

# Securities and Futures Commission

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## [ Auditors' Report To The Securities And Futures Commission (the SFC) ]

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

We have audited the financial statements on pages 93 to 109 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

### Respective responsibilities of directors and auditors

The Hong Kong Securities and Futures Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the SFC's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the SFC and of the group as at 31 March 2005 and of the group's surplus and cash flows for the year then ended, and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

### KPMG

*Certified Public Accountants*

Hong Kong

4 May 2005

## [ Consolidated Income and Expenditure Account ]

For the year ended 31 March 2005

(Expressed in Hong Kong dollars)

	Note	2005 \$'000	2004 \$'000
<b>Income</b>			
Levies		<b>435,442</b>	380,336
Fees and charges		<b>162,325</b>	144,591
Investment income	5	<b>21,894</b>	21,310
Recoveries from Investor Compensation Fund		<b>4,066</b>	3,162
Other income	6	<b>1,654</b>	1,749
		<b>625,381</b>	551,148
<b>Expenses</b>			
Staff costs and directors' emoluments	7	<b>357,479</b>	328,818
Premises			
rent		<b>20,573</b>	18,561
other		<b>12,972</b>	14,151
Other expenses	8	<b>42,626</b>	37,001
		<b>433,650</b>	398,531
Depreciation		<b>22,670</b>	27,206
		<b>456,320</b>	425,737
<b>Surplus for the year</b>		<b>169,061</b>	125,411
<b>Accumulated surplus brought forward</b>		<b>648,184</b>	522,773
<b>Accumulated surplus carried forward</b>		<b>817,245</b>	648,184

We have not prepared a separate statement of changes in equity as the surplus for the year would be the only component of such a statement.

The notes on pages 97 to 109 form part of these financial statements.

## Securities and Futures Commission

### [ Consolidated Balance Sheet ]

At 31 March 2005

(Expressed in Hong Kong dollars)

	Note	2005	2004
		\$'000	\$'000
<b>Non-current assets</b>			
Fixed assets	9(a)	25,258	34,037
Held-to-maturity debt securities	10	550,407	66,329
		<b>575,665</b>	100,366
<b>Current assets</b>			
Held-to-maturity debt securities	10	294,398	579,802
Bank deposits		69,656	75,781
Debtors, deposits and prepayments		58,181	58,101
Cash at bank and in hand		1,692	2,182
		<b>423,927</b>	715,866
<b>Current liabilities</b>			
Fees received in advance		36,675	34,788
Creditors and accrued charges		30,765	22,198
		<b>67,440</b>	56,986
<b>Net current assets</b>			
		<b>356,487</b>	658,880
<b>Total assets less current liabilities</b>			
		<b>932,152</b>	759,246
<b>Non-current liabilities</b>			
	12	<b>72,067</b>	68,222
<b>Net assets</b>			
		<b>860,085</b>	691,024
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
	14	<b>42,840</b>	42,840
<b>Income and expenditure account</b>			
		<b>817,245</b>	648,184
		<b>860,085</b>	691,024

Approved and authorised for issue by the Commission on 4 May 2005 and signed on its behalf by

**Andrew L T Sheng**  
Chairman

**Eddy C Fong**  
Non-executive Director

The notes on pages 97 to 109 form part of these financial statements.

## [ Balance Sheet ]

At 31 March 2005

(Expressed in Hong Kong dollars)

	Note	2005 \$'000	2004 \$'000
<b>Non-current assets</b>			
Fixed assets	9(b)	25,012	33,597
Held-to-maturity debt securities	10	550,407	66,329
		<b>575,419</b>	99,926
<b>Current assets</b>			
Held-to-maturity debt securities	10	294,398	579,802
Bank deposits		69,656	75,781
Debtors, deposits and prepayments		57,845	57,877
Cash at bank and in hand		945	962
		<b>422,844</b>	714,422
<b>Current liabilities</b>			
Fees received in advance		36,675	34,788
Creditors and accrued charges		29,451	20,366
		<b>66,126</b>	55,154
<b>Net current assets</b>			
		<b>356,718</b>	659,268
<b>Total assets less current liabilities</b>			
		<b>932,137</b>	759,194
<b>Non-current liabilities</b>			
	12	72,052	68,170
<b>Net assets</b>			
		<b>860,085</b>	691,024
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
	14	42,840	42,840
<b>Income and expenditure account</b>			
		817,245	648,184
		<b>860,085</b>	691,024

