

# Securities and Futures Commission

## Independent auditor's report to the Securities and Futures Commission

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

We have audited the consolidated financial statements of the Securities and Futures Commission (the "SFC") and its subsidiaries (together referred to as the "Group") set out on pages 65 to 85, which comprise the consolidated and the SFC statement of financial position as at 31 March 2012 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the financial statements

The Hong Kong Securities and Futures Ordinance requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group's affairs as at 31 March 2012 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### KPMG

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

31 May 2012

## Consolidated statement of comprehensive income

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Income</b>			
Levies		1,091,953	1,373,404
Fees and charges		230,074	171,696
Investment income	5	118,927	131,097
Less: custody and advisory expenses		(2,801)	(2,613)
Investment income net of third party expenses		116,126	128,484
Recoveries from Investor Compensation Fund		4,442	4,157
Other income	6	3,072	6,057
		1,445,667	1,683,798
<b>Expenses</b>			
Staff costs and directors' emoluments	7	650,564	564,876
Premises			
rent		73,525	63,642
other		29,128	25,640
Other expenses	8	108,130	85,162
Depreciation	10(a)	40,227	41,090
		901,574	780,410
<b>Surplus and total comprehensive income for the year</b>		<b>544,093</b>	<b>903,388</b>

The notes on pages 70 to 85 form part of these financial statements.

## Consolidated statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Non-current assets</b>			
Fixed assets	10(a)	49,364	46,689
Held-to-maturity debt securities	9	4,802,488	3,827,632
		4,851,852	3,874,321
<b>Current assets</b>			
Held-to-maturity debt securities	9	1,567,623	2,401,449
Debtors, deposits and prepayments	14	168,160	207,000
Bank deposits	11	1,035,893	602,190
Cash at bank and in hand	11	3,348	3,226
		2,775,024	3,213,865
<b>Current liabilities</b>			
Fees received in advance		73,835	68,657
Creditors and accrued charges		67,888	71,504
		141,723	140,161
<b>Net current assets</b>		2,633,301	3,073,704
<b>Total assets less current liabilities</b>		7,485,153	6,948,025
<b>Non-current liabilities</b>	13	15,432	22,397
<b>Net assets</b>		<b>7,469,721</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>	15	42,840	42,840
<b>Accumulated surplus</b>		7,426,881	6,882,788
		<b>7,469,721</b>	6,925,628

Approved and authorized for issue by the SFC on 31 May 2012 and signed on its behalf by

**Ashley Alder**  
Chief Executive Officer

**Eddy C Fong**  
Chairman

The notes on pages 70 to 85 form part of these financial statements.

## Statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
<b>Non-current assets</b>			
Fixed assets	10(b)	49,358	46,677
Held-to-maturity debt securities	9	4,802,488	3,827,632
		4,851,846	3,874,309
<b>Current assets</b>			
Held-to-maturity debt securities	9	1,567,623	2,401,449
Debtors, deposits and prepayments	14	167,959	206,862
Bank deposits	11	1,035,893	602,190
Cash at bank and in hand	11	3,026	2,909
		2,774,501	3,213,410
<b>Current liabilities</b>			
Fees received in advance		73,835	68,657
Creditors and accrued charges		67,359	71,037
		141,194	139,694
<b>Net current assets</b>		2,633,307	3,073,716
<b>Total assets less current liabilities</b>		7,485,153	6,948,025
<b>Non-current liabilities</b>	13	15,432	22,397
<b>Net assets</b>		<b>7,469,721</b>	6,925,628
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>	15	42,840	42,840
<b>Accumulated surplus</b>		7,426,881	6,882,788
		<b>7,469,721</b>	6,925,628

Approved and authorized for issue by the SFC on 31 May 2012 and signed on its behalf by

**Ashley Alder**  
Chief Executive Officer

**Eddy C Fong**  
Chairman

The notes on pages 70 to 85 form part of these financial statements.

