

Securities and Futures Commission

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

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Introduction

We have reviewed the interim financial information set out on pages 28 to 34, which comprises the condensed consolidated statement of financial position and the condensed statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2020 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors 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, 2 December 2020

Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income		
Levies	550,849	320,995
Fees and charges	55,481	36,337
Net investment income		
Investment income	127,137	7,805
Less: custody and advisory expenses	(2,481)	(1,968)
Recoveries from the Investor Compensation Fund	1,447	1,524
Exchange (loss)/income	(381)	13,046
Other income	86	6
	732,138	377,745
Expense		
Staff costs and directors' emoluments	386,063	359,019
Depreciation		
Fixed assets	22,817	10,546
Right-of-use assets	71,175	50,322
Other premises expenses	3,167	10,405
Finance costs	2,306	1,086
Other expenses	40,490	57,458
	526,018	488,836
Surplus/(loss) and total comprehensive income for the quarter	206,120	(111,091)

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 is for information only.

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income			
Levies		964,960	665,336
Fees and charges		108,504	73,769
Net investment income			
Investment income		286,840	57,160
Less: custody and advisory expenses		(4,501)	(3,939)
Recoveries from the Investor Compensation Fund	6(a)	3,006	3,041
Exchange loss		(624)	(5,661)
Other income		229	100
		1,358,414	789,806
Expense			
Staff costs and directors' emoluments	6(b)	746,503	707,426
Depreciation			
Fixed assets		39,545	20,527
Right-of-use assets		158,980	100,618
Other premises expenses		22,641	22,133
Finance costs		4,788	2,170
Other expenses		74,829	100,714
		1,047,286	953,588
Surplus/(loss) and total comprehensive income for the period		311,128	(163,782)

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		295,167	135,712
Right-of-use assets		1,049,135	324,040
Deposits for leases		37,685	33,767
Financial assets at amortised costs – debt securities		2,364,955	1,600,123
		3,746,942	2,093,642
Current assets			
Financial assets at amortised costs – debt securities		400,684	984,239
Financial assets at fair value through profit or loss			
Debt securities		435,179	419,469
Pooled funds		871,488	648,510
Debtors, deposits and prepayments		264,779	265,200
Fixed deposits with banks		2,636,202	2,832,302
Cash at bank and in hand		122,230	51,871
		4,730,562	5,201,591
Current liabilities			
Fees received in advance		16,484	47,097
Creditors and accrued charges		303,805	167,043
Lease liabilities		136,935	96,115
Provisions	3	25,910	66,532
		483,134	376,787
Net current assets		4,247,428	4,824,804
Total assets less current liabilities		7,994,370	6,918,446
Non-current liabilities			
Lease liabilities		899,402	203,558
Provisions	3	88,920	19,968
		988,322	223,526
Net assets		7,006,048	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,963,208	3,652,080
		7,006,048	6,694,920

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		295,016	135,658
Right-of-use assets		1,049,048	324,040
Deposits for leases		37,685	33,767
Financial assets at amortised costs – debt securities		2,364,955	1,600,123
		3,746,704	2,093,588
Current assets			
Financial assets at amortised costs – debt securities		400,684	984,239
Financial assets at fair value through profit or loss			
Debt securities		435,179	419,469
Pooled funds		871,488	648,510
Debtors, deposits and prepayments		278,293	274,141
Fixed deposits with banks		2,636,202	2,832,302
Cash at bank and in hand		100,571	29,836
		4,722,417	5,188,497
Current liabilities			
Fees received in advance		16,484	47,097
Creditors and accrued charges		295,509	153,895
Lease liabilities		136,917	96,115
Provisions	3	25,910	66,532
		474,820	363,639
Net current assets		4,247,597	4,824,858
Total assets less current liabilities		7,994,301	6,918,446
Non-current liabilities			
Lease liabilities		899,333	203,558
Provisions	3	88,920	19,968
		988,253	223,526
Net assets		7,006,048	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,963,208	3,652,080
		7,006,048	6,694,920

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2020 (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 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the period	–	–	(163,782)	(163,782)
Balance at 30 September 2019	42,840	3,000,000	3,863,600	6,906,440
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the period	–	–	311,128	311,128
Balance at 30 September 2020	42,840	3,000,000	3,963,208	7,006,048

