

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2020.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 June 2020, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2020 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 40 to 45.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Yiu Ka Yan Wilfred

Ms Kwok Hom Siu

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the reporting period or at any time during the quarter.

On behalf of the Committee

Rico Leung

Chairman

5 August 2020

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Income			
Interest income		382	390
Recoveries	2	3,626	(1)
		4,008	389
Expenses			
Auditor's remuneration		27	26
Surplus and total comprehensive income for the quarter		3,981	363

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Current assets			
Interest receivable		199	243
Accounts receivable		9	9
Fixed deposits with banks		96,606	92,879
Cash at bank		334	470
		97,148	93,601
Current liabilities			
Creditors and accrued charges		10,272	10,306
Relinquished trading rights payable to SEHK	4	1,100	1,250
		11,372	11,556
Net current assets		85,776	82,045
Net assets		85,776	82,045
Representing:			
Compensation fund		85,776	82,045

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2020 (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 ICF \$'000	Total \$'000
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	550	-	-	-	-	-	550
Surplus and total comprehensive income for the quarter	-	-	-	-	363	-	363
Balance at 30 June 2019	55,050	353,787	630,000	6,502	29,624	(994,718)	80,245
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(250)	-	-	-	-	-	(250)
Surplus and total comprehensive income for the quarter	-	-	-	-	3,981	-	3,981
Balance at 30 June 2020	55,200	353,787	630,000	6,502	35,005	(994,718)	85,776

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash flows from operating activities			
Surplus for the quarter		3,981	363
Adjustments for:			
Interest income		(382)	(390)
Recoveries		–	1
		3,599	(26)
(Decrease)/increase in creditors and accrued charges		(34)	26
(Decrease)/increase in relinquished trading rights payable to SEHK		(150)	150
Net cash generated from operating activities		3,415	150
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		61,350	–
Interest received		426	356
Net cash generated from investing activities		61,776	356
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(250)	550
Net cash (used in)/generated from financing activities		(250)	550
Net increase in cash and cash equivalents		64,941	1,056
Cash and cash equivalents at the beginning of the quarter		31,999	90,260
Cash and cash equivalents at the end of the quarter	3	96,940	91,316

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2020 \$'000	at 30 Jun 2019 \$'000
Fixed deposits with banks	96,606	90,494
Cash at bank	334	822
	96,940	91,316

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2020. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2020 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2020.

2. Recoveries/Equity securities received under subrogation

For the quarter ended 30 June 2020, the Fund recognised as recoveries the payment of \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd (for the quarter ended 30 June 2019: nil).

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

As at 30 June 2020, the equity securities received under subrogation amounted to \$193 (as at 31 March 2020: \$142). The balance as at 30 June 2020 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. Cash and cash equivalents

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Cash at bank	334	470
Fixed deposits with banks	96,606	92,879
Amounts shown in the condensed statement of financial position	96,940	93,349
Less: Amounts with an original maturity of beyond three months	–	(61,350)
Cash and cash equivalents in the condensed statement of cash flows	96,940	31,999

Notes to the condensed financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

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 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished.

During the quarter, deposits of \$200,000 in respect of 4 new trading rights were received from SEHK and deposits of \$600,000 in respect of 12 relinquished trading rights were refunded to SEHK.

As at 30 June 2020, 22 trading rights totalling \$1,100,000 were relinquished but not yet refunded (as at 31 March 2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded). The net trading right deposits from SEHK as at 30 June 2020, excluding the relinquished trading rights payable, amounted to \$55,200,000 (as at 31 March 2020: \$55,450,000).

5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the quarters ended 30 June 2020 and 2019.