## Consolidated statement of changes in equity

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2010	42,840	5,979,400	6,022,240
Total comprehensive income for the year	–	903,388	903,388
Balance at 31 March 2011 and 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the year	–	544,093	544,093
Balance at 31 March 2012	42,840	7,426,881	<b>7,469,721</b>

The notes on pages 70 to 85 form part of these financial statements.

## Consolidated statement of cash flows

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	544,093	903,388
Adjustments for:		
Depreciation	40,227	41,090
Investment income	(118,927)	(131,097)
Profit on disposal of fixed assets	(4)	(24)
	465,389	813,357
Decrease/(increase) in debtors, deposits and prepayments	26,062	(8,819)
Increase in fees received in advance	5,178	59,397
(Decrease)/increase in creditors and accrued charges	(3,616)	206
Decrease in non-current liabilities	(6,965)	(7,392)
Net cash generated from operating activities	486,048	856,749
<b>Cash flows from investing activities</b>		
Interest received	188,529	197,228
Held-to-maturity debt securities purchased	(2,599,374)	(2,503,382)
Held-to-maturity debt securities redeemed at maturity	2,401,520	1,523,827
Fixed assets purchased	(42,898)	(38,332)
Net cash used in investing activities	(52,223)	(820,659)
<b>Net increase in cash and cash equivalents</b>	433,825	36,090
<b>Cash and cash equivalents at beginning of the year</b>	605,416	569,326
<b>Cash and cash equivalents at end of the year</b>	<b>1,039,241</b>	605,416

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

	2012 \$'000	2011 \$'000
Bank deposits	1,035,893	602,190
Cash at bank and in hand	3,348	3,226
	<b>1,039,241</b>	605,416

## Notes to the consolidated financial statements

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The SFC is governed by Part II of the Hong Kong Securities and Futures Ordinance (the SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 8/F Chater House, 8 Connaught Road, Central, Hong Kong.

### 2. Income

Details of the funding of the SFC are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council; and
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

### 3. Significant accounting policies

#### (a) Statement of compliance

We have prepared the consolidated financial statements, which comprise the SFC and its subsidiaries (together referred to as the "Group"), in accordance with International Financial Reporting Standards ("IFRSs") (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board ("IASB").

We set out below a summary of our significant accounting policies.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the SFC. Note 3(q) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the SFC for the current and prior accounting periods reflected in these financial statements.

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 20).

#### (b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis. The accounting policies have been applied consistently by Group entities.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (c) Basis of consolidation

Subsidiaries are those entities in which the SFC, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Control exists when the SFC has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. We include the financial statements of subsidiaries in the consolidated financial statements from the date that control commences until the date that control ceases. We eliminate all material intragroup balances and transactions and any unrealised profits and losses arising from intra-group transactions in preparing the consolidated financial statements.

#### (d) Recognition of income

We recognise income in the statement of comprehensive income provided it is probable that the economic benefits will flow to the Group and we can measure reliably the revenue and costs. We record our income as follows:

##### (i) Levies

We record levies from the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited as income on an accrual basis.

##### (ii) Fees and charges

We record annual fees as income on a straight-line basis over the periods to which they relate. We record other fees and charges as income when they are receivable.

##### (iii) Investment income

We record investment income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and held-to-maturity debt securities; and (b) the amortisation of premiums or discounts on purchases of held-to-maturity debt securities.

#### (e) Operating leases

We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of comprehensive income as an integral part of the aggregate net lease payments made.

#### (f) Employee benefits

We make accrual for salaries and allowances, annual leave, contributions to defined contribution schemes and the cost of non-monetary benefits in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, we state these amounts at their present values. Other benefits for services received are accrued when a contractual or constructive obligation arises for the SFC.

#### (g) Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see note 3(o)). We charge depreciation to the statement of comprehensive income to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 3 to 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the statement of comprehensive income as an expense as incurred.



## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (g) Fixed assets and depreciation (cont'd)

We review the carrying amounts of fixed assets for indications of impairment at the end of each reporting period. An impairment loss is recognised to the extent that the carrying amount of an asset, or the cash-generating unit to which it belongs, is more than its recoverable amount. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the statement of comprehensive income on the date of retirement or disposal.

