

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 59 to 77 which comprise the consolidated and the SFC balance sheet as at 31 March 2008 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 2008 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

13 May 2008

Consolidated income and expenditure account

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000 (restated) ^{Note}
Income			
Levies		2,134,733	1,007,423
Fees and charges		277,686	217,848
Investment income	5	128,212	69,259
Less: custody and advisory expenses		(1,399)	(854)
Investment income net of third party expenses		126,813	68,405
Recoveries from Investor Compensation Fund		3,809	3,893
Other income	6	3,223	8,796
		2,546,264	1,306,365
Expenses			
Staff costs and directors' emoluments	7	470,925	416,334
Premises			
rent		23,487	21,279
other		17,169	15,073
Other expenses	8	60,829	74,584
Depreciation		12,607	13,735
		585,017	541,005
Surplus for the year		1,961,247	765,360
Accumulated surplus brought forward		1,937,114	1,171,754
Accumulated surplus carried forward		3,898,361	1,937,114

^{Note} Restatement was due to the adoption of a revised presentation of certain expense items as detailed in note 3.

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.

Securities and Futures Commission

Consolidated balance sheet

At 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Non-current assets			
Fixed assets	10(a)	15,749	18,076
Held-to-maturity debt securities	9	2,123,610	1,285,072
		2,139,359	1,303,148
Current assets			
Held-to-maturity debt securities	9	1,646,043	624,828
Bank deposits	11	85,612	53,642
Debtors, deposits and prepayments	14	225,211	135,592
Cash at bank and in hand	11	2,725	3,509
		1,959,591	817,571
Current liabilities			
Fees received in advance		57,185	52,225
Creditors and accrued charges		53,533	34,304
		110,718	86,529
Net current assets		1,848,873	731,042
Total assets less current liabilities		3,988,232	2,034,190
Non-current liabilities	13	47,031	54,236
Net assets		3,941,201	1,979,954
Funding and reserves			
Initial funding by Government	16	42,840	42,840
Income and expenditure account		3,898,361	1,937,114
		3,941,201	1,979,954

Approved and authorised for issue by the SFC on 13 May 2008 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

Balance sheet

At 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Non-current assets			
Fixed assets	10(b)	15,737	18,025
Held-to-maturity debt securities	9	2,123,610	1,285,072
		2,139,347	1,303,097
Current assets			
Held-to-maturity debt securities	9	1,646,043	624,828
Bank deposits	11	85,612	53,642
Debtors, deposits and prepayments	14	225,016	135,431
Cash at bank and in hand	11	2,334	2,797
		1,959,005	816,698
Current liabilities			
Fees received in advance		57,185	52,225
Creditors and accrued charges		52,935	33,380
		110,120	85,605
Net current assets		1,848,885	731,093
Total assets less current liabilities		3,988,232	2,034,190
Non-current liabilities	13	47,031	54,236
Net assets		3,941,201	1,979,954
Funding and reserves			
Initial funding by Government	16	42,840	42,840
Income and expenditure account		3,898,361	1,937,114
		3,941,201	1,979,954

Approved and authorised for issue by the SFC on 13 May 2008 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

Securities and Futures Commission

Consolidated cash flow statement

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	2008	2007
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the year	1,961,247	765,360
Adjustments for:		
Depreciation	12,608	13,735
Investment income	(128,212)	(69,259)
Profit on disposal of fixed assets	(22)	(19)
	1,845,621	709,817
Increase in debtors, deposits and prepayments	(59,274)	(21,063)
Increase in fees received in advance	4,960	30
Increase in creditors and accrued charges	19,229	740
Decrease in non-current liabilities	(7,205)	(8,904)
Net cash generated from operating activities	1,803,331	680,620
Cash flows from investing activities		
Interest received	92,454	48,174
Held-to-maturity debt securities purchased	(2,625,881)	(1,325,009)
Held-to-maturity debt securities redeemed	771,541	617,120
Fixed assets bought	(10,281)	(13,658)
Fixed assets sold	22	21
Net cash used in investing activities	(1,772,145)	(673,352)
Net increase in cash and cash equivalents	31,186	7,268
Cash and cash equivalents at beginning of the year	57,151	49,883
Cash and cash equivalents at end of the year	88,337	57,151

Analysis of the balance of cash and cash equivalents:

	2008	2007
	\$'000	\$'000
Bank deposits	85,612	53,642
Cash at bank and in hand	2,725	3,509
	88,337	57,151

Notes to the consolidated financial statements

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

1. Status and principal activities

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

2. Income

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

- (a) levies collected by the Stock Exchange of Hong Kong Limited 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.

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 are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of consolidation

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

Securities and Futures Commission

3. Significant accounting policies (cont'd)

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 accruals 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. Other benefits for services received are accrued when a contractual or constructive obligation arises for the SFC.

