

# Securities and Futures Commission

## 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 79 to 95 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 Society of 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 2004 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 2004

## Consolidated Income and Expenditure Account

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Income</b>			
Levies		<b>380,336</b>	186,166
Fees and charges		<b>144,591</b>	116,915
Investment income	5	<b>21,310</b>	32,773
Recoveries from Investor Compensation Fund		<b>3,162</b>	1,273
Other income	6	<b>1,749</b>	1,319
		<b>551,148</b>	338,446
<b>Expenses</b>			
Staff costs	7	<b>328,818</b>	302,398
Premises			
rent		<b>18,561</b>	20,010
other		<b>14,151</b>	11,267
Other expenses	8	<b>37,001</b>	39,489
		<b>398,531</b>	373,164
Depreciation		<b>27,206</b>	23,662
		<b>425,737</b>	396,826
		<b>125,411</b>	(58,380)
<b>Surplus/(deficit) for the year</b>			
<b>Accumulated surplus brought forward</b>		<b>522,773</b>	581,153
<b>Accumulated surplus carried forward</b>		<b>648,184</b>	522,773

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

The notes on pages 83 to 95 form part of these financial statements.

# Securities and Futures Commission Financial Statements

## Consolidated Balance Sheet

At 31 March 2004

(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Non-current assets</b>			
Fixed assets	9(a)	34,037	30,976
Held-to-maturity debt securities	10	66,329	388,794
<b>Current assets</b>			
Held-to-maturity debt securities	10	579,802	39,036
Bank deposits		75,781	178,371
Debtors, deposits and prepayments	12	58,101	25,764
Cash at bank and in hand		2,182	421
		<b>715,866</b>	243,592
<b>Current liabilities</b>			
Fees received in advance		34,788	31,557
Creditors and accrued charges		22,198	17,212
		<b>56,986</b>	48,769
<b>Net current assets</b>			
		<b>658,880</b>	194,823
<b>Total assets less current liabilities</b>			
		<b>759,246</b>	614,593
<b>Non-current liabilities</b>			
	13	68,222	48,980
<b>Net assets</b>			
		<b>691,024</b>	565,613
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
	15	42,840	42,840
<b>Income and expenditure account</b>			
		648,184	522,773
		<b>691,024</b>	565,613

Approved and authorised for issue by the Commission on 4 May 2004 and signed on its behalf by

**Andrew L T Sheng**  
Chairman

**T Brian Stevenson**  
Non-executive Director

The notes on pages 83 to 95 form part of these financial statements.

## Balance Sheet

At 31 March 2004

(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Non-current assets</b>			
Fixed assets	9(b)	33,597	30,976
Held-to-maturity debt securities	10	66,329	388,794
<b>Current assets</b>			
Held-to-maturity debt securities	10	579,802	39,036
Bank deposits		75,781	178,371
Debtors, deposits and prepayments	12	57,877	25,749
Cash at bank and in hand		962	421
		<b>714,422</b>	243,577
<b>Current liabilities</b>			
Fees received in advance		34,788	31,557
Creditors and accrued charges		20,366	17,197
		<b>55,154</b>	48,754
<b>Net current assets</b>		<b>659,268</b>	194,823
<b>Total assets less current liabilities</b>		<b>759,194</b>	614,593
<b>Non-current liabilities</b>	13	<b>68,170</b>	48,980
<b>Net assets</b>		<b>691,024</b>	565,613
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>	15	<b>42,840</b>	42,840
<b>Income and expenditure account</b>		<b>648,184</b>	522,773
		<b>691,024</b>	565,613

Approved and authorised for issue by the Commission on 4 May 2004 and signed on its behalf by

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The notes on pages 83 to 95 form part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

	2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>		
Surplus / (deficit) for the year	125,411	(58,380)
Adjustments for :		
Depreciation	27,206	23,662
Investment income	(21,310)	(32,773)
Loss / (profit) on sale of fixed assets	60	(6)
	<b>131,367</b>	(67,497)
Increase in debtors, deposits and prepayments	(28,515)	(350)
Increase / (decrease) in fees received in advance	3,231	(1,744)
Increase / (decrease) in creditors and accrued charges	3,628	(10,415)
Increase in non-current liabilities	19,242	45,194
Cash generated from / (used in) operations	128,953	(34,812)
Payment to the Unified Exchange Compensation Fund	–	(30,000)
<i>Net cash generated from / (used in) operating activities</i>	<b>128,953</b>	(64,812)
<b>Cash flows from investing activities</b>		
Interest received	24,908	33,103
Held-to-maturity debt securities bought	(264,721)	(132,002)
Held-to-maturity debt securities redeemed	39,000	319,700
Fixed assets bought	(28,978)	(17,095)
Fixed assets sold	9	7
<i>Net cash (used in) / generated from investing activities</i>	<b>(229,782)</b>	203,713
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(100,829)</b>	138,901
<b>Cash and cash equivalents at beginning of the year</b>	<b>178,792</b>	39,891
<b>Cash and cash equivalents at end of the year</b>	<b>77,963</b>	178,792