#### (h) Investments

We state our investments in debt securities, which we have positive intention and ability to hold to maturity, initially at fair value and subsequently at amortised cost using the effective interest method less impairment losses, if any (see note 3(o)). We account for purchases and sales of debt securities on the settlement date.

#### (i) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the SFC:

- (a) A person, or a close member of that person's family, is related to the SFC if that person:
  - (i) has control or joint control over the SFC;
  - (ii) has significant influence over the SFC; or
  - (iii) is a member of the key management personnel of the SFC or the SFC's parent.

- (b) An entity is related to the SFC if any of the following conditions applies:

- (i) The entity and the SFC are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is an entity controlled by the Government of the Hong Kong Special Administrative Region, any transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of International Accounting Standard ("IAS") 24.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of comprehensive income.

#### (k) Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of debtors and other receivables at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, we reduce the carrying amount to the estimated recoverable amount by means of a charge to the statement of comprehensive income (see note 3(o)).

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### (m) Creditors and accrued charges

We state creditors and accrued charges initially at fair values and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (n) Investment in subsidiaries

We state an investment in a subsidiary at cost less any impairment losses in the statement of financial position.

#### (o) Impairment

##### (i) Recognition of impairment loss

We review the carrying amounts of the SFC's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the SFC about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor; or significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

##### (ii) Calculation of impairment loss

We calculate the recoverable amount of the SFC's investments in held-to-maturity debt securities and receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, we discount the estimated future cash flows to their present value at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, we determine the recoverable amount for the cash-generating unit to which the asset belongs.

##### (iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation or amortisation, if we had not recognised any impairment loss.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 3. Significant accounting policies (cont'd)

#### (p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the SFC has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the SFC will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably. If the effect is material, we determine provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 5. Investment income

	2012 \$'000	2011 \$'000
Interest income	175,751	187,211
Amortisation of premium on held-to-maturity debt securities	(57,909)	(57,475)
Amortisation of discount on held-to-maturity debt securities	1,085	1,361
	<b>118,927</b>	131,097

Interest income is derived as follows:

	2012 \$'000	2011 \$'000
Interest income from held-to-maturity debt securities	165,953	184,934
Other interest income	9,798	2,277
Total interest income on financial assets not at fair value through profit or loss	<b>175,751</b>	187,211

#### (q) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the SFC. Of these, the following developments are relevant to the SFC's financial statements:

- IFRS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 6. Other income

	2012 \$'000	2011 \$'000
Investigation costs awarded	924	3,986
FinNet managed network and support fee	1,584	1,561
Sale of SFC publications	457	433
Gain on disposal of fixed assets	4	24
Others	103	53
	<b>3,072</b>	6,057

### 7. Staff costs and directors' emoluments

	2012 \$'000	2011 \$'000
Salaries and allowances	591,275	512,824
Retirement benefits	34,744	31,990
Medical and life insurance	16,840	14,577
Staff functions	1,571	1,323
Recruitment	4,951	3,447
Registration and membership fees	1,183	715
	<b>650,564</b>	564,876

The total number of staff as at 31 March 2012 was 614 (611 for the SFC and 3 for the Investor Compensation Company Limited) (at 31 March 2011: the total number of staff was 547 comprising 544 for the SFC and 3 for the Investor Compensation Company Limited).

