

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 2019.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 June 2019, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2019 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 2019 and up to the date of this report were:

Mr Keith Lui (Chairman)
Mr Thomas Allan Atkinson
Dr William Wong Ming Fung, SC
Mr Tai Chi Kin Calvin
Ms Mak Po Shuen

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

31 July 2019

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Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
Income			
Interest income		390	271
Recoveries	2	(1)	–
		389	271
Expenses			
Auditor's remuneration		26	25
Surplus and total comprehensive income for the quarter		363	246

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

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Condensed statement of financial position

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Current assets			
Equity securities received under subrogation	2	–	1
Interest receivable		221	187
Accounts receivable		9	9
Fixed deposits with banks		90,494	88,338
Cash at bank		822	1,922
		91,546	90,457
Current liabilities			
Creditors and accrued charges		10,351	10,325
Relinquished trading rights payable to SEHK	3	950	800
		11,301	11,125
Net current assets		80,245	79,332
Net assets		80,245	79,332
Representing:			
Compensation fund		80,245	79,332

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

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Condensed statement of changes in equity

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 3) \$'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		
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	
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332	
Net contributions from SEHK	550	-	-	-	-	-	550	
Surplus and total comprehensive income for the quarter	-	-	-	-	363	-	363	
Balance at 30 June 2019	55,050	353,787	630,000	6,502	29,624	(994,718)	80,245	

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

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Condensed statement of cash flows

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 Jun 2019 \$'000	30 Jun 2018 \$'000
Cash flows from operating activities		
Surplus for the quarter	363	246
Adjustments for:		
Interest income	(390)	(271)
Recoveries	1	–
	(26)	(25)
Increase in creditors and accrued charges	26	25
Increase in relinquished trading rights payable to SEHK	150	–
Net cash generated from operating activities	150	–
Cash flows from investing activities		
Interest received	356	239
Net cash generated from investing activities	356	239
Cash flows from financing activities		
Net trading rights deposits from SEHK	550	350
Net cash generated from financing activities	550	350
Net increase in cash and cash equivalents	1,056	589
Cash and cash equivalents at beginning of the quarter	90,260	86,749
Cash and cash equivalents at end of the quarter	91,316	87,338

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2019 \$'000	at 30 Jun 2018 \$'000
Fixed deposits with banks	90,494	87,132
Cash at bank	822	206
	91,316	87,338

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 2019 (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.

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 2019. 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 2019 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 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2019.

2. Recoveries/Equity securities received under subrogation

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

As at 30 June 2019, the equity securities received under subrogation amounted to \$318 (at 31 March 2019: \$1,191). The balance as at 30 June 2019 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. 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 \$700,000 in respect of 14 new trading rights were received from SEHK.

At 30 June 2019, there were 19 trading rights in total of \$950,000 that have been relinquished but not yet refunded (at 31 March 2019: 16). The net trading right deposits from SEHK at 30 June 2019, excluding the relinquished trading rights payable, amounted to \$55,050,000 (at 31 March 2019: \$54,500,000).

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4. 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 quarters ended 30 June 2019 and 2018.