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 66). 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.

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.

3. Significant accounting policies (cont'd)

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 66). We account for purchases and sales of debt securities on the settlement date.

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 ("IAS") 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.

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 page 66).

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 cost 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 the SFC's balance sheet.

Securities and Futures Commission

3. Significant accounting policies (cont'd)

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. Objective evidence of impairment includes observable data that comes to the attention of the SFC about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor; or significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the 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 are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation or amortisation, if we had not recognised any impairment loss.

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.

Changes in accounting policies

A number of new and revised standards and interpretations that are first effective or available for early adoption for the current accounting period of the SFC were issued.

As a result of the adoption of IFRS 7 "Financial instruments: Disclosures", the financial statements include expanded disclosures about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, "Financial instruments: Disclosure and presentation". These disclosures are provided throughout these financial statements, in particular note 20. Further, as a result of the adoption of the amendment to IAS 1 "Presentation of financial statements" which introduces new disclosures on the level of capital and objectives, policies and procedures for managing capital, additional disclosures in relation to the SFC's solvency and funding requirements have been provided. These new disclosures are set out in note 16.

3. Significant accounting policies (cont'd)

Changes in accounting policies (cont'd)

Neither IFRS 7 nor IAS 1 have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

We have adopted a revised presentation of investment advisory fees and custodian fees expenses which are now presented as a deduction from net investment income as disclosed on the face of the consolidated income and expenditure account. During the previous years these expenses were recorded in other expenses. The previous year comparatives have been restated with other expenses being reduced by \$854,000 to \$74,584,000 and investment income being shown net of third party expenses at \$68,405,000. There is no change to the surplus for the year or comparative year and no change in net assets as at 31 March 2008 nor as at 31 March 2007 arising from this revised presentation.

4. Taxation

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

5. Investment income

	2008	2007
	\$'000	\$'000
Interest income	122,799	66,141
Amortisation of premium on held-to-maturity debt securities	(5,201)	(3,556)
Amortisation of discount on held-to-maturity debt securities	10,614	6,674
	128,212	69,259

Interest income is derived as follows:

	2008	2007
	\$'000	\$'000
Interest income from held-to-maturity debt securities	117,950	62,484
Other interest income	4,849	3,657
Total interest income on financial assets not at fair value through profit or loss	122,799	66,141

6. Other income

	2008	2007
	\$'000	\$'000
IOSCO 2006 Annual Conference	–	5,025
Investigation costs awarded	1,453	1,944
FinNet managed network and support fee	287	1,403
Exchange gain	1,064	–
Sale of SFC publications	324	352
Profit on disposal of fixed assets	22	19
Others	73	53
	3,223	8,796

Securities and Futures Commission

7. Staff costs and directors' emoluments

	2008	2007
	\$'000	\$'000
Salaries and allowances	428,758	385,123
Retirement benefits	26,383	18,578
Medical and life insurance	13,295	12,126
Staff functions	524	–
Recruitment	717	–
Registration and membership fees	552	–
Overtime pay	696	507
	470,925	416,334

In 2007, executive trainee programme, staff functions, recruitment and registration and membership fees of \$2,788,000 were included in other expenses (note 8).

The total number of staff as at 31 March 2008 was 445, comprising 404 regular staff (401 for SFC and 3 for Investor Compensation Company Limited) and 41 temporary staff (at 31 March 2007: the total number of staff was 446, comprising 405 regular staff and 41 temporary staff).

Directors' emoluments included in the above comprised:

	Directors' fee	Salaries, allowances & benefits in kind	Discretionary pay	Retirement scheme contribution	2008 Total	2007 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Chief Executive Officer						
Martin Wheatley	–	6,350	1,513	318	8,181	7,598
Executive Directors						
Alexa Lam	–	4,083	1,000	408	5,491	5,225
Brian Ho (appointed 28 August 2006)	–	3,600	940	360	4,900	2,820
Keith Lui (appointed 28 August 2006)	–	3,600	940	360	4,900	2,820
Mark Steward (appointed 25 September 2006)	–	4,000	1,199	200	5,399	2,646
Paul Kennedy (appointed 16 October 2006)	–	4,501	1,683	225	6,409	2,162
Peter Au-Yang (retired 25 May 2006 ^(Note 1))	–	–	–	–	–	2,139
Alan Linning (resigned 6 June 2006)	–	–	–	–	–	773
	–	26,134	7,275	1,871	35,280	26,183
Non-executive Chairman						
Eddy Fong, SBS, JP	702	–	–	–	702	444
Non-executive Directors						
The Hon Chan Kam-lam, SBS, JP (appointed 15 Nov 2007)	88	–	–	–	88	–
Angelina Lee, JP (appointed 1 August 2006)	234	–	–	–	234	156
Christopher Cheng, GBS, JP	234	–	–	–	234	234
Kenneth Kwok, BBS, SC	234	–	–	–	234	234
Kwok Ping Luen, Raymond, JP (retired 31 July 2006 ^(Note 1))	–	–	–	–	–	78
Professor Liu Pak-wai, SBS	234	–	–	–	234	234
Shengman Zhang (appointed 1 January 2007)	234	–	–	–	234	59
The Hon Tsang Yok Sing, GBS, JP (retired 14 November 2007 ^(Note 1))	146	–	–	–	146	234
Dr York Liao, SBS, JP	234	–	–	–	234	234
	2,340	–	–	–	2,340	1,907
Total directors' emoluments	2,340	26,134	7,275	1,871	37,620	28,090

