(gain) on disposal of fixed assets		16	(3)
Gain arising from lease termination		(112,034)	–
		(246,346)	48,498
Increase in right-of-use assets		(7)	(5)
(Increase)/decrease in debtors, deposits and prepayments		(253,380)	75,828
Decrease/(increase) in cash held for Grant Scheme		41,261	(60,267)
(Decrease)/increase in fees received in advance		(673)	287
Increase in creditors and accrued charges		137,454	190,920
Net cash (used in)/generated from operating activities		(321,691)	255,261
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		2,145,190	(373,393)
Interest received		214,696	92,681
Debt securities at fair value through profit or loss purchased		(72,193)	(174,227)
Debt securities at fair value through profit or loss sold or redeemed		466,030	160,761
Pooled funds sold		4,601	3,819
Debt securities at amortised cost purchased		(786,759)	(223,979)
Debt securities at amortised cost redeemed at maturity		874,729	132,922
Fixed assets purchased		(4,303,045)	(49,317)
Proceeds from fixed assets disposal		–	9
Net cash used in investing activities		(1,456,751)	(430,724)
Cash flows from financing activities			
Principal element of lease payments		(103,798)	(106,631)
Interest element of lease payments		(4,403)	(5,122)
Proceeds from bank loans		2,019,014	–
Bank loans interest expenses		(2,874)	–
Net cash generated from/(used in) financing activities		1,907,939	(111,753)
Net increase/(decrease) in cash and cash equivalents		129,497	(287,216)
Cash and cash equivalents at the beginning of the nine-month period		407,901	973,151
Cash and cash equivalents at the end of the nine-month period	4	537,398	685,935

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2023 \$'000	At 31 Dec 2022 \$'000
Fixed deposits with banks	431,552	621,844
Cash at bank and in hand	105,846	64,091
	537,398	685,935

The notes on pages 42 to 46 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 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 31 December 2023. We eliminated all material intra-group balances and transactions in preparing the condensed consolidated financial statements.

Except as described in note 3, 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 nine months ended 31 December 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 31 December 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 \$32,823,000 (as at 31 March 2023: \$116,105,000). The total notional contract amount was \$32,796,000 (as at 31 March 2023: \$115,967,000).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

3. Acquisition of permanent office

(a) Property acquisition

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 12 office floors in the premises previously rented. Transaction of the nine office floors that we previously occupied was completed in December 2023 while acquisition of the three additional floors will be completed by 2028.

The property acquired during the period has been recognised as under fixed assets. Respective depreciation is calculated using the straight-line method over the estimated useful life of 50 years.

Capital commitments relating to the acquisition of the three additional floors contracted for at the end of the reporting period but not yet incurred amounted to \$1,073,345,000.

(b) Bank loans

To finance the property acquisition transaction, the Group has obtained a 5-year term loan of \$2,029,160,000 on 21 December 2023. The term loan carries a fixed interest rate of 4.7% per annum for the first two years and subsequently carries a floating interest rate of 1-month HIBOR plus 0.55% per annum.

This term loan is initially recognised at fair value, net of transaction costs incurred. It is subsequently measured at amortised cost. The carrying amount is considered to be the same as their fair value as the interest payable on the bank loan is at current market rates.

	Unaudited At 31 Dec 2023 \$'000
Bank loans – secured	
Current	18,262
Non-current	2,000,812
	2,019,074

The term loan was secured by the property with a carrying value of \$4,251,168,000 as at 31 December 2023.

(c) Gain arising from lease termination

As a result of the property acquisition, lease of the existing office spaces has been terminated, and provisions set aside for reinstatement costs and the lease provision recognised at the start of the original lease term according to HKFRS 16, *Leases*, were reversed and resulted in a one-off expense write back of \$112,034,000 for the period. The balance is included in the other income.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

4. Cash and cash equivalents

	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank and in hand	105,846	66,647
Fixed deposits with banks	789,756	2,845,253
Amounts shown in the condensed consolidated statement of financial position	895,602	2,911,900
Less: Amounts with an original maturity beyond three months	(358,204)	(2,503,999)
Cash and cash equivalents in the condensed consolidated statement of cash flows	537,398	407,901

5. 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.

