

# Securities and Futures Commission

## Independent Auditor's Report to the Securities and Futures Commission

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

We have audited the consolidated financial statements of the Securities and Futures Commission (the "SFC") set out on pages 58 to 76 which comprise the consolidated and the SFC balance sheet as at 31 March 2007 and the consolidated income and expenditure account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The Hong Kong Securities and Futures Ordinance requires the directors to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

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

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

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group as at 31 March 2007 and of the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **KPMG**

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

4 May 2007

## Securities and Futures Commission

### Consolidated Income and Expenditure Account

For the year ended 31 March 2007

(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
<b>Income</b>			
Levies		1,007,423	612,512
Fees and charges		217,848	196,677
Investment income	5	69,259	36,278
Recoveries from Investor Compensation Fund		3,893	3,263
Other income	6	8,796	2,753
		<u>1,307,219</u>	<u>851,483</u>
<b>Expenses</b>			
Staff costs and directors' emoluments	7	416,334	384,227
Premises			
Rent		21,279	21,432
Other		15,073	13,758
Other expenses	8	75,438	56,563
Depreciation		13,735	20,994
		<u>541,859</u>	<u>496,974</u>
<b>Surplus for the year</b>		<b>765,360</b>	354,509
<b>Accumulated surplus brought forward</b>		<b>1,171,754</b>	817,245
<b>Accumulated surplus carried forward</b>		<b>1,937,114</b>	1,171,754

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

The notes on pages 62 to 76 form part of these financial statements.

## Securities and Futures Commission

### Consolidated Balance Sheet

At 31 March 2007

(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
<b>Non-current assets</b>			
Fixed assets	9(a)	18,076	17,934
Held-to-maturity debt securities	10	1,285,072	580,962
		<b>1,303,148</b>	598,896
<b>Current assets</b>			
Held-to-maturity debt securities	10	624,828	617,931
Bank deposits	11	53,642	47,505
Debtors, deposits and prepayments		135,592	96,562
Cash at bank and in hand	11	3,509	2,378
		<b>817,571</b>	764,376
<b>Current liabilities</b>			
Fees received in advance		52,225	52,195
Creditors and accrued charges		34,304	33,343
		<b>86,529</b>	85,538
<b>Net current assets</b>			
		<b>731,042</b>	678,838
<b>Total assets less current liabilities</b>			
		<b>2,034,190</b>	1,277,734
<b>Non-current liabilities</b>			
	13	54,236	63,140
<b>Net assets</b>			
		<b>1,979,954</b>	1,214,594
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
	16	42,840	42,840
<b>Income and expenditure account</b>			
		<b>1,937,114</b>	1,171,754
		<b>1,979,954</b>	1,214,594

Approved and authorised for issue by the SFC on 4 May 2007 and signed on its behalf by

**Martin Wheatley**  
Chief Executive Officer

**Eddy C Fong**  
Chairman

The notes on pages 62 to 76 form part of these financial statements.

## Securities and Futures Commission

### Balance Sheet

At 31 March 2007

(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
<b>Non-current assets</b>			
Fixed assets	9(b)	18,025	17,866
Held-to-maturity debt securities	10	1,285,072	580,962
		<b>1,303,097</b>	598,828
<b>Current assets</b>			
Held-to-maturity debt securities	10	624,828	617,931
Bank deposits	11	53,642	47,505
Debtors, deposits and prepayments		135,431	96,223
Cash at bank and in hand	11	2,797	1,014
		<b>816,698</b>	762,673
<b>Current liabilities</b>			
Fees received in advance		52,225	52,195
Creditors and accrued charges		33,380	31,572
		<b>85,605</b>	83,767
<b>Net current assets</b>			
		<b>731,093</b>	678,906
<b>Total assets less current liabilities</b>			
		<b>2,034,190</b>	1,277,734
<b>Non-current liabilities</b>			
	13	54,236	63,140
<b>Net assets</b>			
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<b>Funding and reserves</b>			
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	16	42,840	42,840
<b>Income and expenditure account</b>			
		1,937,114	1,171,754
		<b>1,979,954</b>	1,214,594

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## Securities and Futures Commission

### Consolidated Cash Flow Statement

For the year ended 31 March 2007

(Expressed in Hong Kong dollars)