Note 1 retired having completed appointment period

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

The aggregate of the emoluments of the five highest paid individuals in 2007/2008, representing the emoluments of five executive directors, was \$30,380,000 (2006/2007: \$26,311,000 for four executive directors) with the breakdown as follows:

	2008	2007
	\$'000	\$'000
Salaries, allowances & benefits in kind	22,534	21,144
Discretionary pay	6,335	4,181
Retirement scheme contribution	1,511	986
	30,380	26,311

Their emoluments are within the following bands:

	2008	2007
	No. of individuals	No. of individuals
\$3,500,001 to \$4,000,000	–	1
\$4,000,001 to \$4,500,000	–	1
\$4,500,001 to \$5,000,000	1	–
\$5,000,001 to \$5,500,000	2	1
\$5,500,001 to \$6,000,000	–	1
\$6,000,001 to \$6,500,000	1	–
\$6,500,001 to \$7,000,000	–	–
\$7,500,001 to \$8,000,000	–	1
\$8,000,001 to \$8,500,000	1	–

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 \$44,000 (2007: \$27,000).

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.

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 \$1,933,000 (2007: \$1,330,000) and the amount so forfeited available at the balance sheet date was \$414,000 (2007: \$115,000).

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.

Securities and Futures Commission

8. Other expenses

	2008	2007
	\$'000	\$'000 (restated)
Training and development	3,649	7,590
Legal and professional services	23,000	20,309
Information and systems services	18,371	20,483
Auditors' remuneration	374	268
Funding for the Financial Reporting Council	2,500	7,500
General office and insurance	5,352	7,075
FinNet	–	1,921
External relations	7,583	9,131
Exchange loss	–	307
	60,829	74,584

In 2007 other expenses included \$2,788,000 for executive trainee costs, staff functions, recruitment and registration and membership fees, which were included in staff costs in 2008 (note 7).

9. Held-to-maturity debt securities

The Group and the SFC

	2008	2007
	\$'000	\$'000
Maturing after one year		
In the second to third years – unlisted	470,182	583,165
– listed outside Hong Kong	1,653,428	701,907
	2,123,610	1,285,072
Maturing within one year – unlisted	650,557	420,712
– listed outside Hong Kong	995,486	204,116
	1,646,043	624,828
	3,769,653	1,909,900
Cost at 31 March – unlisted	1,120,739	1,003,877
– listed outside Hong Kong	2,648,914	906,023
	3,769,653	1,909,900
Market value at 31 March – unlisted	1,144,453	1,003,853
– listed outside Hong Kong	2,709,693	908,594
	3,854,146	1,912,447

The average yield to maturity of the debt securities was 2.78% at 31 March 2008 (2007: 4.82%).

10. Fixed assets

(a) The Group

	Furniture, fixtures and leasehold improvements	Office equipment	Mainframe computers and application systems	Personal computers and software	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
At 1 April 2007	35,520	9,261	119,650	26,030	1,967	192,428
Additions	52	244	7,879	2,106	–	10,281
Disposals	–	–	–	(3,339)	–	(3,339)
Written off	–	–	–	(102)	–	(102)
At 31 March 2008	35,572	9,505	127,529	24,695	1,967	199,268
Accumulated depreciation						
At 1 April 2007	35,184	8,053	108,731	21,158	1,226	174,352
Charge for the year	178	760	7,421	4,002	247	12,608
Written back on disposals	–	–	–	(3,339)	–	(3,339)
Written off	–	–	–	(102)	–	(102)
At 31 March 2008	35,362	8,813	116,152	21,719	1,473	183,519
Net book value						
At 31 March 2008	210	692	11,377	2,976	494	15,749
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