6. 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 is mainly driven by the revaluation of USD denominated financial assets.

7. 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 31 December 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 nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

8. 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, \$4,566,000 was recovered from the ICF for the ICC's expenses (31 December 2022: \$4,437,000). As at 31 December 2023, the ICC had an amount due from the ICF of \$207,000 (as at 31 March 2023: amount due from the ICF of \$208,000).

(b) Remuneration of key management personnel

	Unaudited Nine months ended	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Directors' fees and salaries, allowances and benefits in kind	23,672	20,892
Retirement scheme contributions	2,082	1,803
	25,754	22,695

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 (31 December 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 nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

9. 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 31 December 2023 (Unaudited)</u>				
Debt securities	–	–	–	–
Pooled funds	1,035,142	–	–	1,035,142
	1,035,142	–	–	1,035,142
<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 nine months ended 31 December 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 31 December 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 are disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>At 31 December 2023 (Unaudited)</u>					
Financial assets at amortised costs – debt securities	3,167,119	2,990,800	–	2,990,800	–
<u>At 31 March 2023 (Audited)</u>					
Financial assets at amortised costs – debt securities	3,285,136	3,066,896	–	3,066,896	–

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 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 31 December 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 48 to 53.

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

29 February 2024



Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Income					
Interest income		91,034	40,107	33,502	22,169
Exchange loss		(7,575)	(4,731)	(4,320)	(7,967)
		83,459	35,376	29,182	14,202
Expenses					
Investor Compensation Company Limited expenses	2	4,566	4,437	1,514	1,480
Auditor's remuneration		153	148	39	38
		4,719	4,585	1,553	1,518
Surplus and total comprehensive income for the period		78,740	30,791	27,629	12,684

The notes on pages 52 and 53 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

As at 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		49,743	47,392
Fixed deposits with banks	3	2,555,426	2,472,685
Cash at bank	3	581	847
		2,605,750	2,520,924
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		274	274
Amount due to the Investor Compensation Company Limited		207	208
		3,875	3,876
Net current assets		2,601,875	2,517,048
Net assets		2,601,875	2,517,048
Representing:			
Compensation fund		2,601,875	2,517,048

The notes on pages 52 and 53 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 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	–	–	–	–	30,791	30,791
Balance at 31 December 2022	994,718	108,923	–	–	1,382,054	2,485,695
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	–	–	–	–	78,740	78,740
Balance at 31 December 2023	994,718	108,923	5,470	617	1,492,147	2,601,875

The notes on pages 52 and 53 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Surplus for the period		78,740	30,791
Adjustments for:			
Interest income		(91,034)	(40,107)
Exchange loss		7,575	4,731
		(4,719)	(4,585)
Decrease in creditors and accrued charges		–	(38)
Change in amount due from/to the Investor Compensation Company Limited		(1)	(219)
Net cash used in operating activities		(4,720)	(4,842)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(94,678)	(306,926)
Interest received		88,557	12,883
Net cash used in investing activities		(6,121)	(294,043)
Cash flows from financing activities			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		6,087	–
Net cash generated from financing activities		6,087	–
Net decrease in cash and cash equivalents		(4,754)	(298,885)
Cash and cash equivalents at the beginning of the nine-month period		164,980	451,903
Cash and cash equivalents at the end of the nine-month period	3	160,226	153,018

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2023 \$'000	At 31 Dec 2022 \$'000
Fixed deposits with banks	159,645	152,203
Cash at bank	581	815
	160,226	153,018

The notes on pages 52 and 53 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2023, the ICC incurred costs of \$4,566,000 for its operation (for the nine months ended 31 December 2022: \$4,437,000).