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

## 7. Staff costs and directors' emoluments (cont'd)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances & benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contribution \$'000	2012 Total \$'000	2011 Total \$'000
				(Note 1)		
<b>Chief Executive Officer</b>						
Martin Wheatley, JP (resigned 8 June 2011)	–	1,695	272	136	2,103	9,327
Ashley Alder (appointed 1 October 2011)	–	3,000	–	300	3,300	–
				(Note 3)		
<b>Executive Directors</b>						
Alexa Lam, JP	–	5,000	1,333	500	6,833	6,700
Brian Ho	–	4,237	1,144	423	5,804	5,534
Keith Lui	–	4,197	1,175	420	5,792	5,429
Mark Steward	–	4,400	1,320	440	6,160	5,830
Paul Kennedy (resigned 6 April 2010)	–	–	–	–	–	112
	–	22,529	5,244	2,219	29,992	32,932
<b>Non-executive Chairman</b>						
Dr Eddy C Fong, GBS, JP	841	–	–	–	841	702
<b>Non-executive Directors</b>						
The Hon Chan Kam-lam, SBS, JP	243	–	–	–	243	234
Angelina PL Lee, SBS, JP	243	–	–	–	243	234
Kenneth HW Kwok, BBS, SC, JP (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Professor Liu Pak Wai, SBS, JP (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Shengman Zhang (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Lawrence Lee, JP	243	–	–	–	243	234
Wong Kai Man, BBS, JP	243	–	–	–	243	234
Anderson Chow, SC	242	–	–	–	242	58
Professor Leonard Cheng Kwok-hon, JP	242	–	–	–	242	58
Carlson Tong, JP (appointed 1 April 2011)	242	–	–	–	242	–
	2,539	–	–	–	2,539	2,282
<b>Total directors' emoluments</b>	<b>2,539</b>	<b>22,529</b>	<b>5,244</b>	<b>2,219</b>	<b>32,531</b>	<b>35,214</b>

Note 1 This represents net contribution expenses accrued during the period ended 31 March 2012 in accordance with the accounting policy set out in note 3(f) on page 71. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested at 31 March 2012 was \$1,645,000 (At 31 March 2011: \$1,815,000).

Note 2 Retired having completed appointment period.

Note 3 Discretionary pay, if any, is to be approved in 2012/13.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals in 2011/2012, representing the emoluments of four executive directors and one senior director, was \$28,975,000 (2010/2011: \$32,820,000 for five executive directors) with the breakdown as follows:

	2012 \$'000	2011 \$'000
Salaries, allowances & benefits in kind	20,967	24,349
Discretionary pay	5,912	6,069
Retirement scheme contribution	2,096	2,402
	<b>28,975</b>	<b>32,820</b>

Their emoluments are within the following bands:

	2012 No. of individuals	2011 No. of individuals
\$4,000,001 to \$4,500,000	1	0
\$4,500,001 to \$5,000,000	0	0
\$5,000,001 to \$5,500,000	0	1
\$5,500,001 to \$6,000,000	2	2
\$6,000,001 to \$6,500,000	1	0
\$6,500,001 to \$7,000,000	1	1
\$7,000,001 to \$7,500,000	0	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	0	1

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

## 7. Staff costs and directors' emoluments (cont'd)

**Employee benefits**

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme):

**(a) ORSO Scheme****(i) General grade staff**

For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the SFC prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2011: nil).

**(ii) Professional staff**

We use forfeited contributions in respect of professional staff who leave the SFC prior to qualifying for 100% disbursement of the contributions to offset the SFC's future contributions. The amount so forfeited during the year was \$3,713,000 (2011: \$2,952,000) and the amount so forfeited available at the end of the reporting period was \$86,000 (2011: \$602,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

**(b) MPF Scheme**

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

## 8. Other expenses

	2012 \$'000	2011 \$'000
Training and development	7,271	5,920
Legal and professional services	26,297	20,714
Information and systems services	29,147	27,755
Auditor's remuneration	479	443
Funding for the Financial Dispute Resolution Centre	7,500	–
Funding for the Financial Reporting Council	4,410	4,200
Funding for the Hong Kong Securities Institute	1,200	–
Funding for the Investor Education Centre	980	–
Funding for the International Accounting Standards Committee Foundation	390	389
General office and insurance	6,476	5,370
External relations	20,618	18,996
Exchange loss	3,362	1,375
	<b>108,130</b>	85,162

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 9. Held-to-maturity debt securities

