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 89 to 106 which have been prepared in accordance with International Financial Reporting Standards.

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 Hong Kong Standards on Auditing 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 2006 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.

KPMG
Certified Public Accountants
Hong Kong

4 May 2006

Consolidated Income and Expenditure Account

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Income			
Levies		**612,512**	435,442
Fees and charges		**196,677**	162,325
Investment income	5	**36,278**	21,894
Recoveries from Investor Compensation Fund		**3,263**	4,066
Other income	6	**2,753**	1,654
		851,483	625,381
Expenses			
Staff costs and directors' emoluments	7	**384,227**	357,479
Premises			
rent		**21,432**	20,573
other		**13,758**	12,972
Other expenses	8	**56,563**	42,626
Depreciation		**20,994**	22,670
		496,974	456,320
Surplus for the year		**354,509**	169,061
Accumulated surplus brought forward		**817,245**	648,184
Accumulated surplus carried forward		**1,171,754**	817,245

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 93 to 106 form part of these financial statements.

Securities and Futures Commission

Consolidated Balance Sheet

At 31 March 2006

(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Non-current assets			
Fixed assets	9(a)	**17,934**	25,258
Held-to-maturity debt securities	10	**580,962**	550,407
		598,896	575,665
Current assets			
Held-to-maturity debt securities	10	**617,931**	294,398
Bank deposits	11	**47,505**	69,656
Debtors, deposits and prepayments		**96,562**	58,181
Cash at bank and in hand	11	**2,378**	1,692
		764,376	423,927
Current liabilities			
Fees received in advance		**52,195**	36,675
Creditors and accrued charges		**33,343**	30,765
		85,538	67,440
Net current assets		**678,838**	356,487
Total assets less current liabilities		**1,277,734**	932,152
Non-current liabilities	13	**63,140**	72,067
Net assets		**1,214,594**	860,085
Funding and reserves			
Initial funding by Government	15	**42,840**	42,840
Income and expenditure account		**1,171,754**	817,245
		1,214,594	860,085

Approved and authorised for issue by the Commission on 4 May 2006 and signed on its behalf by

Martin Wheatley
Chairman

Eddy C Fong
Non-executive Director

The notes on pages 93 to 106 form part of these financial statements.

Balance Sheet

At 31 March 2006

(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Non-current assets			
Fixed assets	9(b)	**17,866**	25,012
Held-to-maturity debt securities	10	**580,962**	550,407
		598,828	575,419
Current assets			
Held-to-maturity debt securities	10	**617,931**	294,398
Bank deposits	11	**47,505**	69,656
Debtors, deposits and prepayments		**96,223**	57,845
Cash at bank and in hand	11	**1,014**	945
		762,673	422,844
Current liabilities			
Fees received in advance		**52,195**	36,675
Creditors and accrued charges		**31,572**	29,451
		83,767	66,126
Net current assets		**678,906**	356,718
Total assets less current liabilities		**1,277,734**	932,137
Non-current liabilities	13	**63,140**	72,052
Net assets		**1,214,594**	860,085
Funding and reserves			
Initial funding by Government	15	**42,840**	42,840
Income and expenditure account		**1,171,754**	817,245
		1,214,594	860,085

Approved and authorised for issue by the Commission on 4 May 2006 and signed on its behalf by

Martin Wheatley
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The notes on pages 93 to 106 form part of these financial statements.

Securities and Futures Commission

Consolidated Cash Flow Statement

For the year ended 31 March 2006

(Expressed in Hong Kong dollars)

	2006 $'000	2005 $'000
Cash flows from operating activities		
Surplus for the year	**354,509**	169,061
Adjustments for:		
Depreciation	**20,994**	22,670
Investment income	**(36,278)**	(21,894)
Profit on disposal of fixed assets	**(11)**	(40)
	339,214	169,797
Increase in debtors, deposits and prepayments	**(33,170)**	(444)
Increase in fees received in advance	**15,520**	1,887
Increase in creditors and accrued charges	**3,626**	7,813
(Decrease)/increase in non-current liabilities	**(8,927)**	3,845
Net cash generated from operating activities	**316,263**	182,898
Cash flows from investing activities		
Interest received	**34,579**	35,539
Held-to-maturity debt securities purchased	**(758,117)**	(802,250)
Held-to-maturity debt securities redeemed	**400,517**	590,296
Fixed assets bought	**(14,718)**	(13,154)
Fixed assets sold	**11**	56
Net cash used in investing activities	**(337,728)**	(189,513)
Net decrease in cash and cash equivalents	**(21,465)**	(6,615)
Cash and cash equivalents at beginning of the year	**71,348**	77,963
Cash and cash equivalents at end of the year	**49,883**	71,348

Analysis of the balance of cash and cash equivalents:

	2006 $'000	2005 $'000
Bank deposits	**47,505**	69,656
Cash at bank and in hand	**2,378**	1,692
	49,883	71,348

Notes to the Consolidated Financial Statements

For the year ended 31 March 2006
(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) 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 ("IFRSs") (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board ("IASB"). 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 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 is 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.

3. Significant accounting policies (cont'd)

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 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.