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

	2004 \$'000	2003 \$'000
Bank deposits	75,781	178,371
Cash at bank and in hand	2,182	421
	<b>77,963</b>	178,792

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2004  
(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 the 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

The SFC prepares its consolidated financial statements, which comprise the SFC and its subsidiary (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. Except for a subsidiary that has not commenced operation during the year, we include the financial statements of the other subsidiary 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.

## 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 premium or discount on purchases of held-to-maturity debt securities on a straight-line basis over the periods to redemption.

### 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 policies in respect of "impairment" and "reversals of impairment" on page 86). Depreciation is charged 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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the fixed assets. All other expenditure is recognised 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 policies in respect of "impairment" and "reversals of impairment" on page 86). 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 Standards 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 record 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 policies in respect of "impairment" and "reversal of impairment" on page 86).

#### **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**

In the SFC's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses.

### 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.

#### (a) Calculation of 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.

#### (b) Reversals of impairment

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

	2004 \$'000	2003 \$'000
Interest income	28,730	34,468
Premium on held-to-maturity debt securities	(7,480)	(2,397)
Discount on held-to-maturity debt securities	60	702
	<b>21,310</b>	<b>32,773</b>

#### 6. Other income

	2004 \$'000	2003 \$'000
Legal costs recovered	–	91
Investigation costs awarded	462	708
Sale of SFC publications	459	444
Profit on sale of fixed assets	–	6
Exchange difference	699	–
Others	129	70
	<b>1,749</b>	<b>1,319</b>

## 7. Staff costs

	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Directors' fees	<b>1,603</b>	1,404
Directors' salaries and allowances	<b>25,666</b>	22,850
Directors' variable pay	<b>1,298</b>	400
Directors' retirement benefits	<b>223</b>	212
Staff salaries and allowances	<b>279,639</b>	258,053
Retirement benefits	<b>10,558</b>	10,486
Medical and life insurance	<b>9,484</b>	8,709
Overtime pay	<b>347</b>	284
	<b>328,818</b>	302,398

The number of staff as at 31 March 2004 was 419, comprising 385 regular staff (382 for SFC and 3 for Investor Compensation Company Limited) and 34 temporary staff (At 31 March 2003: total staff number was 403, comprised 363 regular staff and 40 temporary staff).

### Directors' emoluments fell within these ranges :

	<b>2004</b>	2003
	<b>No. of directors</b>	No. of directors
\$0 to \$1,000,000	<b>8</b>	6
\$2,500,001 to \$3,000,000	<b>1</b>	–
\$3,500,001 to \$4,000,000	<b>–</b>	1
\$4,000,001 to \$4,500,000	<b>3</b>	3
\$4,500,001 to \$5,000,000	<b>1</b>	–
\$6,500,001 to \$7,000,000	<b>1</b>	1
	<b>14</b>	11

Emoluments paid to independent non-executive directors during the year amounted to \$1,603,000 (2003 : \$1,404,000).

Aggregate remuneration of the five highest paid individuals in 2003/2004, representing the emoluments of five executive directors, was \$24,360,000 (2002/2003 : \$23,462,000 for five executive directors).

## 7. Staff costs (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 \$80,000 (2003 : \$113,000).

**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 \$773,000 (2003 : \$743,000) and the amount so forfeited available at the balance sheet date was \$61,000 (2003 : \$57,000).

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

	<b>2004</b> <b>\$'000</b>	2003 \$'000
Training and development	<b>2,569</b>	2,511
Legal and professional services	<b>7,780</b>	9,615
(Release of)/provision for legal claims and costs	<b>(1,500)</b>	2,347
Information and systems services	<b>16,416</b>	15,956
Auditors' remuneration	<b>221</b>	175
General office and insurance	<b>5,859</b>	4,524
SCEFI (Steering Committee on the Enhancement of Financial Infrastructure)	<b>3,534</b>	2,729
External relations	<b>2,062</b>	1,632
Loss on disposal of fixed assets	<b>60</b>	-
	<b>37,001</b>	39,489