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Cash flows from operating activities			
Surplus/(loss) for the period		311,128	(163,782)
Adjustments for:			
Depreciation – Fixed assets		39,545	20,527
Depreciation – Right-of-use assets		158,980	100,618
Provisions for reinstatement		(12,196)	–
Finance costs		4,788	2,170
Interest income on deposits for leases		(141)	–
Investment income		(286,840)	(57,160)
Exchange difference		476	5,661
Loss on disposal of fixed assets		4,889	2
		220,629	(91,964)
Increase in right-of-use assets		(40)	–
Increase in debtors, deposits and prepayments		(13,431)	(26,452)
(Decrease)/increase in fees received in advance		(30,613)	35,611
Increase in creditors and accrued charges		68,714	36,306
Decrease in provisions for reinstatement		(28,426)	–
Net cash generated from/(used in) operating activities		216,833	(46,499)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		911,731	319,139
Interest received		67,363	75,376
Debt securities at fair value through profit or loss purchased		(122,672)	(277,846)
Debt securities at fair value through profit or loss sold or redeemed		116,259	265,556
Pooled funds sold		2,183	152,241
Debt securities at amortised cost purchased		(793,213)	–
Debt securities at amortised cost redeemed at maturity		604,613	197,945
Fixed assets purchased		(131,389)	(28,970)
Proceeds from fixed assets disposal		1	–
Net cash generated from investing activities		654,876	703,441
Cash flows from financing activities			
Principal element of lease payments		(80,833)	(98,384)
Interest element of lease payments		(4,788)	(2,170)
Net cash used in financing activities		(85,621)	(100,554)
Net increase in cash and cash equivalents		786,088	556,388
Cash and cash equivalents at the beginning of the six-month period		753,406	289,657
Cash and cash equivalents at the end of the six-month period	2	1,539,494	846,045

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	1,417,264	770,798
Cash at bank and in hand	122,230	75,247
	1,539,494	846,045

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have 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.

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 2020. 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 2020 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 30 September 2020. 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 2020 to the interim financial information.

There were no significant changes in the operations of the Group for the six months ended 30 September 2020.

2. Cash and cash equivalents

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank and in hand	122,230	51,871
Fixed deposits with banks	2,636,202	2,832,302
Amounts shown in the condensed consolidated statement of financial position	2,758,432	2,884,173
Less: Amounts with an original maturity beyond three months	(1,218,938)	(2,130,767)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,539,494	753,406

3. Provisions

Provisions represent premises reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

4. Exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange loss or income was mainly driven by the USD revaluation on financial assets.

5. 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 30 September 2020, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2020: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

6. 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 parties transactions disclosed in 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, \$3,006,000 was recovered from the ICF for the ICC's expenses (2019: \$3,041,000). As at 30 September 2020, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$455,000 (as at 31 March 2020: \$138,000).

(b) Remuneration of key management personnel

	Unaudited Six months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Directors' fees and salaries, allowances and benefits in kind	17,109	18,285
Retirement scheme contributions	1,538	1,551
	18,647	19,836

The total remuneration is included in "staff costs and directors' emoluments" on page 28. 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.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2020.

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 30 September 2020 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 37 to 43.

Members of the Committee

The members of the Committee during the six months ended 30 September 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung

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

2 December 2020

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 38 to 43, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2020 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, 2 December 2020

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income		
Interest income	5,306	15,963
Exchange (loss)/gain	(79)	4,578
	5,227	20,541
Expenses		
Investor Compensation Company Limited expenses	1,447	1,524
Auditor's remuneration	55	54
	1,502	1,578
Surplus and total comprehensive income for the quarter	3,725	18,963

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 is for information only.

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income			
Interest income		15,479	31,934
Exchange loss		(157)	(1,764)
		15,322	30,170
Expenses			
Investor Compensation Company Limited expenses	2	3,006	3,041
Auditor's remuneration		110	106
		3,116	3,147
Surplus and total comprehensive income for the period		12,206	27,023

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

Investor Compensation Fund

Condensed statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets		
Interest receivable	4,259	7,185
Due from Investor Compensation Company Limited	455	138
Fixed deposits with banks	2,435,551	2,420,558
Cash at bank	437	651
	2,440,702	2,428,532
Current liabilities		
Creditors and accrued charges	232	268
	232	268
Net current assets	2,440,470	2,428,264
Net assets	2,440,470	2,428,264
Representing:		
Compensation fund	2,440,470	2,428,264

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

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2020 (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 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the period	–	–	27,023	27,023
Balance at 30 September 2019	994,718	108,923	1,314,887	2,418,528
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the period	–	–	12,206	12,206
Balance at 30 September 2020	994,718	108,923	1,336,829	2,440,470

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

Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Cash flows from operating activities			
Surplus for the period		12,206	27,023
Adjustments for:			
Interest income		(15,479)	(31,934)
Exchange loss		157	1,764
		(3,116)	(3,147)
Increase in amount due from Investor Compensation Company Limited		(317)	(522)
Decrease in creditors and accrued charges		(36)	(74)
Net cash used in operating activities		(3,469)	(3,743)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		641,554	68,608
Interest received		18,404	36,832
Net cash generated from investing activities		659,958	105,440
Net increase in cash and cash equivalents		656,489	101,697
Cash and cash equivalents at the beginning of the six-month period		1,086,662	32,944
Cash and cash equivalents at the end of the six-month period	3	1,743,151	134,641

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	1,742,714	134,219
Cash at bank	437	422
	1,743,151	134,641

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

Notes to the condensed financial statements

For the six months ended 30 September 2020 (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 2020. 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 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2020.

