

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Income					
Levies		1,108,814	1,019,101	343,945	390,758
Fees and charges		97,297	120,278	28,656	45,662
Investment (loss)/income		(21,416)	271,939	(62,013)	90,638
Less: custody and advisory expenses		(5,797)	(5,726)	(1,838)	(1,984)
Investment (loss)/income net of third party expenses		(27,213)	266,213	(63,851)	88,654
Recoveries from the Investor Compensation Fund		4,423	4,314	1,461	1,431
Exchange (loss)/gain		(10,303)	18,154	2,048	3,111
Other income		11,533	336	169	239
		1,184,551	1,428,396	312,428	529,855
Expenses					
Staff costs and directors' emoluments	8(b)	1,003,423	961,033	339,830	318,721
Premises					
Rent		150,539	154,209	50,197	49,807
Rates, management fees and others		34,898	36,036	11,890	11,147
Other expenses		112,536	136,802	38,192	51,981
Depreciation		25,365	21,810	8,999	7,635
		1,326,761	1,309,890	449,108	439,291
(Loss)/surplus and total comprehensive (loss)/income for the period		(142,210)	118,506	(136,680)	90,564

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Non-current assets			
Fixed assets		87,151	71,923
Financial assets at amortised cost		1,277,348	–
Held-to-maturity debt securities		–	1,546,613
		1,364,499	1,618,536
Current assets			
Financial assets at amortised cost		299,631	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		787,350	772,300
Pooled funds		808,972	934,768
Debtors, deposits and prepayments		180,904	219,778
Fixed deposits with banks		3,816,615	3,713,477
Cash at bank and in hand		67,303	33,353
		5,960,775	5,709,179
Current liabilities			
Fees received in advance		8,013	8,810
Creditors and accrued charges		250,698	113,317
		258,711	122,127
Net current assets		5,702,064	5,587,052
Total assets less current liabilities		7,066,563	7,205,588
Non-current liabilities	4	44,009	40,824
Net assets		7,022,554	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		3,979,714	4,121,924
		7,022,554	7,164,764

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Non-current assets			
Fixed assets		87,119	71,859
Financial assets at amortised cost		1,277,348	–
Held-to-maturity debt securities		–	1,546,613
		1,364,467	1,618,472
Current assets			
Financial assets at amortised cost		299,631	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		787,350	772,300
Pooled funds		808,972	934,768
Debtors, deposits and prepayments		192,784	221,338
Fixed deposits with banks		3,816,615	3,713,477
Cash at bank and in hand		46,505	21,171
		5,951,857	5,698,557
Current liabilities			
Fees received in advance		8,013	8,810
Creditors and accrued charges		241,748	102,631
		249,761	111,441
Net current assets		5,702,096	5,587,116
Total assets less current liabilities		7,066,563	7,205,588
Non-current liabilities	4	44,009	40,824
Net assets		7,022,554	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		3,979,714	4,121,924
		7,022,554	7,164,764

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2018
(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 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the period	–	–	118,506	118,506
Balance at 31 December 2017	42,840	3,000,000	3,997,566	7,040,406
Balance at 1 April 2018	42,840	3,000,000	4,121,924	7,164,764
Loss and total comprehensive loss for the period	–	–	(142,210)	(142,210)
Balance at 31 December 2018	42,840	3,000,000	3,979,714	7,022,554

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
(Loss)/surplus and total comprehensive (loss)/income for the period		(142,210)	118,506
Adjustments for:			
Depreciation		25,365	21,810
Investment loss/(income)		21,416	(271,939)
Exchange difference		10,338	(10,293)
Loss on disposal of fixed assets		–	719
		(85,091)	(141,197)
Decrease/(increase) in debtors, deposits and prepayments		49,520	(20,111)
Increase in creditors and accrued charges		137,381	119,486
Decrease in fees received in advance		(797)	(1,199)
Increase in non-current liabilities		3,185	5,607
<i>Net cash generated from/(used in) operating activities</i>		104,198	(37,414)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(226,014)	1,091,420
Interest received		87,833	61,417
Held-to-maturity debt securities purchased		–	(879,337)
Held-to-maturity debt securities redeemed at maturity		–	30,000
Debt securities at fair value through profit or loss purchased		(198,529)	(487,785)
Debt securities at fair value through profit or loss sold or redeemed		182,288	438,565
Pooled funds at fair value through profit or loss sold		3,299	104,882
Fixed assets purchased		(40,593)	(22,672)
<i>Net cash (used in)/generated from investing activities</i>		(191,716)	336,490
Net (decrease)/increase in cash and cash equivalents		(87,518)	299,076
Cash and cash equivalents at beginning of the nine-month period		292,105	676,727
Cash and cash equivalents at end of the nine-month period	3	204,587	975,803

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	137,284	929,127
Cash at bank and in hand	67,303	46,676
	204,587	975,803

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2018
(Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the 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 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 SFC since the annual financial statements for the year ended 31 March 2018. 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 (HKFRSs).

