

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
Income		
Levies	391,558	272,269
Fees and charges	29,994	40,854
Investment income	19,734	99,728
Less : custody and advisory expenses	(1,996)	(1,824)
Investment income net of third party expenses	17,738	97,904
Recoveries from the Investor Compensation Fund	1,484	1,450
Other income	131	13,139
	440,905	425,616
Expenses		
Staff costs and directors' emoluments	330,855	317,023
Premises		
Rent	50,171	52,630
Rates, management fees and others	11,450	12,700
Other expenses	33,226	34,391
Depreciation	7,865	6,938
	433,567	423,682
Surplus and total comprehensive income for the quarter	7,338	1,934

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
Non-current assets			
Fixed assets		73,657	71,923
Financial assets at amortised cost		1,446,879	–
Held-to-maturity debt securities		–	1,546,613
		1,540,536	1,618,536
Current assets			
Financial assets at amortised cost		114,225	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		775,018	772,300
Pooled funds		924,898	934,768
Debtors, deposits and prepayments		213,624	219,778
Fixed deposits with banks	3	3,753,413	3,713,477
Cash at bank and in hand	3	44,831	33,353
		5,826,009	5,709,179
Current liabilities			
Fees received in advance		8,214	8,810
Creditors and accrued charges		144,092	113,317
		152,306	122,127
Net current assets		5,673,703	5,587,052
Total assets less current liabilities		7,214,239	7,205,588
Non-current liabilities	4	42,137	40,824
Net assets		7,172,102	7,164,764
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,129,262	4,121,924
		7,172,102	7,164,764

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
Non-current assets			
Fixed assets		73,622	71,859
Financial assets at amortised cost		1,466,879	–
Held-to-maturity debt securities		–	1,546,613
		1,540,501	1,618,472
Current assets			
Financial assets at amortised cost		114,225	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		775,018	772,300
Pooled funds		924,898	934,768
Debtors, deposits and prepayments		219,566	221,338
Fixed deposits with banks		3,753,413	3,713,477
Cash at bank and in hand		31,662	21,171
		5,818,782	5,698,557
Current liabilities			
Fees received in advance		8,214	8,810
Creditors and accrued charges		136,830	102,631
		145,044	111,441
Net current assets		5,673,738	5,587,116
Total assets less current liabilities		7,214,239	7,205,588
Non-current liabilities	4	42,137	40,824
Net assets		7,172,102	7,164,764
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,129,262	4,121,924
		7,172,102	7,164,764

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the quarter	–	–	1,934	1,934
Balance at 30 June 2017	42,840	3,000,000	3,880,994	6,923,834
Balance at 1 April 2018	42,840	3,000,000	4,121,924	7,164,764
Surplus and total comprehensive income for the quarter	–	–	7,338	7,338
Balance at 30 June 2018	42,840	3,000,000	4,129,262	7,172,102

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
Cash flows from operating activities			
Surplus and total comprehensive income for the quarter		7,338	1,934
Adjustments for :			
Depreciation		7,865	6,938
Investment income		(19,734)	(99,728)
Exchange difference		1,614	(7,793)
		(2,917)	(98,649)
Decrease/(increase) in debtors, deposits and prepayments		3,879	(16,990)
Increase in creditors and accrued charges		30,775	12,404
Decrease in fees received in advance		(596)	(686)
Increase in non-current liabilities		1,313	3,400
Net cash generated from/(used in) operating activities		32,454	(100,521)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		596,622	54,835
Interest received		31,748	19,950
Debt securities at fair value through profit or loss purchased		(81,019)	(159,335)
Debt securities at fair value through profit or loss sold or redeemed		76,680	125,684
Pooled funds sold		1,150	818
Fixed assets purchased		(9,599)	(6,132)
Net cash generated from investing activities		615,582	35,820
Net increase/(decrease) in cash and cash equivalents		648,036	(64,701)
Cash and cash equivalents at beginning of the quarter		292,105	676,727
Cash and cash equivalents at end of the quarter	3	940,141	612,026

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2018 \$'000	Unaudited at 30 June 2017 \$'000
Fixed deposits with banks	895,310	573,421
Cash at bank and in hand	44,831	38,605
	940,141	612,026

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

This condensed consolidated 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 financial position and performance of the Securities and Futures Commission (SFC) since the annual financial statements for the year ended 31 March 2018. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 included in this report does not constitute the SFC's statutory annual financial statements for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 30 June 2018. We eliminated all material intragroup 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 2018 to the condensed consolidated interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, *Financial instruments* and HKFRS 15, *Revenue from contracts with customers* as issued by the HKICPA, both with a date of transition of 1 January 2018. The adoption of HKFRS 15 did not have any impact on the Group's accounting policies and did not require retrospective adjustments. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the SFC for the quarter ended 30 June 2018.