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### [ Consolidated Cash Flow Statement ]

For the year ended 31 March 2005

(Expressed in Hong Kong dollars)

	2005	2004
	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	169,061	125,411
Adjustments for:		
Depreciation	22,670	27,206
Investment income	(21,894)	(21,310)
(Profit)/loss on disposal of fixed assets	(40)	60
	<b>169,797</b>	131,367
Increase in debtors, deposits and prepayments	(444)	(28,515)
Increase in fees received in advance	1,887	3,231
Increase in creditors and accrued charges	7,813	3,628
Increase in non-current liabilities	3,845	19,242
Net cash generated from operating activities	<b>182,898</b>	128,953
<b>Cash flows from investing activities</b>		
Interest received	35,539	24,908
Held-to-maturity debt securities bought	(802,250)	(264,721)
Held-to-maturity debt securities redeemed	590,296	39,000
Fixed assets bought	(13,154)	(28,978)
Fixed assets sold	56	9
Net cash used in investing activities	<b>(189,513)</b>	(229,782)
<b>Net decrease in cash and cash equivalents</b>	<b>(6,615)</b>	(100,829)
<b>Cash and cash equivalents at beginning of the year</b>	<b>77,963</b>	178,792
<b>Cash and cash equivalents at end of the year</b>	<b>71,348</b>	77,963

Analysis of the balance of cash and cash equivalents:

	2005	2004
	\$'000	\$'000
Bank deposits	69,656	75,781
Cash at bank and in hand	1,692	2,182
	<b>71,348</b>	77,963

## [ Notes to the Consolidated Financial Statements ]

For the year ended 31 March 2005  
(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.

### 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) a share of the levies collected by the Stock Exchange of Hong Kong Limited and Hong Kong Futures 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.

In each financial year, the SFC is eligible to receive an appropriation from the Government. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make appropriations to it.

### 3. Significant accounting policies

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 (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board. We set out below a summary of our significant accounting policies.

#### Basis of preparation

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

#### Basis of consolidation

Subsidiaries are those enterprises controlled by the SFC. Control exists when the SFC has the power, directly or indirectly, to govern the financial and operating policies of an enterprise 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 in preparing the consolidated financial statements.

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

#### Recognition of income

*Levies* We record levies from The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited as income on an accrual basis.

*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.

*Investment Income* We record investment income on an accrual basis. 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 using the effective interest rate method.

#### Operating leases

We treat the rent payable under operating leases as an expense on a straight-line basis over the life of the lease. We recognise lease incentives received in the income and expenditure account as an integral part of the total lease expense.

#### Retirement benefits

We recognise obligations for contributions to defined contribution schemes as an expense in the income and expenditure account when they are payable.

#### Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see the accounting policy in respect of "impairment" on page 100). We charge depreciation to the income and expenditure account on a straight-line basis over the estimated useful lives of the fixed assets. We use the following useful lives:

Leasehold improvements	–	3 years or if shorter the life of the respective leases
Furniture and fixtures	–	3 years
Office equipment	–	5 years
Personal computers and software	–	3 years
Mainframe computers and 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 income and expenditure account as an expense as incurred.

#### Investments

We state our investments in debt securities, which we intend and are able to hold to maturity, at amortised cost less any provisions for impairments (see the accounting policy in respect of "impairment" on page 100). We account for purchases and sales of debt securities on the settlement date.

We recognise profits or losses on sale of debt securities when they arise.