	2007 \$'000	2006 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	765,360	354,509
Adjustments for:		
Depreciation	13,735	20,994
Investment income	(69,259)	(36,278)
Profit on disposal of fixed assets	(19)	(11)
	<u>709,817</u>	<u>339,214</u>
Increase in debtors, deposits and prepayments	(21,063)	(33,170)
Increase in fees received in advance	30	15,520
Increase in creditors and accrued charges	740	3,626
Decrease in non-current liabilities	(8,904)	(8,927)
Net cash generated from operating activities	<u>680,620</u>	<u>316,263</u>
<b>Cash flows from investing activities</b>		
Interest received	48,174	34,579
Held-to-maturity debt securities purchased	(1,325,009)	(758,117)
Held-to-maturity debt securities redeemed	617,120	400,517
Fixed assets bought	(13,658)	(14,718)
Fixed assets sold	21	11
Net cash used in investing activities	<u>(673,352)</u>	<u>(337,728)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>7,268</u>	<u>(21,465)</u>
<b>Cash and cash equivalents at beginning of the year</b>	<u>49,883</u>	<u>71,348</u>
<b>Cash and cash equivalents at end of the year</b>	<u>57,151</u>	<u>49,883</u>
<b>Analysis of the balance of cash and cash equivalents:</b>		
	2007	2006
	\$'000	\$'000
Bank deposits	53,642	47,505
Cash at bank and in hand	3,509	2,378
	<u>57,151</u>	<u>49,883</u>

## Securities and Futures Commission

### Notes to the Consolidated Financial Statements

For the year ended 31 March 2007

(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.

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### 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:

<i>Levies</i>	We record levies from The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited as income on an accrual basis.
<i>Fees and charges</i>	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.
<i>Investment income</i>	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 page 65). 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

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.

## Securities and Futures Commission

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

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

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 page 65). 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.

#### **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.

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

#### **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".)

#### **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.

##### *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.

## Securities and Futures Commission

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

#### 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.

### 4. Taxation

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

### 5. Investment income

	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Interest income	<b>66,141</b>	39,790
Amortisation of premium on held-to-maturity debt securities	<b>(3,556)</b>	(7,429)
Amortisation of discount on held-to-maturity debt securities	<b>6,674</b>	3,917
	<b>69,259</b>	36,278

### 6. Other income

	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
IOSCO 2006 Annual Conference	<b>5,025</b>	–
Investigation costs awarded	<b>1,944</b>	1,903
FinNet managed network and support fee	<b>1,403</b>	373
Sale of SFC publications	<b>352</b>	401
Profit on disposal of fixed assets	<b>19</b>	11
Others	<b>53</b>	65
	<b>8,796</b>	2,753

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### 7. Staff costs and directors' emoluments

	2007 \$'000	2006 \$'000
Salaries and allowances	385,123	362,898
Retirement benefits	18,578	10,520
Medical and life insurance	12,126	10,382
Overtime pay	507	427
	<b>416,334</b>	<b>384,227</b>

The total number of staff as at 31 March 2007 was 446, comprising 405 regular staff (402 for SFC and 3 for Investor Compensation Company Limited) and 41 temporary staff (at 31 March 2006: the total number of staff was 443, comprising 397 regular staff and 46 temporary staff).

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances & benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contribution \$'000	2007 Total \$'000	2006 Total \$'000
<b>Chairman</b>						
Andrew Sheng (retired 30 September 2005 <sup>(Note 1)</sup> )	-	-	-	-	-	6,202 <sup>(Note 2)</sup>
<b>Chief Executive Officer</b>						
Martin Wheatley <sup>(Note 3)</sup>	-	6,350	1,064	184	7,598	4,848
<b>Executive Directors</b>						
Alexa Lam	-	4,000	1,000	225	5,225	5,050
Brian Ho (appointed 28 August 2006)	-	2,139	497	184	2,820	-
Keith Lui (appointed 28 August 2006)	-	2,139	497	184	2,820	-
Mark Steward (appointed 26 September 2006)	-	2,067	479	100	2,646	-
Paul Kennedy (appointed 16 October 2006)	-	2,068	-	94	2,162	-
Peter Au-Yang (retired 25 May 2006 <sup>(Note 1)</sup> )	-	1,137 <sup>(Note 4)</sup>	1,000	2	2,139	4,675
Alan Linning (resigned 6 June 2006)	-	770	-	3	773	4,737
	-	20,670	4,537	976	26,183	25,512
<b>Non-executive Chairman</b>						
Eddy C Fong, SBS, JP <sup>(Note 5)</sup>	444	-	-	-	444	234
<b>Non-executive Directors</b>						
Angelina Lee, JP (appointed 1 August 2006)	156	-	-	-	156	-
Christopher W C Cheng, GBS, JP	234	-	-	-	234	234
Kenneth H W Kwok, BBS, SC	234	-	-	-	234	234
Raymond P L Kwok, JP (retired 31 July 2006 <sup>(Note 1)</sup> )	78	-	-	-	78	234
Prof. Liu Pak Wai, SBS	234	-	-	-	234	234
Shengman Zhang (appointed 1 January 2007)	59	-	-	-	59	-
The Hon Jasper Y S Tsang, GBS, JP	234	-	-	-	234	234
Dr. York Liao, SBS, JP	234	-	-	-	234	234
	1,907	-	-	-	1,907	1,638
Total directors' emoluments	1,907	20,670	4,537	976	28,090	27,150