3. Cash and cash equivalents

	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	581	847
Fixed deposits with banks	2,555,426	2,472,685
Amounts shown in the condensed statement of financial position	2,556,007	2,473,532
Less: Amounts with an original maturity beyond three months	(2,395,781)	(2,308,552)
Cash and cash equivalents in the condensed statement of cash flows	160,226	164,980

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2023 and 2022.

7. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 12 outstanding claims as at 31 December 2023 (14 outstanding claims as at 31 March 2023). The maximum liability in respect of these claims in aggregate was \$2,199,000 (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 nine months ended 31 December 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 this report together with the unaudited condensed financial statements for the nine months ended 31 December 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 31 December 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 31 December 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 60.

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

2 February 2024

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended		Unaudited Three months ended	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Income				
Interest income	3,299	1,340	1,247	832
Expenses				
Recoveries re-distributed	–	22	–	–
Auditor's remuneration	71	70	17	16
	71	92	17	16
Surplus and total comprehensive income for the period	3,228	1,248	1,230	816

The notes on pages 59 and 60 form part of these condensed financial statements.



Unified Exchange Compensation Fund

Condensed statement of financial position

As at 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		710	454
Fixed deposits with banks		97,716	96,869
Cash at bank		527	491
		98,953	97,814
Current liabilities			
Creditors and accrued charges		10,336	10,325
Relinquished trading rights payable to SEHK	4	1,250	1,650
		11,586	11,975
Net current assets		87,367	85,839
Net assets		87,367	85,839
Representing:			
Compensation fund		87,367	85,839

The notes on pages 59 and 60 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 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	(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
Balance at 1 April 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(1,700)	–	–	–	–	–	(1,700)
Surplus and total comprehensive income for the period	–	–	–	–	3,228	–	3,228
Balance at 31 December 2023	50,450	353,787	630,000	6,502	41,346	(994,718)	87,367

The notes on pages 59 and 60 form part of these condensed financial statements.



Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Surplus for the period		3,228	1,248
Adjustment for:			
Interest income		(3,299)	(1,340)
		(71)	(92)
Increase in creditors and accrued charges		11	–
Decrease in relinquished trading rights payable to SEHK		(400)	(250)
Net cash used in operating activities		(460)	(342)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(33,492)	10,055
Interest received		3,043	857
Net cash (used in)/generated from investing activities		(30,449)	10,912
Cash flows from financing activities			
Net trading rights deposits refunded to SEHK		(1,700)	(900)
Net cash used in financing activities		(1,700)	(900)
Net (decrease)/increase in cash and cash equivalents		(32,609)	9,670
Cash and cash equivalents at the beginning of the nine-month period		69,384	71,486
Cash and cash equivalents at the end of the nine-month period	3	36,775	81,156

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2023 \$'000	At 31 Dec 2022 \$'000
Fixed deposits with banks	36,248	80,894
Cash at bank	527	262
	36,775	81,156

The notes on pages 59 and 60 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 31 December 2023, the equity securities received under subrogation amounted to \$16 (as at 31 March 2023: \$30). The balances as at 31 December 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 nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	527	491
Fixed deposits with banks	97,716	96,869
Amounts shown in the condensed statement of financial position	98,243	97,360
Less: Amounts with an original maturity beyond three months	(61,468)	(27,976)
Cash and cash equivalents in the condensed statement of cash flows	36,775	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 nine-month period, deposits of \$200,000 in respect of 4 new trading rights were received from SEHK and deposits of \$2,300,000 in respect of 46 relinquished trading rights were refunded to SEHK. As at 31 December 2023, 25 trading rights totalling \$1,250,000 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 Nine months ended	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Balance at the beginning of the nine-month period	52,150	54,300
Add: new trading rights issued	200	250
Less: relinquished trading rights refunded	(2,300)	(1,400)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	400	250
Balance at the end of the nine-month period	50,450	53,400

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 2023 and 2022.