

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their report together with the unaudited condensed financial statements for the six months ended 30 September 2024.

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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 2024, 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 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 period ended 30 September 2024 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 61 to 67.

Members of the Committee

The members of the Committee during the period and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Ms Kwok Hom Siu Sally

Ms Lai Chun Mei Hilda

Dr Lin, James C.

(retired on 1 August 2024)

Mr Wan Chi Yiu, Andrew

Mr Yih, Dieter, JP

(appointed on 1 August 2024)

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 reporting period.

On behalf of the Committee

Rico Leung

Chairman

8 November 2024

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 62 to 67, 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statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the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 2024 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 selected 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 of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the interim financial information are set out in note 1 to the interim financial information. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 November 2024

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income		
Interest income	1,087	1,148
Expense		
Auditor's remuneration	28	27
Surplus and total comprehensive income for the quarter	1,059	1,121

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2024 is for information only.

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income		
Interest income	2,181	2,052
Expense		
Auditor's remuneration	56	54
Surplus and total comprehensive income for the period	2,125	1,998

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 30 September 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Current assets			
Interest receivable		558	612
Fixed deposits with banks	3	99,595	99,009
Cash at bank	3	287	353
		100,440	99,974
Current liabilities			
Creditors and accrued charges		10,217	10,226
Relinquished trading rights payable to SEHK	4	1,700	1,650
		11,917	11,876
Net current assets		88,523	88,098
Net assets		88,523	88,098
Representing:			
Compensation fund		88,523	88,098

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2024 (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 the ICF \$'000	Total \$'000
Balance at 1 April 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(1,100)	-	-	-	-	-	(1,100)
Surplus and total comprehensive income for the period	-	-	-	-	1,998	-	1,998
Balance at 30 September 2023	51,050	353,787	630,000	6,502	40,116	(994,718)	86,737
Balance at 1 April 2024	50,050	353,787	630,000	6,502	42,477	(994,718)	88,098
Net contributions to SEHK	(1,700)	-	-	-	-	-	(1,700)
Surplus and total comprehensive income for the period	-	-	-	-	2,125	-	2,125
Balance at 30 September 2024	48,350	353,787	630,000	6,502	44,602	(994,718)	88,523

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2024 \$'000	30 Sep 2023 \$'000
Cash flows from operating activities			
Surplus for the period		2,125	1,998
Adjustment for:			
Interest income		(2,181)	(2,052)
		(56)	(54)
Decrease in creditors and accrued charges		(9)	(5)
Increase/(decrease) in relinquished trading rights payable to SEHK		50	(150)
Net cash used in operating activities		(15)	(209)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		24,700	24,194
Interest received		2,235	1,920
Net cash generated from investing activities		26,935	26,114
Cash flows from financing activity			
Net trading rights deposits refunded to SEHK		(1,700)	(1,100)
Net cash used in financing activity		(1,700)	(1,100)
Net increase in cash and cash equivalents		25,220	24,805
Cash and cash equivalents at the beginning of the six-month period		62,362	69,384
Cash and cash equivalents at the end of the six-month period	3	87,582	94,189

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2024 \$'000	At 30 Sep 2023 \$'000
Fixed deposits with banks	87,295	93,712
Cash at bank	287	477
	87,582	94,189

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants. As the Unified Exchange Compensation Fund (the Fund) will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, we have 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 events and transactions that are significant to an understanding of the changes in the financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2024. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2024 included in this report as comparative information 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 2024 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2024.

2. 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 included in "Recoveries". Dividend income, if any, is also included in "Recoveries".

As at 30 September 2024, the equity securities received under subrogation amounted to \$11 (as at 31 March 2024: \$15). The balances as at 30 September 2024 and 31 March 2024 are too small to present on the condensed statement of financial position which is expressed in thousands of dollars.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Cash at bank	287	353
Fixed deposits with banks	99,595	99,009
Amounts shown in the condensed statement of financial position	99,882	99,362
Less: Amounts with an original maturity beyond three months	(12,300)	(37,000)
Cash and cash equivalents in the condensed statement of cash flows	87,582	62,362

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 Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. 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 six months ended 30 September 2024, deposits of \$1,650,000 in respect of 33 relinquished trading rights were refunded to SEHK. As at 30 September 2024, 34 trading rights totalling \$1,700,000 were relinquished but not yet refunded (as at 31 March 2024: 33 trading rights totalling \$1,650,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the period was as follows:

	Unaudited Six months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Balance at the beginning of the six-month period	50,050	52,150
Add: new trading rights issued	–	150
Less: relinquished trading rights refunded	(1,650)	(1,400)
Adjustment for: net (increase)/decrease in relinquished trading rights payable to SEHK	(50)	150
Balance at the end of the six-month period	48,350	51,050

5. 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 2024 and 2023.