#### The Group and the SFC

		2012 \$'000	2011 \$'000
Maturing after one year			
In the second to sixth years	– unlisted	2,467,808	1,756,248
	– listed in Hong Kong	124,343	–
	– listed outside Hong Kong	2,210,337	2,071,384
		4,802,488	3,827,632
Maturing within one year			
	– unlisted	592,326	451,746
	– listed in Hong Kong	–	95,323
	– listed outside Hong Kong	975,297	1,854,380
		1,567,623	2,401,449
		<b>6,370,111</b>	6,229,081
Amortised cost at 31 March			
	– unlisted	3,060,134	2,207,994
	– listed in Hong Kong	124,343	95,323
	– listed outside Hong Kong	3,185,634	3,925,764
		<b>6,370,111</b>	6,229,081
Market value at 31 March			
	– unlisted	3,073,401	2,205,710
	– listed in Hong Kong	124,877	95,836
	– listed outside Hong Kong	3,227,935	3,982,773
		<b>6,426,213</b>	6,284,319

The average yield to maturity of the debt securities was 0.9% at 31 March 2012 (2011: 1.5%).



## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

## 10. Fixed assets

## (a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2011	68,699	7,912	180,516	55,703	1,599	314,429
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,666	8,091	127,086	65,071	1,599	272,513
Accumulated depreciation						
At 1 April 2011	63,527	5,194	153,474	44,404	1,141	267,740
Charge for the year	4,677	1,093	21,664	12,641	152	40,227
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,671	6,074	102,743	54,368	1,293	223,149
Net book value						
At 31 March 2012	11,995	2,017	24,343	10,703	306	<b>49,364</b>
Cost						
At 1 April 2010	61,147	7,528	161,641	48,300	1,967	280,583
Additions	8,012	1,156	19,850	8,727	611	38,356
Disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	68,699	7,912	180,516	55,703	1,599	314,429
Accumulated depreciation						
At 1 April 2010	51,344	5,024	138,382	34,443	1,967	231,160
Charge for the year	12,643	942	16,067	11,285	153	41,090
Written back on disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	63,527	5,194	153,474	44,404	1,141	267,740
Net book value						
At 31 March 2011	5,172	2,718	27,042	11,299	458	46,689

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 10. Fixed assets (cont'd)

#### (b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>						
At 1 April 2011	68,684	7,856	180,516	55,462	1,599	314,117
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,651	8,035	127,086	64,830	1,599	272,201
<b>Accumulated depreciation</b>						
At 1 April 2011	63,511	5,151	153,474	44,163	1,141	267,440
Charge for the year	4,677	1,087	21,664	12,641	152	40,221
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,655	6,025	102,743	54,127	1,293	222,843
<b>Net book value</b>						
At 31 March 2012	11,996	2,010	24,343	10,703	306	<b>49,358</b>
<b>Cost</b>						
At 1 April 2010	61,132	7,472	161,641	48,059	1,967	280,271
Additions	8,012	1,156	19,850	8,727	611	38,356
Disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	68,684	7,856	180,516	55,462	1,599	314,117
<b>Accumulated depreciation</b>						
At 1 April 2010	51,328	4,987	138,382	34,209	1,967	230,873
Charge for the year	12,643	936	16,067	11,278	153	41,077
Written back on disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	63,511	5,151	153,474	44,163	1,141	267,440
<b>Net book value</b>						
At 31 March 2011	5,173	2,705	27,042	11,299	458	46,677

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2012 ranged from 0.34% to 2.09% (2011: 0.04% to 1.34%). These balances mature within one year at both 31 March 2012 and 31 March 2011.

### 12. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorized share capital of \$10,000 and issued share capital of \$2 and Investor Compensation Company Limited (ICC) on 11 September 2002 with an authorized share capital of \$1,000 and issued share capital of \$0.2. Both FinNet and ICC are incorporated in Hong Kong.

The objective of FinNet is to operate an electronic network to facilitate payment and delivery transactions and interconnection of all financial institutions and financial entities in Hong Kong.

The objective of ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2012, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2 (2011: \$2.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 31 March 2012 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

The financial statements of ICC are included in the consolidated financial statements.

### 13. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our statement of comprehensive income on a straight line basis over the lease period from 2004 to 2017 as an integral part of the lease expense.