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

#### Related parties

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

- (a) parties that the SFC has the ability, directly or indirectly, to control or to significantly influence in making financial and operating decisions;
- (b) parties that have the ability, directly or indirectly, to control or to significantly influence the SFC in making financial and operating decisions; and
- (c) parties that are subject to common control or common significant influence.

Related parties may be individuals or corporate entities. As the SFC is an entity controlled by the Government of the Hong Kong Special Administrative Region, we are not required by International Accounting Standard 24 to disclose transactions with other government controlled enterprises in the financial statements.

#### 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 balance sheet date. We recognise exchange gains and losses on translation in the income and expenditure account.

#### Other receivables

We state other receivables at their cost less impairment losses (see the accounting policy in respect of "impairment" on page 100).

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

#### Other payables

We state other payables at their cost.

#### Investment in subsidiaries

We state an investment in a subsidiary at cost less any impairment losses in the balance sheet.

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

#### Impairment

We review the carrying amounts of the SFC's assets at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, we estimate the asset's recoverable amount. We recognise in the income and expenditure account an impairment loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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.

We reverse an impairment loss in respect of an asset if the circumstances and events that have led 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 would have determined, net of depreciation or amortisation, if we had not recognised any impairment loss.

#### Provisions and contingent liabilities

We recognise a provision in the balance sheet when the SFC has a legal or constructive obligation 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. 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.

### 4. Taxation

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

## 5. Investment income

	2005	2004
	\$'000	\$'000
Interest income	35,174	28,730
Amortisation of premium on held-to-maturity debt securities	(13,786)	(7,480)
Amortisation of discount on held-to-maturity debt securities	506	60
	<b>21,894</b>	<b>21,310</b>

## 6. Other income

	2005	2004
	\$'000	\$'000
Investigation costs awarded	1,003	462
Sale of SFC publications	397	459
Profit on disposal of fixed assets	40	–
Exchange gain	–	699
Others	214	129
	<b>1,654</b>	<b>1,749</b>

## 7. Staff costs and directors' emoluments

	2005	2004
	\$'000	\$'000
Salaries and allowances	337,502	308,206
Retirement benefits	10,093	10,781
Medical and life insurance	9,464	9,484
Overtime pay	420	347
	<b>357,479</b>	<b>328,818</b>

The total number of staff as at 31 March 2005 was 434, comprising 393 regular staff (390 for SFC and 3 for Investor Compensation Company Limited) and 41 temporary staff (at 31 March 2004: the total number of staff was 419, comprising 385 regular staff and 34 temporary staff).

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

Directors' emoluments included in the above comprised:

	<b>2005</b>	2004
	<b>\$'000</b>	\$'000
Fees	<b>1,638</b>	1,603
Salaries and other emoluments	<b>25,981</b>	25,666
Variable pay	<b>2,200</b>	1,298
Retirement benefits	<b>203</b>	223
	<b>30,022</b>	28,790

Included in the directors' emoluments were fees of \$1,638,000 (2003/2004: \$1,603,000) paid to the independent non-executive directors during the year.

Directors' emoluments fell within these ranges:

	<b>2005</b>	2004
	<b>No. of directors</b>	No. of directors
\$0 to \$1,000,000	<b>10</b>	8
\$2,500,001 to \$3,000,000	<b>–</b>	1
\$3,000,001 to \$3,500,000	<b>1</b>	–
\$4,000,001 to \$4,500,000	<b>2</b>	3
\$4,500,001 to \$5,000,000	<b>1</b>	1
\$5,500,001 to \$6,000,000	<b>1</b>	–
\$6,500,001 to \$7,000,000	<b>1</b>	1
	<b>16</b>	14

The aggregate remuneration of the five highest paid individuals in 2004/2005, representing the emoluments of five executive directors, was \$25,327,000 (2003/2004: \$24,360,000 for five executive directors).

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

### Retirement 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

*General grade staff* For general grade staff, we make monthly contributions equal to 12% of the fixed pay of each staff member. 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 \$32,000 (2004: \$80,000).

