

# Securities and Futures Commission

## Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Income</b>					
Levies		972,326	1,108,814	306,990	343,945
Fees and charges		118,998	97,297	45,229	28,656
Investment income net of third party expenses					
Investment income/(loss)		177,781	(21,416)	120,621	(62,013)
Less: custody and advisory expenses		(5,854)	(5,797)	(1,915)	(1,838)
Recoveries from the Investor Compensation Fund	8(a)	4,544	4,423	1,503	1,461
Exchange (loss)/gain		(29,608)	(10,303)	(23,947)	2,048
Other income		292	11,533	192	169
		1,238,479	1,184,551	448,673	312,428
<b>Expense</b>					
Staff costs and directors' emoluments	8(b)	1,057,169	1,003,423	349,743	339,830
Premises					
Rent	2	–	150,539	–	50,197
Rates, management fees and others		33,401	34,898	11,268	11,890
Other expenses		159,418	112,536	58,704	38,192
Depreciation					
Fixed assets		31,054	25,365	10,527	8,999
Right-of-use assets	2	157,686	–	57,068	–
Finance costs	2	2,519	–	349	–
		1,441,247	1,326,761	487,659	449,108
<b>Loss and total comprehensive income for the period</b>		<b>(202,768)</b>	<b>(142,210)</b>	<b>(38,986)</b>	<b>(136,680)</b>

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		106,880	94,835
Right-of-use assets	2	146,121	–
Financial assets at amortised costs – debt securities		1,190,091	981,502
		1,443,092	1,076,337
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		1,083,034	563,877
Financial assets at fair value through profit or loss			
Debt securities		405,434	795,946
Pooled funds		827,581	925,476
Debtors, deposits and prepayments		238,286	227,018
Fixed deposits with banks		3,335,179	3,653,456
Cash at bank and in hand		66,670	71,908
		5,956,184	6,237,681
<b>Current liabilities</b>			
Fees received in advance		59,550	8,850
Creditors and accrued charges	8(a)	271,022	189,855
Lease liabilities	2	133,534	–
Provisions	4	66,532	–
		530,638	198,705
<b>Net current assets</b>		5,425,546	6,038,976
<b>Total assets less current liabilities</b>		6,868,638	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	610	–
Provisions	4	574	45,091
		1,184	45,091
<b>Net assets</b>		6,867,454	7,070,222
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,824,614	4,027,382
		6,867,454	7,070,222

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

## Condensed statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		106,815	94,738
Right-of-use assets	2	146,121	–
Financial assets at amortised costs – debt securities		1,190,091	981,502
		1,443,027	1,076,240
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		1,083,034	563,877
Financial assets at fair value through profit or loss			
Debt securities		405,434	795,946
Pooled funds		827,581	925,476
Debtors, deposits and prepayments		271,115	233,187
Fixed deposits with banks		3,335,179	3,653,456
Cash at bank and in hand		22,009	49,747
		5,944,352	6,221,689
<b>Current liabilities</b>			
Fees received in advance		59,550	8,850
Creditors and accrued charges		259,125	173,766
Lease liabilities	2	133,534	–
Provisions	4	66,532	–
		518,741	182,616
<b>Net current assets</b>		5,425,611	6,039,073
<b>Total assets less current liabilities</b>		6,868,638	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	610	–
Provisions	4	574	45,091
		1,184	45,091
<b>Net assets</b>		6,867,454	7,070,222
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,824,614	4,027,382
		6,867,454	7,070,222

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2019 (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 2018	42,840	3,000,000	4,121,924	7,164,764
Loss and total comprehensive income for the period	–	–	(142,210)	(142,210)
Balance at 31 December 2018	42,840	3,000,000	3,979,714	7,022,554
Balance at 1 April 2019	<b>42,840</b>	<b>3,000,000</b>	<b>4,027,382</b>	<b>7,070,222</b>
Loss and total comprehensive income for the period	–	–	<b>(202,768)</b>	<b>(202,768)</b>
Balance at 31 December 2019	<b>42,840</b>	<b>3,000,000</b>	<b>3,824,614</b>	<b>6,867,454</b>