The 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 and Financial Education Council (IFEC) (formerly known as Investor Education Centre) in the SFC's condensed consolidated financial statements made up to 31 December 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 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 nine months ended 31 December 2018.

2. Changes in accounting policies

Impact on the 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 condensed consolidated 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, continue 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. Cash and cash equivalents

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank and in hand	67,303	33,353
Fixed deposits with banks	3,816,615	3,713,477
Amounts shown in the condensed consolidated statement of financial position	3,883,918	3,746,830
Less: Amounts with an original maturity of beyond three months	(3,679,331)	(3,454,725)
Cash and cash equivalents in the consolidated statement of cash flows	204,587	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 31 December 2018. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange risk

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 exchange rate risk.

7. Investments in subsidiaries

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 with no 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 2018, the investment in subsidiaries, which is 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 condensed statement of financial position which is expressed in thousands of dollars.

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 period, we received reimbursement from the ICF for all the ICC's expenses amounting to \$4,423,000 (2017: \$4,314,000), which is in accordance with section 242(1) of the SFO. As at 31 December 2018, the amount due to the ICF from the ICC was \$226,000 (at 31 March 2018: \$203,000).
- b) Remuneration for key management personnel comprised:

	Unaudited nine months ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Directors' fees and salaries, allowances and benefits in kind	25,219	24,264
Retirement scheme contributions	2,300	2,218
	27,519	26,482

The total remuneration is included in "staff costs and directors' emoluments" on page 22. 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. Operating lease commitments

During the period, we have entered into a new operating lease for the office premise for eight years commencing 1 January 2020.

At 31 December 2018 the minimum amount we are committed to pay in rent for our offices up to 31 December 2027 are as follows:

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Payable next year	201,162	200,457
Payable in one to five years	593,683	284,069
Payable in more than five years	612,427	–
	1,407,272	484,526

\$150,539,000 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: \$154,209,000) during the period.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present this report and the unaudited condensed financial statements for the nine months ended 31 December 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 31 December 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 31 to 36.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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	(retired on 31 December 2018)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)
Mr Tai Chi Kin Calvin	(appointed on 1 January 2019)

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, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

Keith Lui

Chairman

22 February 2019

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Income					
Net investment income		22,712	80,346	14,441	23,249
Exchange difference		(3,941)	9,836	737	1,413
Compensation payment given up		150	–	150	–
		18,921	90,182	15,328	24,662
Expenses					
Investor Compensation Company Limited expenses	3	4,423	4,314	1,461	1,431
Auditor's remuneration		137	132	35	33
Bank charges		406	727	11	248
Professional fees		1,465	3,097	16	1,041
		6,431	8,270	1,523	2,753
Surplus and total comprehensive income for the period		12,490	81,912	13,805	21,909

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

At 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Current assets		
Financial assets at fair value through profit or loss		
– Debt securities	37,732	1,939,279
– Pooled fund	–	350,084
Interest receivable	12,130	17,015
Due from Investor Compensation Company Limited	226	203
Fixed deposits with banks	2,322,457	52,586
Cash at bank	1,419	3,347
	2,373,964	2,362,514
Current liabilities		
Creditors and accrued charges	324	1,364
	324	1,364
Net current assets	2,373,640	2,361,150
Net assets	2,373,640	2,361,150
Representing:		
Compensation fund	2,373,640	2,361,150

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited			
	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 period	–	–	81,912	81,912
Balance at 31 December 2017	994,718	108,923	1,258,677	2,362,318
Balance at 1 April 2018	994,718	108,923	1,257,509	2,361,150
Surplus and total comprehensive income for the period	–	–	12,490	12,490
Balance at 31 December 2018	994,718	108,923	1,269,999	2,373,640

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
Surplus and total comprehensive income for the period		12,490	81,912
Adjustments for:			
Net investment income		(22,712)	(80,346)
Exchange difference		3,941	(9,836)
		(6,281)	(8,270)
Increase in amount due from Investor Compensation Company Limited		(23)	(97)
Decrease in provision for compensation		–	(176)
Decrease in creditors and accrued charges		(1,040)	(60)
Net cash used in operating activities		(7,344)	(8,603)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(2,295,470)	–
Debt securities purchased		(165,306)	(919,710)
Debt securities sold or redeemed		2,055,094	825,678
Pooled fund sold		338,934	36,356
Interest received		46,565	35,682
Net cash used in investing activities		(20,183)	(21,994)
Net decrease in cash and cash equivalents		(27,527)	(30,597)
Cash and cash equivalents at beginning of the nine-month period		55,933	44,971
Cash and cash equivalents at end of the nine-month period	4	28,406	14,374

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	26,987	11,407
Cash at bank	1,419	2,967
	28,406	14,374

The notes on pages 35 to 36 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the 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 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 2018. 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 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 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 nine months ended 31 December 2018.