*Professional staff* For professional staff, we make monthly contributions equal to 5% of their fixed pay subject to a cap of \$4,166 per month. 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 \$1,287,000 (2004: \$773,000) and the amount so forfeited available at the balance sheet date was \$13,000 (2004: \$61,000).

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

	2005	2004
	\$'000	\$'000
Training and development	4,328	2,569
Legal and professional services	12,269	7,780
Legal costs recovered/release of provision for legal costs	(2,643)	(1,500)
Information and systems services	18,418	16,416
Auditors' remuneration	258	221
General office and insurance	6,054	5,859
SCEFI (Steering Committee on the Enhancement of Financial Infrastructure)	293	3,534
External relations	3,020	2,062
Loss on disposal of fixed assets	-	60
Exchange loss	629	-
	<b>42,626</b>	<b>37,001</b>

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### 9. Fixed assets

#### (a) The Group

	<b>Furniture, fixtures and leasehold improvements</b>	<b>Office equipment</b>	<b>Mainframe computers and application systems</b>	<b>Personal computers and software</b>	<b>Motor vehicles</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>						
At 1 April 2004	30,563	8,770	104,710	20,263	1,456	165,762
Additions	5,290	960	4,459	3,198	–	13,907
Disposals	(641)	(154)	(583)	(2,513)	–	(3,891)
At 31 March 2005	<u>35,212</u>	<u>9,576</u>	<u>108,586</u>	<u>20,948</u>	<u>1,456</u>	<u>175,778</u>
<b>Depreciation</b>						
At 1 April 2004	16,897	6,391	88,352	18,629	1,456	131,725
Charge for the year	8,597	987	11,083	2,003	–	22,670
Written back on disposals	(639)	(154)	(583)	(2,499)	–	(3,875)
At 31 March 2005	<u>24,855</u>	<u>7,224</u>	<u>98,852</u>	<u>18,133</u>	<u>1,456</u>	<u>150,520</u>
<b>Net book value</b>						
At 31 March 2005	<u>10,357</u>	<u>2,352</u>	<u>9,734</u>	<u>2,815</u>	<u>–</u>	<u>25,258</u>
<b>Net book value</b>						
At 31 March 2004	<u>13,666</u>	<u>2,379</u>	<u>16,358</u>	<u>1,634</u>	<u>–</u>	<u>34,037</u>

## 9. Fixed assets (cont'd)

### (b) The SFC

	<b>Furniture, fixtures and leasehold improvements</b>	<b>Office equipment</b>	<b>Mainframe computers and application systems</b>	<b>Personal computers and software</b>	<b>Motor vehicles</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>						
At 1 April 2004	30,233	8,738	104,710	19,972	1,456	165,109
Additions	5,266	960	4,459	3,193	–	13,878
Disposals	(641)	(154)	(583)	(2,513)	–	(3,891)
At 31 March 2005	<u>34,858</u>	<u>9,544</u>	<u>108,586</u>	<u>20,652</u>	<u>1,456</u>	<u>175,096</u>
<b>Depreciation</b>						
At 1 April 2004	16,787	6,385	88,352	18,532	1,456	131,512
Charge for the year	8,479	981	11,083	1,904	–	22,447
Written back on disposals	(639)	(154)	(583)	(2,499)	–	(3,875)
At 31 March 2005	<u>24,627</u>	<u>7,212</u>	<u>98,852</u>	<u>17,937</u>	<u>1,456</u>	<u>150,084</u>
<b>Net book value</b>						
At 31 March 2005	<u>10,231</u>	<u>2,332</u>	<u>9,734</u>	<u>2,715</u>	<u>–</u>	<u>25,012</u>
<b>Net book value</b>						
At 31 March 2004	<u>13,446</u>	<u>2,353</u>	<u>16,358</u>	<u>1,440</u>	<u>–</u>	<u>33,597</u>

