

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 September 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 September 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 44 to 50.

Members of the Committee

The members of the Committee during the six months ended 30 September 2019 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
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 six months.

On behalf of the Committee

Rico Leung
Chairman

21 November 2019

Unified Exchange Compensation Fund

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

Introduction

We have reviewed the interim financial information set out on pages 45 to 50, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2019 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 November 2019

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
Income		
Interest income	473	408
Recoveries	–	1
	473	409
Expenses		
Auditor's remuneration	26	25
Surplus and total comprehensive income for the quarter	447	384

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
Income			
Interest income		863	679
Recoveries	2	(1)	1
		862	680
Expenses			
Auditor's remuneration		52	50
Surplus and total comprehensive income for the period		810	630

The notes on pages 49 and 50 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
Current assets			
Equity securities received under subrogation	2	–	1
Interest receivable		258	187
Accounts receivable		9	9
Fixed deposits with banks		91,481	88,338
Cash at bank		391	1,922
		92,139	90,457
Current liabilities			
Creditors and accrued charges		10,297	10,325
Relinquished trading rights payable to SEHK	3	850	800
		11,147	11,125
Net current assets		80,992	79,332
Net assets		80,992	79,332
Representing:			
Compensation fund		80,992	79,332

The notes on pages 49 and 50 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited						
	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 the ICF \$'000	Total \$'000
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804
Net contributions from SEHK	600	-	-	-	-	-	600
Surplus and total comprehensive income for the period	-	-	-	-	630	-	630
Balance at 30 September 2018	54,100	353,787	630,000	6,502	27,363	(994,718)	77,034
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	850	-	-	-	-	-	850
Surplus and total comprehensive income for the period	-	-	-	-	810	-	810
Balance at 30 September 2019	55,350	353,787	630,000	6,502	30,071	(994,718)	80,992

The notes on pages 49 and 50 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
Cash flows from operating activities		
Surplus for the period	810	630
Adjustments for:		
Interest income	(863)	(679)
Recoveries	1	–
	(52)	(49)
Decrease in creditors and accrued charges	(28)	(8)
Increase in relinquished trading rights payable to SEHK	50	50
Net cash used in operating activities	(30)	(7)
Cash flows from investing activities		
Interest received	792	598
Net cash generated from investing activities	792	598
Cash flows from financing activities		
Net trading rights deposits from SEHK	850	600
Net cash generated from financing activities	850	600
Net increase in cash and cash equivalents	1,612	1,191
Cash and cash equivalents at the beginning of the six-month period	90,260	86,749
Cash and cash equivalents at the end of the six-month period	91,872	87,940

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2019 \$'000	At 30 Sep 2018 \$'000
Fixed deposits with banks	91,481	87,492
Cash at bank	391	448
	91,872	87,940

The notes on pages 49 and 50 form part of the condensed financial statements.

Notes to the condensed financial statements

For the six months ended 30 September 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.

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 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 six months ended 30 September 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 September 2019, the equity securities received under subrogation amounted to \$255 (as at 31 March 2019: \$1,191). The balance as at 30 September 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 Securities and Futures Commission (SFC) must refund to SEHK the deposit within six months after the trading right was relinquished.

During the six-month period, deposits of \$1,100,000 in respect of 22 new trading rights were received from SEHK and deposits of \$200,000 in respect of four relinquished trading rights were refunded to SEHK.

As at 30 September 2019, there were 17 trading rights in total of \$850,000 that have been relinquished but not yet refunded (as at 31 March 2019: 16). The net trading right deposits from SEHK as at 30 September 2019, excluding the relinquished trading rights payable, amounted to \$55,350,000 (as at 31 March 2019: \$54,500,000).

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

4. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the six months ended 30 September 2019 and 2018.