Recognition of income

We recognise income in the income and expenditure account 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:

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 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.

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 income and expenditure account as an integral part of the aggregate net lease payments made.

Employee benefits

We make accrual for salaries and allowances, paid 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.

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 pages 96 and 97). We charge depreciation to the income and expenditure account to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

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

3. Significant accounting policies (cont'd)

Fixed assets and depreciation (cont'd)

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.

We review the carrying amounts of fixed assets for indications of impairment at each balance sheet date. 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 income and expenditure account on the date of retirement or disposal.

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 the accounting policy in respect of "impairment" on pages 96 and 97). 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.

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 (being members of key management personnel, and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the SFC where those parties are individuals, and post-employment benefit plans which are for the benefit of the employees of the SFC or of any entity that is a related party of the SFC. 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 departments and agencies in the financial statements.

3. Significant accounting policies (cont'd)

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 initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of other receivables at each balance sheet date 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 income and expenditure account. (See also the accounting policy in respect of "impairment" on pages 96 and 97).

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.

Other payables

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

Investment in subsidiaries

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

Impairment

Recognition of impairment loss

We review the carrying amounts of the SFC's assets at each balance sheet date to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the income and expenditure account 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.

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.

3. Significant accounting policies (cont'd)

Impairment (cont'd)

Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that have 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.

Provisions and contingent liabilities

We recognise a provision in the balance sheet 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.

Impact of the newly implemented IFRSs

In December 2003 and March 2004, the IASB approved amendments to a number of existing standards as a result of the Improvements project and issued several new standards. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts with the standards, to deal with some convergence issues and to make other improvements.

As a result, we adopted the newly implemented IFRSs for the financial period starting from 1 April 2005. However, the adoption of these newly implemented IFRSs do not have a significant impact on the financial statements of the Group.

4. Taxation

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

5. Investment income

	2006 **$'000**	2005 $'000
Interest income	**39,790**	35,174
Amortisation of premium on held-to-maturity debt securities	**(7,429)**	(13,786)
Amortisation of discount on held-to-maturity debt securities	**3,917**	506
	36,278	21,894

6. Other income

	2006 $'000	2005 $'000
Investigation costs awarded	**1,903**	1,003
Sale of SFC publications	**401**	397
Profit on disposal of fixed assets	**11**	40
Others	**438**	214
	2,753	1,654

7. Staff costs and directors' emoluments

	2006 $'000	2005 $'000
Salaries and allowances	**362,898**	337,502
Retirement benefits	**10,520**	10,093
Medical and life insurance	**10,382**	9,464
Overtime pay	**427**	420
	384,227	357,479

The total number of staff as at 31 March 2006 was 443, comprising 397 regular staff (395 for SFC and 2 for Investor Compensation Company Limited) and 46 temporary staff (at 31 March 2005: the total number of staff was 434, comprising 393 regular staff and 41 temporary staff).

Directors' emoluments included in the above comprised:

	2006 $'000	2005 $'000
Fees	**1,638**	1,638
Salaries and other emoluments	**22,885**	25,981
Variable pay	**2,491**	2,200
Retirement benefits	**136**	203
	27,150	30,022

Included in the directors' emoluments were fees of $1,638,000 (2004/2005: $1,638,000) paid to the independent non-executive directors during the year.

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

Directors' emoluments fell within these ranges:

	2006 No. of directors	2005 No. of directors
$0 to $1,000,000	**7**	10
$3,000,001 to $3,500,000	**–**	1
$4,000,001 to $4,500,000	**–**	2
$4,500,001 to $5,000,000	**3**	1
$5,000,001 to $5,500,000	**1**	–
$5,500,001 to $6,000,000	**–**	1
$6,000,001 to $6,500,000	**1**	–
$6,500,001 to $7,000,000	**–**	1
	12	16

The aggregate remuneration of the five highest paid individuals in 2005/2006, representing the emoluments of five executive directors, was $25,512,000 (2004/2005: $25,327,000 for five executive directors).

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

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 $53,000 (2005: $32,000).

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 $1,627,000 (2005: $1,287,000) and the amount so forfeited available at the balance sheet date was $20,000 (2005: $13,000).

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

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

(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

	2006 **$'000**	2005 $'000
Training and development	**6,709**	4,328
Legal and professional services	**14,645**	12,269
Legal costs recovered	**–**	(2,643)
Information and systems services	**19,528**	18,418
Auditors' remuneration	**253**	258
General office and insurance	**5,852**	6,054
SCEFI (Steering Committee on the Enhancement of Financial Infrastructure)	**4,053**	293
External relations	**5,107**	3,020
Exchange loss	**416**	629
	56,563	42,626