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

The Group and the SFC

		2005	2004
		\$'000	\$'000
Maturing after one year			
In the second to third years	– unlisted	209,538	22,518
	– listed outside Hong Kong	340,869	43,811
		<b>550,407</b>	66,329
Maturing within one year			
	– unlisted	119,965	187,907
	– listed outside Hong Kong	174,433	391,895
		<b>294,398</b>	579,802
		<b>844,805</b>	646,131
Cost at 31 March			
	– unlisted	329,503	210,425
	– listed outside Hong Kong	515,302	435,706
		<b>844,805</b>	646,131
Market value at 31 March			
	– unlisted	327,653	218,053
	– listed outside Hong Kong	510,122	437,051
		<b>837,775</b>	655,104

## 11. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorised share capital of \$10,000 and issued share capital of \$2 and Investor Compensation Company Limited (ICC) on 11 September 2002 with an authorised 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 2005, the investments in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.2. The balance is too small to appear on the balance sheet which is expressed in thousands of dollars.

FinNet has not commenced operation. The balance sheet of FinNet as at 31 March 2005 and the income and expenditure account for the year were immaterial. Therefore, we have not accounted for its result in the consolidated financial statements.

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

## 12. Non-current liabilities

### The Group and the SFC

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 income and expenditure account on a straight line basis over the lease period from 2004 to 2013 as an integral part of the lease expense.

## 13. Ageing analysis of debtors and creditors

There was no material debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 31 March 2005. Therefore we do not provide an ageing analysis of debtors and creditors.

## 14. 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.

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### 15. Capital commitments

Capital commitments outstanding at 31 March 2005 not provided for in the financial statements were as follows:

	2005 \$'000	2004 \$'000
Authorised and contracted for	12,413	11,015
Authorised but not contracted for	8,801	11,353

### 16. Commitment to pay rents for offices

In addition to the operating lease for the SFC's office premises for 10 years starting 1 July 2003, we have entered into a new operating lease with the same landlord for additional office space for a period of 9 years starting 1 July 2004. Both leases are subject to a rent review on 1 July 2008. The rent we will have to pay after 1 July 2008 will be fixed in 2008 based on the market rent prevailing in 2008 but subject to a cap set out in the respective lease agreement.

At 31 March 2005 the minimum amount we are committed to pay in rent for our offices up to 30 June 2008 is as follows:

	The Group		The SFC	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Payable next year	30,278	14,648	29,980	14,350
Payable in one to five years	69,578	86,483	69,491	86,098
Payable in more than five years	-	-	-	-
	<b>99,856</b>	101,131	<b>99,471</b>	100,448

During the year ended 31 March 2005, \$20,573,000 was recognised as an expense in the income and expenditure account in respect of operating leases (2004: \$18,561,000). Other than office rents we have no obligations relating to operating leases.

## 17. Related party transactions

We have a related party relationship with the Unified Exchange Compensation Fund (UECF), the Commodity Exchange Compensation Fund (CECF), 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. We have the following significant related party transactions during the year:

- (a) Reimbursement from the ICF for all the ICC's expenses, which is in accordance with Section 242(1) of the SFO; and
- (b) matters disclosed in note 19.

## 18. Financial instruments

Financial assets of the SFC comprise held-to-maturity debt securities.

### (a) Credit risk

The Financial Secretary has approved our investment policy which only allows the SFC to invest in dated securities or in bank deposits with banks. The policy also limits the exposure to each organisation and each country, except for US Treasury, to not more than 15% and 20% of the total investment respectively. During the year, the SFC complied with the above investment policy and, as a result, was not exposed to significant credit risk.

### (b) Interest rate risk

The activities of the SFC do not expose it to significant interest rate risk.

### (c) Exchange rate risk

The Financial Secretary has approved our investment policy which also allows the SFC to invest in US dollar dated securities. As the HK dollar is pegged to the US dollar, the SFC was not exposed to significant foreign exchange risk.

## 19. Contingent liabilities

The SFC has given an undertaking to the Government to make refunds for overpayment of Special Levy as a condition for the transfer of the Special Levy surplus of \$2 million plus accrued interest to the UECF. No provision has been made in these financial statements in respect of such undertaking, as the likelihood of a claim being made for a refund of an overpayment is considered to be remote.