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Cash flows from operating activities</b>			
Loss for the period		(202,768)	(142,210)
Adjustments for:			
Depreciation – Fixed assets		31,054	25,365
Depreciation – Right-of-use assets		157,686	–
Finance costs		2,519	–
Investment (income)/loss		(177,781)	21,416
Exchange difference		29,635	10,338
Loss on disposal of fixed assets		3	–
		(159,652)	(85,091)
(Increase)/decrease in debtors, deposits and prepayments		(17,076)	49,520
Increase/(decrease) in fees received in advance		50,700	(797)
Increase in creditors and accrued charges		81,844	137,381
Increase in non-current liabilities		–	3,185
Net cash (used in)/generated from operating activities		(44,184)	104,198
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		1,373,433	(226,014)
Interest received		113,549	87,833
Debt securities at fair value through profit or loss purchased		(326,992)	(198,529)
Debt securities at fair value through profit or loss sold or redeemed		722,468	182,288
Pooled funds sold		153,396	3,299
Debt securities at amortised cost purchased		(1,086,352)	–
Debt securities at amortised cost redeemed at maturity		342,842	–
Fixed assets purchased		(43,102)	(40,593)
Net cash generated from/(used in) investing activities		1,249,242	(191,716)
<b>Cash flows from financing activities</b>			
Lease payments		(150,844)	–
Net cash used in financing activities		(150,844)	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,054,214</b>	<b>(87,518)</b>
<b>Cash and cash equivalents at the beginning of the nine-month period</b>		<b>289,657</b>	<b>292,105</b>
<b>Cash and cash equivalents at the end of the nine-month period</b>	3	<b>1,343,871</b>	<b>204,587</b>

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	1,277,201	137,284
Cash at bank and in hand	66,670	67,303
	<b>1,343,871</b>	<b>204,587</b>

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (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 Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) 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 (HKFRSs).

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 Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 31 December 2019. We eliminated all material intra group 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 2019 to the interim financial information, except for the adoption of HKFRS 16, *Leases* as issued by the HKICPA and effective for accounting periods beginning on or after 1 April 2019. The impact of the adoption of HKFRS 16 is disclosed in note 2.

There were no significant changes in the operations of the Group for the nine months ended 31 December 2019.

### 2. Changes in accounting policies

#### Impact on the interim financial information

The Group has applied HKFRS 16 from 1 April 2019. The Group applied the simplified transition approach and did not restate comparative amounts. In applying HKFRS 16 for the first time, the Group has adopted the following practical expedients as permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019; and
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application.

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

### 2. Changes in accounting policies (continued)

#### Impact on the interim financial information (continued)

Upon adoption of HKFRS 16, leases that were previously classified as 'operating leases' under the HKAS 17 Leases are now recognised in the condensed consolidated statement of financial position as lease liabilities with corresponding right-of-use assets. The lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period. The right-of-use assets are measured at the amount equal to the lease liability, adjusted for any prepaid or accrued lease payments or provisions for reinstatement relating to that lease as at 31 March 2019. The right-of-use assets are depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis.

As at 31 March 2019, the Group has non-cancellable operating lease commitments for properties of \$285,809,000. As a result of initially applying HKFRS 16, the Group recognised right-of-use assets of \$303,807,000 and lease liabilities of \$282,469,000 discounted at 1.55% as at 1 April 2019.

For the nine months ended 31 December 2018, the Group recognised rent expense for the operating lease of \$150,539,000. Following the adoption of HKFRS 16, the Group recognised depreciation expense for right-of-use assets of \$157,686,000 and interest expense on lease liabilities of \$2,519,000 for the nine months ended 31 December 2019.

During the period, the Group has entered into a new operating lease for the office premises for eight years commencing on 1 February 2020. Minimum lease payment throughout the lease term is \$1,036,692,000.

### 3. Cash and cash equivalents

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank and in hand	66,670	71,908
Fixed deposits with banks	3,335,179	3,653,456
Amounts shown in the condensed consolidated statement of financial position	3,401,849	3,725,364
Less: Amounts with an original maturity beyond three months	(2,057,978)	(3,435,707)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,343,871	289,657

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

### 4. Provisions

Provisions represent premises reinstatement cost to restore the premises to its original condition when the lease expires.

### 5. Ageing analysis of debtors and creditors

There was no material overdue debtors and creditors balance included in "debtors, deposits and prepayment" and "creditors and accrued charges" respectively as at 31 December 2019. Therefore, an ageing analysis of debtors and creditors is not provided.

### 6. Exchange risk

The Group'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, the exposure to exchange rate risk is not considered significant.

### 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 and not having a 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 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2019: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.



## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

### 8. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) – Dealers’ Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers’ Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers’ Security Fund. In addition to the related party transactions disclosed elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions.

#### (a) Reimbursement from the ICF for all the ICC’s expenses, in accordance with Section 242(1) of the SFO

During the period, \$4,544,000 was recovered from the ICF for the ICC’s expenses (2018: \$4,423,000). As at 31 December 2019, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$300,000 (as at 31 March 2019: \$54,000).

#### (b) Remuneration of key management personnel

	Unaudited nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Directors’ fees and salaries, allowances and benefits in kind	26,839	25,219
Retirement scheme contributions	2,320	2,300
	29,159	27,519

The total remuneration is included in “staff costs and directors’ emoluments” on page 23. Discretionary pay is not included above as the decision to pay is subject to an approval process at the end of the financial year and therefore is not determined until then.

# 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 2019.

### 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 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 33 to 38.

### Members of the Committee

The members of the Committee during the nine months ended 31 December 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	

### 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 nine months.

On behalf of the Committee

**Rico Leung**  
Chairman

21 February 2020

## Investor Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Income</b>					
Net investment income	2	46,705	22,712	14,771	14,441
Exchange difference		(9,940)	(3,941)	(8,176)	737
Compensation payment given up		–	150	–	150
		<b>36,765</b>	18,921	<b>6,595</b>	15,328
<b>Expenses</b>					
Investor Compensation Company Limited expenses	3	4,544	4,423	1,503	1,461
Auditor's remuneration		142	137	36	35
Bank charges		–	406	–	11
Professional fees		–	1,465	–	16
		<b>4,686</b>	6,431	<b>1,539</b>	1,523
<b>Surplus and total comprehensive income for the period</b>		<b>32,079</b>	12,490	<b>5,056</b>	13,805

The notes on pages 37 and 38 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Current assets</b>		
Interest receivable	17,149	25,425
Due from Investor Compensation Company Limited	300	54
Fixed deposits with banks	2,405,913	2,365,483
Cash at bank	486	845
	<b>2,423,848</b>	2,391,807
<b>Current liabilities</b>		
Creditors and accrued charges	264	302
	<b>264</b>	302
<b>Net current assets</b>	<b>2,423,584</b>	2,391,505
<b>Net assets</b>	<b>2,423,584</b>	2,391,505
Representing:		
<b>Compensation fund</b>	<b>2,423,584</b>	2,391,505

The notes on pages 37 and 38 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the nine months ended 31 December 2019 (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 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
Balance at 1 April 2019	<b>994,718</b>	<b>108,923</b>	<b>1,287,864</b>	<b>2,391,505</b>
Surplus and total comprehensive income for the period	–	–	<b>32,079</b>	<b>32,079</b>
Balance at 31 December 2019	<b>994,718</b>	<b>108,923</b>	<b>1,319,943</b>	<b>2,423,584</b>

The notes on pages 37 and 38 form part of the condensed financial statements.

## Condensed statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		32,079	12,490
Adjustments for:			
Net investment income		(46,705)	(22,712)
Exchange difference		9,940	3,941
		(4,686)	(6,281)
Increase in amount due from Investor Compensation Company Limited		(246)	(23)
Decrease in creditors and accrued charges		(38)	(1,040)
Net cash used in operating activities		(4,970)	(7,344)
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		644,868	(2,295,470)
Debt securities purchased		–	(165,306)
Debt securities sold or redeemed		–	2,055,094
Pooled fund sold		–	338,934
Interest received		54,897	46,565
Net cash generated from/(used in) investing activities		699,765	(20,183)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>694,795</b>	<b>(27,527)</b>
<b>Cash and cash equivalents at the beginning of the nine-month period</b>		<b>32,944</b>	<b>55,933</b>
<b>Cash and cash equivalents at the end of the nine-month period</b>	4	<b>727,739</b>	<b>28,406</b>

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	727,253	26,987
Cash at bank	486	1,419
	<b>727,739</b>	<b>28,406</b>

The notes on pages 37 and 38 form part of the condensed financial statements.

## Notes to the condensed financial statements

For the nine months ended 31 December 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.

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 nine months ended 31 December 2019.