Securities and Futures Commission

10. Fixed assets (cont'd)

(b) The SFC

	Furniture, fixtures and leasehold improvements	Office equipment	Mainframe computers and application systems	Personal computers and software	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
At 1 April 2007	35,176	9,230	119,650	25,675	1,967	191,698
Additions	52	243	7,879	2,106	–	10,280
Disposals	–	–	–	(3,339)	–	(3,339)
At 31 March 2008	35,228	9,473	127,529	24,442	1,967	198,639
Accumulated depreciation						
At 1 April 2007	34,862	8,029	108,731	20,825	1,226	173,673
Charge for the year	167	753	7,421	3,980	247	12,568
Written back on disposals	–	–	–	(3,339)	–	(3,339)
At 31 March 2008	35,029	8,782	116,152	21,466	1,473	182,902
Net book value						
At 31 March 2008	199	691	11,377	2,976	494	15,737
Cost						
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
Accumulated depreciation						
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
Net book value						
At 31 March 2007	314	1,201	10,919	4,850	741	18,025

11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2008 ranged from 1% to 1.6% (2007: 3.7% to 4.4%). These balances mature within one year at both 31 March 2008 and 31 March 2007.

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.

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2008, 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.

The balance sheet of FinNet as at 31 March 2008 was immaterial and its expenses have been paid by the SFC. Therefore, we have not consolidated FinNet in the Group's financial statements.

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

13. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our 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.

Securities and Futures Commission

14. Ageing analysis of debtors

Debtors, deposits and prepayments include \$216,691,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2007: \$132,130,000). Receivables are usually due within 30 days. We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2007 and 2008.

15. Advance to an executive

The interest-free advance to an executive for initial settling-in purposes was fully repaid during the year (2007: \$333,000).

The maximum balance of outstanding advance to an executive during the year was \$333,000 (2007: \$667,000).

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. The SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make appropriation to it. The SFC manages its funding requirements from its income and accumulated surplus.

17. Capital commitments

Capital commitments outstanding at 31 March 2008 not provided for in the financial statements were as follows:

	2008	2007
	\$'000	\$'000
Authorised and contracted for	16,324	14,571
Authorised but not contracted for	22,937	12,231

18. Commitment to pay rents for offices

The leases in respect of our Chater House office 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 lease agreement.

During the year, we have entered into a new lease for a second office for a period of four years starting 1 February 2008.

At 31 March 2008, the minimum amount we are committed to pay in rent for our office up to the expiry dates of the leases are as follows:

	The Group		The SFC	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Payable next year	62,578	30,860	62,578	30,860
Payable in one to five years	257,326	7,696	257,326	7,696
Payable in more than five years	13,647	–	13,647	–
	333,551	38,556	333,551	38,556

In 2007, we disclosed the minimum amount of rent payable for our Chater House office up to 30 June 2008, the rent review date. For the current year we have based the disclosure on our intention to exercise our option to renew this lease for a further five years commencing on 1 July 2008.

During the year ended 31 March 2008, \$23,487,000, net of lease incentives, was recognised as an expense in the income and expenditure account in respect of operating leases (2007: \$21,279,000).

19. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, we have the following significant related party transactions.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$3,809,000 was recovered from ICF for ICC's expenses (2007: \$3,893,000). As at 31 March 2008, the amount due to ICF from ICC was \$536,000 (at 31 March 2007: \$863,000).

(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.

Securities and Futures Commission

20. Financial instruments

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

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

(a) Credit risk

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

(b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rates bearing debt securities and bank balances. The SFC is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The SFC manages re-pricing risk of its fixed rate dated securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the SFC's interest bearing assets are disclosed in the respective notes to the financial statements. At 31 March 2008, it is estimated that a general increase / decrease of 100 basis points assuming a parallel shift of the yield curve, with all other variables held constant, would increase / decrease the SFC's surplus and accumulated surplus by approximately \$7.4 million (2007: \$3.5 million). As at 31 March 2008 the average duration of the SFC's investment portfolio was 1.65 years (31 March 2007: 1.33 years).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents the management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(c) Exchange rate risk

The only foreign currency investment allowed under the SFC's investment policy is US dollar dated securities. As the HK dollar is pegged to the US dollar, and since there were no other exchange rate exposures other than in US dollars and HK dollars, the SFC was not exposed to significant foreign exchange risk at the balance sheet dates. During the years ended at the balance sheet dates the SFC was not exposed to significant risks arising from market exchange rates.

20. Financial instruments (cont'd)

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2008 and 2007 except for held-to-maturity debt securities as disclosed in note 10 and non-current liabilities as disclosed in note 13. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- Held-to-maturity debt securities: The fair value is based on quoted market prices at the balance sheet date at current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.
- Non-current liabilities: The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

21. Comparative figures

As a result of adopting IFRS 7 "Financial instruments: Disclosures", certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2008.

22. Possible impact of new standard and amendment issued but not yet effective for the annual accounting period ended 31 March 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2008 and which have not been adopted in these financial statements.

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