2. Changes in accounting policies

Impact on the condensed consolidated interim financial information

HKFRS 9 replaces the provisions of HKAS 39, *Financial instruments: Recognition and measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Debt securities that would have previously been classified as held-to-maturity are now classified as financial assets at amortised cost. We intended to hold the debt securities to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Debt securities carried at amortised cost are subject to HKFRS 9's new expected credit loss model. All the debt securities are considered to have low credit risk as they are rated A or above. The loss allowance as a result of applying the expected credit loss model was immaterial.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, are now required to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement. There was no impact on the amounts recognized in relation to these assets from the adoption of HKFRS 9.

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
Cash at bank and in hand	44,831	33,353
Fixed deposits with banks	3,753,413	3,713,477
Amounts shown in the condensed consolidated statement of financial position	3,798,244	3,746,830
Less : Amounts with an original maturity of beyond three months	(2,858,103)	(3,454,725)
Cash and cash equivalents in the condensed consolidated statement of cash flows	940,141	292,105

4. Non-current liabilities

Non-current liabilities represent provision for premises reinstatement cost to restore the premises to its original condition when the lease has expired.

5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 June 2018. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange fluctuation

The SFC's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either US dollars or Hong Kong dollars which are closely pegged, we do not consider we are exposed to significant foreign exchange risk.

7. Investments in subsidiaries

The SFC formed ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched IEC 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 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 IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 30 June 2018, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2018: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The financial statements of ICC and IEC are included in the condensed consolidated financial statements.

8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions:

- (a) During the quarter, we received reimbursement from the ICF for all ICC's expenses amounting to \$1,484,000 (2017: \$1,450,000), in accordance with section 242(1) of the SFO. As at 30 June 2018, the amount due to the ICF from ICC was \$612,000 (at 31 March 2018: \$203,000).
- (b) Remuneration of key management personnel comprised:

	Unaudited quarter ended	
	30 Jun 2018 \$'000	30 Jun 2017 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,307	8,060
Retirement scheme contributions	761	736
	9,068	8,796

The total remuneration is included in "staff costs and directors' emoluments" on page 25. 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.

9. Commitment to pay rents for offices

As at 30 June 2018, the minimum amount we are committed to pay in rent for our offices up to 31 August 2020 are as follows:

	Unaudited at 30 Jun 2018 \$'000	Audited at 31 Mar 2018 \$'000
Payable next year	200,296	200,457
Payable in one to five years	233,940	284,069
Payable in more than five years	-	-
	434,236	484,526

During the quarter, \$50,171,000 net of lease incentives, was recognised as an expense in the condensed consolidated statement of profit or loss and other comprehensive income in respect of operating leases (2017: \$52,630,000).

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2018.

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 reporting period ended 30 June 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 34 to 39.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2018 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Mr Lee Kwok Keung	
Mr Thomas Allen Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)

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

Keith Lui
Chairman

14 August 2018

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
Income			
Net investment (loss)/income		(6,028)	30,226
Exchange difference		(1,267)	7,503
		(7,295)	37,729
Expenses			
Investor Compensation Company Limited expenses	3	1,484	1,450
Auditor's remuneration		51	49
Bank charges		230	236
Professional fees		1,064	1,044
		2,829	2,779
(Deficit)/surplus and total comprehensive income for the quarter		(10,124)	34,950

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

At 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
Current assets		
Financial assets at fair value through profit or loss		
Debt securities	1,941,410	1,939,279
Pooled fund	–	350,084
Interest receivable	17,073	17,015
Amount due from Investor Compensation Company Limited	612	203
Fixed deposits with banks	15,042	52,586
Cash at bank	378,332	3,347
	2,352,469	2,362,514
Current liabilities		
Creditors and accrued charges	1,443	1,364
	1,443	1,364
Net current assets	2,351,026	2,361,150
Net assets	2,351,026	2,361,150
Representing :		
Compensation fund		
Contributions from Unified Exchange Compensation Fund	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	108,923	108,923
Accumulated surplus	1,247,385	1,257,509
	2,351,026	2,361,150

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the quarter	–	–	34,950	34,950
Balance at 30 June 2017	994,718	108,923	1,211,715	2,315,356
Balance at 1 April 2018	994,718	108,923	1,257,509	2,361,150
Deficit and total comprehensive income for the quarter	–	–	(10,124)	(10,124)
Balance at 30 June 2018	994,718	108,923	1,247,385	2,351,026

The notes on pages 38 and 39 form part of the condensed financial statements.

Condensed statement of cash flows

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
Cash flows from operating activities		
(Deficit)/surplus for the quarter	(10,124)	34,950
Adjustments for:		
Net investment loss/(income)	6,028	(30,226)
Exchange difference	1,267	(7,503)
	(2,829)	(2,779)
Increase in amount due from Investor Compensation Company Limited	(409)	(441)
Decrease in provision for compensation	-	(150)
Increase in creditors and accrued charges	79	127
Net cash used in operating activities	(3,159)	(3,243)
Cash flows from investing activities		
Debt securities purchased	(145,306)	(255,998)
Debt securities sold or redeemed	132,602	273,651
Pooled fund sold	338,934	399
Interest received	14,370	11,923
Net cash generated from investing activities	340,600	29,975
Net increase in cash and cash equivalents	337,441	26,732
Cash and cash equivalents at beginning of the quarter	55,933	44,971
Cash and cash equivalents at end of the quarter	393,374	71,703

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2018 \$'000	Unaudited at 30 June 2017 \$'000
Fixed deposits with banks	15,042	70,298
Cash at bank	378,332	1,405
	393,374	71,703

The notes on pages 38 and 39 form part of the condensed financial statements.