### 2. Net investment income

	Unaudited Nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Interest income from bank deposits	46,705	19,268
Interest income on financial assets at fair value through profit or loss	–	22,500
Realised loss on disposal of pooled fund	–	(10,350)
Realised loss on redemption/disposal of debt securities	–	(9,274)
Gain on revaluation of debt securities	–	568
Net investment income	46,705	22,712

### 3. Investor Compensation Company Limited expenses

The Securities and Futures Commission (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 2019, the ICC incurred costs of \$4,544,000 for its operation (for the nine months ended 31 December 2018: \$4,423,000) which were reimbursed by the Fund.

## Investor Compensation Fund

### Notes to the condensed financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

#### 4. Cash and cash equivalents

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank	486	845
Fixed deposits with banks	2,405,913	2,365,483
Amounts shown in the condensed statement of financial position	2,406,399	2,366,328
Less: Amounts with an original maturity of beyond three months	(1,678,660)	(2,333,384)
Cash and cash equivalents in the condensed statement of cash flows	727,739	32,944

#### 5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the nine months ended 31 December 2019 and 2018.

#### 6. Contingent liabilities

As at the date of this report, there are 16 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims in aggregate is \$2,210,000 at 31 December 2019 (at 31 March 2019: \$2,121,000). 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 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 31 December 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 31 December 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 40 to 45.

### Members of the Committee

The members of the Committee during the nine months ended 31 December 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 nine months.

On behalf of the Committee

**Rico Leung**  
Chairman

18 February 2020

## Unified Exchange Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Income</b>					
Interest income		1,359	1,120	496	441
Recoveries	2	(1)	1	–	–
		1,358	1,121	496	441
<b>Expenses</b>					
Auditor's remuneration		67	65	15	15
<b>Surplus and total comprehensive income for the period</b>		<b>1,291</b>	<b>1,056</b>	<b>481</b>	<b>426</b>

The notes on pages 44 and 45 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	–	1
Interest receivable		268	187
Accounts receivable		9	9
Fixed deposits with banks		91,967	88,338
Cash at bank		591	1,922
		<b>92,835</b>	90,457
<b>Current liabilities</b>			
Creditors and accrued charges		10,312	10,325
Relinquished trading rights payable to SEHK	3	900	800
		<b>11,212</b>	11,125
<b>Net current assets</b>		<b>81,623</b>	79,332
<b>Net assets</b>		<b>81,623</b>	79,332
Representing:			
<b>Compensation fund</b>		<b>81,623</b>	79,332

The notes on pages 44 and 45 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the nine months ended 31 December 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 the ICF \$'000		
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	
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332	
Net contributions from SEHK	1,000	-	-	-	-	-	1,000	
Surplus and total comprehensive income for the period	-	-	-	-	1,291	-	1,291	
Balance at 31 December 2019	55,500	353,787	630,000	6,502	30,552	(994,718)	81,623	

The notes on pages 44 and 45 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	1,291	1,056
Adjustments for:		
Interest income	(1,359)	(1,120)
Recoveries	1	–
	(67)	(64)
(Decrease)/increase in creditors and accrued charges	(13)	7
Increase in relinquished trading rights payable to SEHK	100	150
Net cash generated from operating activities	20	93
<b>Cash flows from investing activities</b>		
Interest received	1,278	988
Net cash generated from investing activities	1,278	988
<b>Cash flows from financing activities</b>		
Net trading rights deposits from SEHK	1,000	700
Net cash generated from financing activities	1,000	700
<b>Net increase in cash and cash equivalents</b>	<b>2,298</b>	<b>1,781</b>
<b>Cash and cash equivalents at the beginning of the nine-month period</b>	<b>90,260</b>	<b>86,749</b>
<b>Cash and cash equivalents at the end of the nine-month period</b>	<b>92,558</b>	<b>88,530</b>

#### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	91,967	87,882
Cash at bank	591	648
	92,558	88,530

The notes on pages 44 and 45 form part of the condensed financial statements.

## Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 31 December 2019, the equity securities received under subrogation amounted to \$205 (as at 31 March 2019: \$1,191). The balance as at 31 December 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 nine-month period, deposits of \$1,600,000 in respect of 32 new trading rights were received from SEHK and deposits of \$500,000 in respect of 10 relinquished trading rights were refunded to SEHK.

As at 31 December 2019, there were 18 trading rights in total of \$900,000 that have been relinquished but not yet refunded (as at 31 March 2019: 16). The net trading right deposits from SEHK as at 31 December 2019, excluding the relinquished trading rights payable, amounted to \$55,500,000 (as at 31 March 2019: \$54,500,000).

# Unified Exchange Compensation Fund

## Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 2019 and 2018.