### 14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$160,338,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2011: \$196,758,000). Receivables are usually due within 30 days.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2012 and 2011.

### 15. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government. The SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. The SFC manages its funding requirements from its income and accumulated surplus.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 16. Capital commitments

Capital commitments outstanding at 31 March 2012 not provided for in the financial statements were as follows:

	2012 \$'000	2011 \$'000
Authorized and contracted for	29,366	29,158
Authorized but not contracted for	45,141	32,046

### 17. Commitment to pay rents for offices

During the year, we have entered into a new operating lease for the SFC's office premises for 11 years starting 1 November 2011. The lease is subject to a rent review on 1 September 2017. The rent we will have to pay after 1 September 2017 will be fixed on or before 1 July 2017 based on the then prevailing market rent but subject to a cap set out in the lease agreement.

At 31 March 2012 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017 is as follows:

	The Group and the SFC	
	2012 \$'000	2011 \$'000
Payable next year	178,563	72,473
Payable in one to five years	736,774	76,265
Payable in more than five years	75,158	–
	<b>990,495</b>	148,738

During the year ended 31 March 2012, \$73,525,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011: \$63,642,000).

### 18. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), 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 transactions and balances disclosed elsewhere in these financial statements, we have the following significant 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 year, \$4,442,000 was recovered from ICF for ICC's expenses (2011: \$4,157,000). As at 31 March 2012, the amount due to ICF from ICC was \$85,000 (at 31 March 2011: \$128,000).

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

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 18. Related party transactions (cont'd)

#### (c) Operating expenses of FinNet

During the year, all operating expenses incurred by FinNet were absorbed by the SFC. The amount absorbed for the year was \$22,000 (2011: \$20,000) including the provision for audit fee of \$11,100 (2011: \$10,500).

#### (d) Legal services provided by a non-executive director

Prior to his appointment, the Group engaged a non-executive director to provide legal services in respect of a number of matters. He continued to provide services in respect of matters commenced prior to his appointment. During the year, fees paid to him for such services amounted to \$496,000 (2011: \$489,000) under normal commercial terms and conditions.

### 19. Financial instruments

Financial instruments of the SFC comprise held-to-maturity debt securities, bank deposits, cash at bank and debtors. These are classified into different categories at inception in accordance with IAS 39, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: held to maturity and other financial liabilities.

The main financial risks of the SFC arise from its investments in held-to-maturity debt securities. The SFC confers upon its Executive Directors the power to act upon the advice received from an external investment adviser and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk. The Executive Directors report thereon to the SFC on a regular basis.

#### (a) Credit risk

The SFC's credit risk is primarily attributable to debt security investments. The Financial Secretary has approved our investment policy which, subject to other control limits, only allows the SFC to invest in high-quality dated securities, rated AA or above. The policy also limits the exposure to each organisation and each country, except for the US Treasury. During the year, the SFC complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

#### (b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The SFC is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The SFC manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the SFC's interest bearing assets are disclosed in the respective notes to the financial statements. At 31 March 2012, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the SFC's surplus and accumulated surplus by approximately \$19,916,000 (2011: \$17,011,000). As at 31 March 2012 the average duration of the SFC's investment portfolio was 1.79 years (31 March 2011: 1.66 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2011.

## Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

### 19. Financial instruments (cont'd)

#### (c) Exchange rate risk

The only foreign currency investment allowed under the SFC's investment policy is US dollar dated securities. As the HK dollar is pegged to the US dollar, and since there were no other exchange rate exposures other than in US dollars and HK dollars, the SFC was not exposed to significant foreign exchange risk at the end of the reporting period.

#### (d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2012 and 2011 except for held-to-maturity debt securities as disclosed in note 9. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed held-to-maturity debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.

### 20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Effective for  
accounting periods  
beginning on or after

Amendments to IAS 1, <i>Presentation of financial statements – presentation of items of other comprehensive income</i>	1 July 2012
IFRS 13, <i>Fair value measurement</i>	1 January 2013
IFRS 9, <i>Financial instruments</i>	1 January 2015

The SFC is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of SFC's results of operations and financial position.