Note 1: retired having completed appointment period

Note 2: including leave pay of \$2,802,000

Note 3: as executive director to 30 September 2005; appointed as Chairman from 1 October 2005 and subsequently redesignated as Chief Executive Officer from 23 June 2006

Note 4: including leave pay of \$535,000

Note 5: as non-executive director to 19 October 2006 and appointed as non-executive Chairman from 20 October 2006

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

Of the five individuals with the highest emoluments, four are executive directors (2005/2006: five executive directors). The aggregate of the emoluments of these five individuals was \$26,311,000 (2005/2006: \$25,512,000) with the breakdown as follows:

	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Salaries, allowances & benefits in kind	<b>21,144</b>	22,885
Discretionary pay	<b>4,181</b>	2,491
Retirement scheme contribution	<b>986</b>	136
	<b>26,311</b>	25,512

Their emoluments are within the following bands:

	<b>2007</b>	2006
	<b>No. of</b>	No. of
	<b>individuals</b>	individuals
\$3,500,001 to \$4,000,000	<b>1</b>	–
\$4,000,001 to \$4,500,000	<b>1</b>	–
\$4,500,001 to \$5,000,000	<b>–</b>	3
\$5,000,001 to \$5,500,000	<b>1</b>	1
\$5,500,001 to \$6,000,000	<b>1</b>	–
\$6,000,001 to \$6,500,000	<b>–</b>	1
\$7,500,001 to \$8,000,000	<b>1</b>	–

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

#### Employee benefits

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

(a) *ORSO Scheme*

**General grade staff** For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the SFC prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was \$27,000 (2006: \$53,000).

**Professional staff** For professional staff, we make monthly contributions in the range of 5% to 10% of their fixed pay, depending on the period of service and subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. With effect from 1 October 2006, the monthly cap of \$4,166 was removed.

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 \$1,330,000 (2006: \$1,627,000) and the amount so forfeited available at the balance sheet date was \$115,000 (2006: \$20,000).

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>2007</b>	2006
	<b>\$'000</b>	\$'000
Training and development	<b>7,590</b>	6,709
Legal and professional services	<b>21,163</b>	14,645
Information and systems services	<b>20,483</b>	19,528
Auditor's remuneration	<b>268</b>	253
Funding for the Financial Reporting Council	<b>7,500</b>	–
General office and insurance	<b>7,075</b>	5,852
FinNet	<b>1,921</b>	4,053
External relations	<b>9,131</b>	5,107
Exchange loss	<b>307</b>	416
	<b>75,438</b>	56,563

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### 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 2006	35,218	9,506	117,002	24,532	1,456	187,714
Additions	389	435	7,351	4,717	988	13,880
Disposals	(87)	(680)	(4,703)	(3,219)	(477)	(9,166)
At 31 March 2007	35,520	9,261	119,650	26,030	1,967	192,428
Accumulated depreciation						
At 1 April 2006	33,448	7,908	106,960	20,008	1,456	169,780
Charge for the year	1,823	824	6,474	4,367	247	13,735
Written back on disposals	(87)	(679)	(4,703)	(3,217)	(477)	(9,163)
At 31 March 2007	35,184	8,053	108,731	21,158	1,226	174,352
Net book value						
At 31 March 2007	336	1,208	10,919	4,872	741	18,076
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