2. 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 six months ended 30 September 2020, the ICC incurred costs of \$3,006,000 for its operation (for the six months ended 30 September 2019: \$3,041,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	437	651
Fixed deposits with banks	2,435,551	2,420,558
Amounts shown in the condensed statement of financial position	2,435,988	2,421,209
Less: Amounts with an original maturity of beyond three months	(692,837)	(1,334,547)
Cash and cash equivalents in the condensed statement of cash flows	1,743,151	1,086,662

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

4. 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 six months ended 30 September 2020 and 2019.

5. Contingent liabilities

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit per claimant is \$150,000 for each default case occurring on or before 31 December 2019 and \$500,000 for each default case occurring on or after 1 January 2020.

There are 9 outstanding claims as at the date of this report. The maximum liability in respect of these claims in aggregate is \$1,567,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit 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 their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2020.

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 2020, 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 2020 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 52.

Members of the Committee

The members of the Committee during the six months ended 30 September 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	
Mr Thomas Allan Atkinson	
Dr Lin, James C.	(appointed on 1 August 2020)
Dr William Wong Ming Fung, SC, JP	(retired on 31 July 2020)
Mr Yiu Ka Yan Wilfred	
Ms Kwok Hom Siu	

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

12 November 2020

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 47 to 52, 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 2020 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, 12 November 2020

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income		
Interest income	189	473
Expenses		
Auditor's remuneration	27	26
Surplus and total comprehensive income for the quarter	162	447

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 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 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Income			
Interest income		571	863
Recoveries	2	3,626	(1)
		4,197	862
Expenses			
Auditor's remuneration		54	52
Surplus and total comprehensive income for the period		4,143	810

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets			
Interest receivable		56	243
Accounts receivable		9	9
Fixed deposits with banks		97,102	92,879
Cash at bank		270	470
		97,437	93,601
Current liabilities			
Creditors and accrued charges		10,299	10,306
Relinquished trading rights payable to SEHK	4	1,300	1,250
		11,599	11,556
Net current assets		85,838	82,045
Net assets		85,838	82,045
Representing:			
Compensation fund		85,838	82,045

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 2020 (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 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
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(350)	-	-	-	-	-	(350)
Surplus and total comprehensive income for the period	-	-	-	-	4,143	-	4,143
Balance at 30 September 2020	55,100	353,787	630,000	6,502	35,167	(994,718)	85,838

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
Cash flows from operating activities			
Surplus for the period		4,143	810
Adjustments for:			
Interest income		(571)	(863)
Recoveries		–	1
		3,572	(52)
Decrease in creditors and accrued charges		(7)	(28)
Increase in relinquished trading rights payable to SEHK		50	50
Net cash generated from/(used in) operating activities		3,615	(30)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		53,055	–
Interest received		758	792
Net cash generated from investing activities		53,813	792
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(350)	850
Net cash (used in)/generated from financing activities		(350)	850
Net increase in cash and cash equivalents		57,078	1,612
Cash and cash equivalents at the beginning of the six-month period		31,999	90,260
Cash and cash equivalents at the end of the six-month period	3	89,077	91,872

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	88,807	91,481
Cash at bank	270	391
	89,077	91,872

The notes on pages 51 and 52 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2020 (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 2020. 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 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2020.

2. Recoveries/Equity securities received under subrogation

The Fund received \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd which was recognised as recoveries for the six months ended 30 September 2020 (for the six months ended 30 September 2019: nil).

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 2020, the equity securities received under subrogation amounted to \$157 (as at 31 March 2020: \$142). The balance as at 30 September 2020 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. Cash and cash equivalents

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	270	470
Fixed deposits with banks	97,102	92,879
Amounts shown in the condensed statement of financial position	97,372	93,349
Less: Amounts with an original maturity of beyond three months	(8,295)	(61,350)
Cash and cash equivalents in the condensed statement of cash flows	89,077	31,999

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

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-month period, deposits of \$300,000 in respect of 6 new trading rights were received from SEHK and deposits of \$600,000 in respect of 12 relinquished trading rights were refunded to SEHK. As at 30 September 2020, 26 trading rights totalling \$1,300,000 were relinquished but not yet refunded (as at 31 March 2020: 25 trading rights totalling \$1,250,000 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 2020 \$'000	30 Sep 2019 \$'000
Balance brought forward	55,450	54,500
Add: new trading rights issued	300	1,100
Less: relinquished trading rights refunded	(600)	(200)
Adjustment for: increase in relinquished trading rights payable to SEHK	(50)	(50)
Balance carried forward	55,100	55,350

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 2020 and 2019.