## 9. Fixed assets

### (a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Mainframe computers and application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2003	34,144	9,473	100,273	21,128	1,456	166,474
Additions	20,491	2,067	5,727	2,051	–	30,336
Disposals	(24,072)	(2,770)	(1,290)	(2,916)	–	(31,048)
At 31 March 2004	<u>30,563</u>	<u>8,770</u>	<u>104,710</u>	<u>20,263</u>	<u>1,456</u>	<u>165,762</u>
Depreciation						
At 1 April 2003	33,122	8,127	73,235	19,558	1,456	135,498
Charge for the year	7,847	968	16,405	1,986	–	27,206
Written back on disposals	(24,072)	(2,704)	(1,288)	(2,915)	–	(30,979)
At 31 March 2004	<u>16,897</u>	<u>6,391</u>	<u>88,352</u>	<u>18,629</u>	<u>1,456</u>	<u>131,725</u>
Net book value						
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>
Net book value						
At 31 March 2003	<u>1,022</u>	<u>1,346</u>	<u>27,038</u>	<u>1,570</u>	<u>–</u>	<u>30,976</u>

## 9. Fixed assets (cont'd)

### (b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Mainframe computers and application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2003	34,144	9,473	100,273	21,128	1,456	166,474
Additions	20,161	2,035	5,727	1,760	–	29,683
Disposals	(24,072)	(2,770)	(1,290)	(2,916)	–	(31,048)
At 31 March 2004	30,233	8,738	104,710	19,972	1,456	165,109
Depreciation						
At 1 April 2003	33,122	8,127	73,235	19,558	1,456	135,498
Charge for the year	7,737	962	16,405	1,889	–	26,993
Written back on disposals	(24,072)	(2,704)	(1,288)	(2,915)	–	(30,979)
At 31 March 2004	16,787	6,385	88,352	18,532	1,456	131,512
Net book value						
At 31 March 2004	13,446	2,353	16,358	1,440	–	33,597
Net book value						
At 31 March 2003	1,022	1,346	27,038	1,570	–	30,976

## 10. Held-to-maturity debt securities

### The Group and the SFC

	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Maturing after one year		
In the second to third years – unlisted	<b>22,518</b>	120,034
– listed outside Hong Kong	<b>43,811</b>	254,184
After three years – unlisted	–	14,576
	<b>66,329</b>	388,794
Maturing within one year – unlisted	<b>187,907</b>	25,030
– listed outside Hong Kong	<b>391,895</b>	14,006
	<b>579,802</b>	39,036
	<b>646,131</b>	427,830
Cost at 31 March – unlisted	<b>210,425</b>	159,640
– listed outside Hong Kong	<b>435,706</b>	268,190
	<b>646,131</b>	427,830
Market value at 31 March – unlisted	<b>218,053</b>	187,827
– listed outside Hong Kong	<b>437,051</b>	259,735
	<b>655,104</b>	447,562

## 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 2004, the investments in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.2. The balance was too small to appear on the balance sheet which was expressed in thousand dollars.

FinNet has not commenced operation. The balance sheet of FinNet as at 31 March 2004 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. Debtors, deposits and prepayments

### The SFC

There is no amount due from ICC as at 31 March 2004 (2003: \$1,258,000).

## 13. 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.

## 14. 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 2004. Therefore we do not provide ageing analysis on debtors and creditors.

## 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.

## 16. Capital commitments

Capital commitments outstanding at 31 March 2004 not provided for in the financial statements were as follows:

	2004 \$'000	2003 \$'000
Authorised and contracted for	11,015	15,990
Authorised but not contracted for	11,353	11,969

## 17. Commitment to pay rents for offices

We have entered into a new operating lease for the SFC's office premises for 10 years starting 1 July 2003. The lease is 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 lease agreement.

At 31 March 2004 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	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Payable next year	14,648	–	14,350	–
Payable in one to five years	86,483	93,825	86,098	93,825
Payable in more than five years	–	6,623	–	6,623
	<b>101,131</b>	100,448	<b>100,448</b>	100,448

During the year ended 31 March 2004, \$18,561,000 was recognised as an expense in the income and expenditure account in respect of operating leases (2003 : \$20,010,000). Other than office rents we have no obligations relating to operating leases.

## 18. Related party transactions

We have a related party relationship with the Unified Exchange Compensation Fund (the UECF), the Commodity Exchange Compensation Fund (the CECF), Investor Compensation Fund (the 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 20.

## 19. 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.

## 20. 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.

## 21. Comparative figures

Deferred lease incentives have been shown in these financial statements as non-current liabilities as this reflects more appropriately the nature of this item. The comparative figures have been reclassified to conform with the current year's presentation.