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### 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 2006	34,864	9,474	117,002	24,169	1,456	186,965
Additions	356	435	7,351	4,717	988	13,847
Disposals	(44)	(679)	(4,703)	(3,211)	(477)	(9,114)
At 31 March 2007	35,176	9,230	119,650	25,675	1,967	191,698
<b>Accumulated depreciation</b>						
At 1 April 2006	33,102	7,890	106,960	19,691	1,456	169,099
Charge for the year	1,804	818	6,474	4,343	247	13,686
Written back on disposals	(44)	(679)	(4,703)	(3,209)	(477)	(9,112)
At 31 March 2007	34,862	8,029	108,731	20,825	1,226	173,673
<b>Net book value</b>						
At 31 March 2007	314	1,201	10,919	4,850	741	18,025
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Net book value</b>						
At 31 March 2006	1,762	1,584	10,042	4,478	-	17,866

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

#### The Group and the SFC

			2007 \$'000	2006 \$'000
Maturing after one year				
In the second to third years	–	unlisted	<b>583,165</b>	424,870
	–	listed outside Hong Kong	<b>701,907</b>	156,092
			<b>1,285,072</b>	580,962
Maturing within one year				
	–	unlisted	<b>420,712</b>	362,760
	–	listed outside Hong Kong	<b>204,116</b>	255,171
			<b>624,828</b>	617,931
			<b>1,909,900</b>	1,198,893
Cost at 31 March				
	–	unlisted	<b>1,003,877</b>	787,630
	–	listed outside Hong Kong	<b>906,023</b>	411,263
			<b>1,909,900</b>	1,198,893
Market value at 31 March				
	–	unlisted	<b>1,003,853</b>	781,237
	–	listed outside Hong Kong	<b>908,594</b>	406,234
			<b>1,912,447</b>	1,187,471

The weighted average effective interest rate of the debt securities was 4.82% at 31 March 2007 (2006: 4.17%).

### 11. Bank deposits and cash at bank

The effective interest rate of bank deposits and cash at bank at 31 March 2007 ranged from 3.7% to 4.4% (2006: 3.9% to 4.2%). These balances matured within one year at both 31 March 2007 and 31 March 2006.

### 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.

## Securities and Futures Commission

### 12. Investments in subsidiaries (cont'd)

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2007, 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 2007 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

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 2007. Therefore we do not provide an ageing analysis of debtors and creditors.

### 15. Advance to an executive

Included in debtors and accounts receivable is an interest-free advance to an executive for initial settling-in purpose amounting to \$333,000 (2006: nil). This amount is repayable in equal instalments over 6 months.

The maximum balance of outstanding advance to an executive during the year was \$667,000 (2006: nil).

### 16. 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.

## Securities and Futures Commission

### 17. Capital commitments

Capital commitments outstanding at 31 March 2007 not provided for in the financial statements were as follows:

	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Authorised and contracted for	<b>14,571</b>	10,471
Authorised but not contracted for	<b>12,231</b>	11,361

### 18. 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 2007 the minimum amount we are committed to pay in rent for our offices up to 30 June 2008 is as follows:

	<b>The Group</b>		<b>The SFC</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Payable next year	<b>30,860</b>	31,022	<b>30,860</b>	30,935
Payable in one to five years	<b>7,696</b>	38,555	<b>7,696</b>	38,555
Payable in more than five years	-	-	-	-
	<b>38,556</b>	69,577	<b>38,556</b>	69,490

During the year ended 31 March 2007, \$21,279,000, net of lease incentives, was recognised as an expense in the income and expenditure account in respect of operating leases (2006: \$21,432,000).

## Securities and Futures Commission

### 19. Related party transactions

We have a related party relationship with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the 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, in accordance with Section 242(1) of the SFO**

During the year, \$3,893,000 was recovered from ICF for ICC's expenses (2006: \$3,263,000). As at 31 March 2007, the amount due to ICF from ICC was \$863,000 (at 31 March 2006: \$1,726,000).

**(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.

### 20. 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.

## Securities and Futures Commission

### 21. Possible impact of new standard and amendment issued but not yet effective for the annual accounting period ended 31 March 2007

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 2007 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
Amendments to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007

We are in the process of making an assessment of what the impact of the new standard and amendment is expected to be in the period of initial application. So far we have concluded that while the adoption of the new standard and amendment 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.