2. Changes in accounting policies

Impact on the 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 condensed 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, continue 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 nine months ended 31 December 2018, the ICC incurred costs of \$4,423,000 for its operations (for the nine months ended 31 December 2017: \$4,314,000) which were reimbursed by the Fund.

4. Cash and cash equivalents

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank	1,419	3,347
Fixed deposits with banks	2,322,457	52,586
Amounts shown in the condensed statement of financial position	2,323,876	55,933
Less: Amounts with an original maturity of beyond three months	(2,295,470)	–
Cash and cash equivalents in the condensed statement of cash flows	28,406	55,933

5. 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 interim financial information of the Fund for the nine months ended 31 December 2018 and 2017.

6. Contingent liabilities

As at the date of this report, 12 claims have been received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims in aggregate is \$1,791,000 (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 this report and the unaudited condensed financial statements for the nine months ended 31 December 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 31 December 2018, the Fund 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 31 December 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 38 to 43.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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	(retired on 31 December 2018)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)
Mr Tai Chi Kin Calvin	(appointed on 1 January 2019)

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, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

Keith Lui
Chairman

14 February 2019

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended		Unaudited Three months ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Income				
Interest income	1,120	456	441	164
Recoveries	1	–	–	–
	1,121	456	441	164
Expenses				
Auditor's remuneration	65	63	15	14
	65	63	15	14
Surplus and total comprehensive income for the period	1,056	393	426	150

The notes on pages 42 to 43 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

At 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Current assets			
Equity securities received under subrogation	3	1	1
Interest receivable		230	98
Accounts receivable		9	9
Fixed deposits with banks		87,882	86,525
Cash at bank		648	224
		88,770	86,857
Current liabilities			
Creditors and accrued charges		10,310	10,303
Relinquished trading rights payable to SEHK	4	900	750
		11,210	11,053
Net current assets		77,560	75,804
Net assets		77,560	75,804
Representing:			
Compensation fund		77,560	75,804

The notes on pages 42 to 43 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2018 (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 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	2,100	-	-	-	-	-	2,100
Surplus and total comprehensive income for the period	-	-	-	-	393	-	393
Balance at 31 December 2017	53,300	353,787	630,000	6,502	26,513	(994,718)	75,384
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804
Net contributions from SEHK	700	-	-	-	-	-	700
Surplus and total comprehensive income for the period	-	-	-	-	1,056	-	1,056
Balance at 31 December 2018	54,200	353,787	630,000	6,502	27,789	(994,718)	77,560

The notes on pages 42 to 43 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities		
Surplus and total comprehensive income for the period	1,056	393
Adjustment for:		
Interest income	(1,120)	(456)
	(64)	(63)
Increase in accounts receivable	–	(59)
Increase/(decrease) in creditors and accrued charges	7	(336)
Increase in relinquished trading rights payable to SEHK	150	100
Net cash generated from/(used in) operating activities	93	(358)
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	–	(20,891)
Interest received	988	453
Net cash generated from/(used in) investing activities	988	(20,438)
Cash flows from financing activities		
Net trading rights deposits from SEHK	700	2,100
Net cash generated from financing activities	700	2,100
Net increase/(decrease) in cash and cash equivalents	1,781	(18,696)
Cash and cash equivalents at beginning of the nine-month period	86,749	84,076
Cash and cash equivalents at end of the nine-month period	88,530	65,380

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	87,882	64,817
Cash at bank	648	563
	88,530	65,380

The notes on pages 42 to 43 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the 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 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 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 2018. 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 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 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 nine months ended 31 December 2018.

2. Changes in accounting policies

Impact on the 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 condensed 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 31 December 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 nine months after the trading right was relinquished.

During the nine-month period, deposits of \$950,000 in respect of 19 new trading rights were received from SEHK and deposits of \$100,000 in respect of two relinquished trading rights were refunded to SEHK.

At 31 December 2018, there were 18 trading rights in total of \$900,000 that have been relinquished but not yet refunded (at 31 March 2018: 15). The net trading right deposits from SEHK at 31 December 2018, excluding the relinquished trading rights payable, amounted to \$54,200,000 (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 interim financial information of the Fund for the nine months ended 31 December 2018 and 2017.