Notes to the condensed financial statements

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The condensed 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 financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2018. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 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.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2018 to this condensed interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, *Financial instruments* as issued by the HKICPA, with a date of transition of 1 January 2018. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2018.

2. Changes in accounting policies

Impact on the condensed interim financial information

HKFRS 9 replaces the provisions of HKAS 39, *Financial instruments: Recognition and measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, are now required to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement.

There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

3. Investor Compensation Company Limited expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2018, the ICC incurred \$1,484,000 for its operation (for the quarter ended 30 June 2017: \$1,450,000).

4. Material related party transactions

We have related party relationships with the Securities and Futures Commission, ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the quarters ended 30 June 2017 and 2018.

5. Contingent liabilities

As at the date of this report, there are 10 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims is \$1,611,000 (at 31 March 2018: \$2,375,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

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 2018.

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 on 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 2018, the Fund has transferred \$994,718,000 to the ICF. After 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 reporting period ended 30 June 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 41 to 46.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2018 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)

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

Keith Lui

Chairman

6 August 2018

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
Income		
Interest income	271	160
Expenses		
Auditor's remuneration	25	24
Surplus and total comprehensive income for the quarter	246	136

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 45 and 46 form part of the condensed financial statements

Unified Exchange Compensation Fund

Condensed statement of financial position

At 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		130	98
Accounts receivable		9	9
Fixed deposits with banks		87,132	86,525
Cash at bank		206	224
		87,478	86,857
Current liabilities			
Creditors and accrued charges		10,328	10,303
Relinquished trading rights payable to SEHK	4	750	750
		11,078	11,053
Net current assets		76,400	75,804
Net assets		76,400	75,804
Representing:			
Compensation fund		76,400	75,804

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (see 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 Investor Compensation Fund \$'000	Total \$'000
Balance at 1 April 2017	51,200	353,787	630,000	6,502	26,120	(994,718)	72,891
Net contributions from SEHK	550	-	-	-	-	-	550
Surplus and total comprehensive income for the quarter	-	-	-	-	136	-	136
Balance at 30 June 2017	51,750	353,787	630,000	6,502	26,256	(994,718)	73,577
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804
Net contributions from SEHK	350	-	-	-	-	-	350
Surplus and total comprehensive income for the quarter	-	-	-	-	246	-	246
Balance at 30 June 2018	53,850	353,787	630,000	6,502	26,979	(994,718)	76,400

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
Cash flows from operating activities		
Surplus for the quarter	246	136
Adjustment for:		
Interest income	(271)	(160)
	(25)	(24)
Increase in accounts receivable	–	(10)
Increase/(decrease) in creditors and accrued charges	25	(72)
Increase in relinquished trading rights payable to SEHK	–	200
Net cash generated from operating activities	–	94
Cash flows from investing activities		
Interest received	239	171
Net cash generated from investing activities	239	171
Cash flows from financing activities		
Net trading rights deposits from SEHK	350	550
Net cash generated from financing activities	350	550
Net increase in cash and cash equivalents	589	815
Cash and cash equivalents at beginning of the quarter	86,749	84,076
Cash and cash equivalents at end of the quarter	87,338	84,891

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2018 \$'000	Unaudited at 30 June 2017 \$'000
Fixed deposits with banks	87,132	84,341
Cash at bank	206	550
	87,338	84,891

The notes on pages 45 and 46 form part of the condensed financial statements.

Notes to the condensed financial statements

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA). 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 condensed 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.

This condensed 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 financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2018. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 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.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2018 to this condensed interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, *Financial instruments* as issued by the HKICPA, with a date of transition of 1 January 2018. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2018.

2. Changes in accounting policies

Impact on the condensed interim financial information

HKFRS 9 replaces the provisions of HKAS 39, *Financial instruments: Recognition and measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement with the adoption of HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

3. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 June 2018 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as financial assets at fair value through profit or loss in accordance with HKFRS 9. According to HKFRS 13, *Fair value measurement*, these subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in Recoveries.

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 Fund 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 \$450,000 in respect of nine new trading rights were received from SEHK and deposits of \$100,000 in respect of two relinquished trading rights were refunded to SEHK.

At 30 June 2018, there were 15 trading rights in total of \$750,000 that have been relinquished but not yet refunded (at 31 March 2018: 15). The net contributions from SEHK at 30 June 2018, excluding the relinquished trading rights payable, amounted to \$53,850,000 (at 31 March 2018: \$53,500,000).

5. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the quarters ended 30 June 2018 and 2017.

6. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 3) will be re-distributed to claimants. As the timing of any future re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.