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 2005	35,212	9,576	108,586	20,948	1,456	175,778
Additions	6	60	8,416	5,188	–	13,670
Disposals	–	(130)	–	(1,604)	–	(1,734)
At 31 March 2006	35,218	9,506	117,002	24,532	1,456	187,714
Accumulated depreciation						
At 1 April 2005	24,855	7,224	98,852	18,133	1,456	150,520
Charge for the year	8,593	814	8,108	3,479	–	20,994
Written back on disposals	–	(130)	–	(1,604)	–	(1,734)
At 31 March 2006	33,448	7,908	106,960	20,008	1,456	169,780
Net book value						
At 31 March 2006	1,770	1,598	10,042	4,524	–	17,934
Cost						
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	35,212	9,576	108,586	20,948	1,456	175,778
Accumulated depreciation						
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	24,855	7,224	98,852	18,133	1,456	150,520
Net book value						
At 31 March 2005	10,357	2,352	9,734	2,815	–	25,258

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 2005	34,858	9,544	108,586	20,652	1,456	175,096
Additions	6	60	8,416	5,121	–	13,603
Disposals	–	(130)	–	(1,604)	–	(1,734)
At 31 March 2006	34,864	9,474	117,002	24,169	1,456	186,965
Accumulated depreciation						
At 1 April 2005	24,627	7,212	98,852	17,937	1,456	150,084
Charge for the year	8,475	808	8,108	3,358	–	20,749
Written back on disposals	–	(130)	–	(1,604)	–	(1,734)
At 31 March 2006	33,102	7,890	106,960	19,691	1,456	169,099
Net book value						
At 31 March 2006	1,762	1,584	10,042	4,478	–	17,866
Cost						
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	34,858	9,544	108,586	20,652	1,456	175,096
Accumulated depreciation						
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	24,627	7,212	98,852	17,937	1,456	150,084
Net book value						
At 31 March 2005	10,231	2,332	9,734	2,715	–	25,012

10. Held-to-maturity debt securities

The Group and the SFC

			2006 $'000	2005 $'000
Maturing after one year				
In the second to third years	–	unlisted	**424,870**	209,538
	–	listed outside Hong Kong	**156,092**	340,869
			580,962	550,407
Maturing within one year	–	unlisted	**362,760**	119,965
	–	listed outside Hong Kong	**255,171**	174,433
			617,931	294,398
			1,198,893	844,805
Cost at 31 March	–	unlisted	**787,630**	329,503
	–	listed outside Hong Kong	**411,263**	515,302
			1,198,893	844,805
Market value at 31 March	–	unlisted	**781,237**	327,653
	–	listed outside Hong Kong	**406,234**	510,122
			1,187,471	837,775

The weighted average effective interest rate of debt securities was 4.17% at 31 March 2006 (2005: 3.24%).

11. Bank deposits and cash at bank

The effective interest rate of bank deposits and cash at bank at 31 March 2006 ranged from 3.9% to 4.2% (2005: 2.1% to 2.33%). These balances matured within one year at both 31 March 2006 and 31 March 2005.

12. 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.

12. Investments in subsidiaries (cont'd)

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2006, 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 operations. The balance sheet of FinNet as at 31 March 2006 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.

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 2006. Therefore we do not provide an ageing analysis of 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 2006 not provided for in the financial statements were as follows:

	2006	2005
	$'000	$'000
Authorised and contracted for	**10,471**	12,413
Authorised but not contracted for	**11,361**	8,801

17. 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 2006 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	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Payable next year	**31,022**	30,278	**30,935**	29,980
Payable in one to five years	**38,555**	69,578	**38,555**	69,491
Payable in more than five years	**–**	–	**–**	–
	69,577	99,856	**69,490**	99,471

During the year ended 31 March 2006, $21,432,000 was recognised as an expense in the income and expenditure account in respect of operating leases (2005: $20,573,000).

18. 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. In addition to the transaction 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, which is in accordance with Section 242(1) of the SFO

During the year, $3,263,000 was recovered from ICF for ICC's expenses (2005: $4,006,000). As at 31 March 2006, the amount due to ICF from ICC was $1,726,000 (at 31 March 2005: $1,111,000).

(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.

19. Financial instruments

Financial assets of the SFC comprise held-to-maturity debt securities, bank deposits, cash at bank and debtors.

(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 in order to manage its credit risk.

(b) Interest rate risk

The SFC's interest bearing assets mainly comprises debt securities and bank balances. Interest rate risk in the SFC's investment portfolio is continuously monitored by management. The effective interest rates and maturity profile of the SFC's interest bearing assets are disclosed in the respective notes to the financial statements.

(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. Non-adjusting post balance sheet event

Pursuant to section 396 of the SFO, the SFC shall consult the Financial Secretary with a view to recommending to the Chief Executive in Council that the rate or amount of levy be reduced if our reserves, after deducting depreciation and all provisions, are more than twice our estimated operating expenses for the financial year. As announced by the Financial Secretary in February 2006, it is proposed that there will be a 20% cut in levy for securities and futures and options contracts. Subject to the necessary legislative procedures, the SFC expects to implement the proposals within 2006.

21. Possible impact of new standard and amendment issued but not yet effective for the annual accounting period ended 31 March 2006

Up to the date of issue of these financial statements, the IASB has issued the following new standard and amendment which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements. Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
IFRS 7, Financial instruments: disclosures	1 January 2007

We are in the process of making an assessment of what the impact of the new standard is expected to be in the period of initial application. So far we have concluded that while the adoption of the new standard may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operation and financial position.