

# 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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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
<b>Income</b>		
Interest income	271	160
<b>Expenses</b>		
Auditor's remuneration	25	24
<b>Surplus and total comprehensive income for the quarter</b>	<b>246</b>	<b>136</b>

Highlights

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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
<b>Current assets</b>			
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
		<b>87,478</b>	86,857
<b>Current liabilities</b>			
Creditors and accrued charges		10,328	10,303
Relinquished trading rights payable to SEHK	4	750	750
		<b>11,078</b>	11,053
<b>Net current assets</b>		<b>76,400</b>	75,804
<b>Net assets</b>		<b>76,400</b>	75,804
Representing:			
<b>Compensation fund</b>		<b>76,400</b>	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
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
Interest received	239	171
Net cash generated from investing activities	239	171
<b>Cash flows from financing activities</b>		
Net trading rights deposits from SEHK	350	550
Net cash generated from financing activities	350	550
<b>Net increase in cash and cash equivalents</b>	<b>589</b>	<b>815</b>
<b>Cash and cash equivalents at beginning of the quarter</b>	<b>86,749</b>	<b>84,076</b>
<b>Cash and cash equivalents at end of the quarter</b>	<b>87,338</b>	<b>84,891</b>

#### 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
	<b>87,338</b>	<b>84,891</b>

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.