

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 September 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 September 2020 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 52.

Members of the Committee

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

On behalf of the Committee

Rico Leung
Chairman

12 November 2020

Unified Exchange Compensation Fund

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

Introduction

We have reviewed the interim financial information set out on pages 47 to 52, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2020 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 November 2020

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income		
Interest income	189	473
Expenses		
Auditor's remuneration	27	26
Surplus and total comprehensive income for the quarter	162	447

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 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 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income			
Interest income		571	863
Recoveries	2	3,626	(1)
		4,197	862
Expenses			
Auditor's remuneration		54	52
Surplus and total comprehensive income for the period		4,143	810

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

Unified Exchange Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets			
Interest receivable		56	243
Accounts receivable		9	9
Fixed deposits with banks		97,102	92,879
Cash at bank		270	470
		97,437	93,601
Current liabilities			
Creditors and accrued charges		10,299	10,306
Relinquished trading rights payable to SEHK	4	1,300	1,250
		11,599	11,556
Net current assets		85,838	82,045
Net assets		85,838	82,045
Representing:			
Compensation fund		85,838	82,045

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

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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 the 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	850	-	-	-	-	-	850
Surplus and total comprehensive income for the period	-	-	-	-	810	-	810
Balance at 30 September 2019	55,350	353,787	630,000	6,502	30,071	(994,718)	80,992
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(350)	-	-	-	-	-	(350)
Surplus and total comprehensive income for the period	-	-	-	-	4,143	-	4,143
Balance at 30 September 2020	55,100	353,787	630,000	6,502	35,167	(994,718)	85,838

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

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Cash flows from operating activities			
Surplus for the period		4,143	810
Adjustments for:			
Interest income		(571)	(863)
Recoveries		–	1
		3,572	(52)
Decrease in creditors and accrued charges		(7)	(28)
Increase in relinquished trading rights payable to SEHK		50	50
Net cash generated from/(used in) operating activities		3,615	(30)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		53,055	–
Interest received		758	792
Net cash generated from investing activities		53,813	792
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(350)	850
Net cash (used in)/generated from financing activities		(350)	850
Net increase in cash and cash equivalents		57,078	1,612
Cash and cash equivalents at the beginning of the six-month period		31,999	90,260
Cash and cash equivalents at the end of the six-month period	3	89,077	91,872

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	88,807	91,481
Cash at bank	270	391
	89,077	91,872

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

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 2020.

2. Recoveries/Equity securities received under subrogation

The Fund received \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd which was recognised as recoveries for the six months ended 30 September 2020 (for the six months ended 30 September 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 September 2020, the equity securities received under subrogation amounted to \$157 (as at 31 March 2020: \$142). The balance as at 30 September 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 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	270	470
Fixed deposits with banks	97,102	92,879
Amounts shown in the condensed statement of financial position	97,372	93,349
Less: Amounts with an original maturity of beyond three months	(8,295)	(61,350)
Cash and cash equivalents in the condensed statement of cash flows	89,077	31,999

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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. 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 \$300,000 in respect of 6 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 September 2020, 26 trading rights totalling \$1,300,000 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 movement of trading rights deposits from SEHK during the period was as follows:

	Unaudited Six months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Balance brought forward	55,450	54,500
Add: new trading rights issued	300	1,100
Less: relinquished trading rights refunded	(600)	(200)
Adjustment for: increase in relinquished trading rights payable to SEHK	(50)	(50)
Balance carried forward	55,100	55,350

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 2020 and 2019.