

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 69 to 86 which comprise the consolidated and the SFC balance sheet as at 31 March 2009 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 2009 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

18 May 2009

Consolidated income and expenditure account

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009	2008
		\$'000	\$'000
Income			
Levies		1,304,619	2,134,733
Fees and charges		220,955	277,686
Investment income	5	164,281	128,212
Less : custody and advisory expenses		(1,967)	(1,399)
Investment income net of third party expenses		162,314	126,813
Recoveries from Investor Compensation Fund		4,235	3,809
Other income	6	3,939	3,223
		1,696,062	2,546,264
Expenses			
Staff costs and directors' emoluments	7	496,564	470,925
Premises			
rent		52,257	23,487
other		21,511	17,169
Other expenses	8	88,085	60,829
Depreciation		25,363	12,607
		683,780	585,017
Surplus for the year		1,012,282	1,961,247
Accumulated surplus brought forward		3,898,361	1,937,114
Accumulated surplus carried forward		4,910,643	3,898,361

The notes on pages 73 to 86 form part of these financial statements.

Consolidated balance sheet

At 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 \$'000	2008 \$'000
Non-current assets			
Fixed assets	10(a)	42,015	15,749
Held-to-maturity debt securities	9	3,588,538	2,123,610
		3,630,553	2,139,359
Current assets			
Held-to-maturity debt securities	9	858,870	1,646,043
Debtors, deposits and prepayments	14	181,908	225,211
Bank deposits	11	454,140	85,612
Cash at bank and in hand	11	2,264	2,725
		1,497,182	1,959,591
Current liabilities			
Fees received in advance		65,582	57,185
Creditors and accrued charges		70,704	53,533
		136,286	110,718
Net current assets			
		1,360,896	1,848,873
Total assets less current liabilities			
		4,991,449	3,988,232
Non-current liabilities			
	13	37,966	47,031
Net assets			
		4,953,483	3,941,201
Funding and reserves			
Initial funding by Government			
	15	42,840	42,840
Income and expenditure account			
		4,910,643	3,898,361
		4,953,483	3,941,201

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.

Approved and authorised for issue by the SFC on 18 May 2009 and signed on its behalf by

Martin Wheatley
Chief Executive Officer

Eddy C Fong
Chairman

The notes on pages 73 to 86 form part of these financial statements.

Balance sheet

At 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 \$'000	2008 \$'000
Non-current assets			
Fixed assets	10(b)	41,977	15,737
Held-to-maturity debt securities	9	3,588,538	2,123,610
		3,630,515	2,139,347
Current assets			
Held-to-maturity debt securities	9	858,870	1,646,043
Debtors, deposits and prepayments	14	181,734	225,016
Bank deposits	11	454,140	85,612
Cash at bank and in hand	11	1,784	2,334
		1,496,528	1,959,005
Current liabilities			
Fees received in advance		65,582	57,185
Creditors and accrued charges		70,012	52,935
		135,594	110,120
Net current assets			
		1,360,934	1,848,885
Total assets less current liabilities			
		4,991,449	3,988,232
Non-current liabilities			
	13	37,966	47,031
Net assets			
		4,953,483	3,941,201
Funding and reserves			
Initial funding by Government			
	15	42,840	42,840
Income and expenditure account			
		4,910,643	3,898,361
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Martin Wheatley
Chief Executive Officer

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The notes on pages 73 to 86 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 March 2009
(Expressed in Hong Kong dollars)

	2009	2008
	\$'000	\$'000
Cash flows from operating activities		
Surplus for the year	1,012,282	1,961,247
Adjustments for:		
Depreciation	25,363	12,608
Investment income	(164,281)	(128,212)
Profit on disposal of fixed assets	(56)	(22)
	873,308	1,845,621
Decrease/(increase) in debtors, deposits and prepayments	58,051	(59,274)
Increase in fees received in advance	8,397	4,960
Increase in creditors and accrued charges	17,171	19,229
Decrease in non-current liabilities	(9,065)	(7,205)
Net cash generated from operating activities	947,862	1,803,331
Cash flows from investing activities		
Interest received	172,577	92,454
Held-to-maturity debt securities purchased	(2,412,946)	(2,625,881)
Held-to-maturity debt securities redeemed at maturity	1,616,048	771,541
Held-to-maturity debt securities sold	96,099	–
Fixed assets bought	(51,639)	(10,281)
Fixed assets sold	66	22
Net cash used in investing activities	(579,795)	(1,772,145)
Net increase in cash and cash equivalents	368,067	31,186
Cash and cash equivalents at beginning of the year	88,337	57,151
Cash and cash equivalents at end of the year	456,404	88,337

Analysis of the balance of cash and cash equivalents:

	2009	2008
	\$'000	\$'000
Bank deposits	454,140	85,612
Cash at bank and in hand	2,264	2,725
	456,404	88,337

Notes to the consolidated financial statements

For the year ended 31 March 2009
(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 intragroup balances and transactions and any unrealised profits and losses arising from intra-group transactions in preparing the consolidated financial statements.

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:

Levies	We record levies from The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited as income on an accruals 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, 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 76). 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
Computer 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 76). 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 76).

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.

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

The IASB has issued a number of new interpretations and an amendment to IFRS that are first effective for the current accounting period of the SFC. However, none of these developments are relevant to the SFC's operations.

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 20).

4. Taxation

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

5. Investment income

	2009	2008
	\$'000	\$'000
Interest income	187,325	122,799
Gain on disposal of held-to-maturity debt securities	1,302	–
Amortisation of premium on held-to-maturity debt securities	(33,300)	(5,201)
Amortisation of discount on held-to-maturity debt securities	8,954	10,614
	164,281	128,212

Interest income is derived as follows:

	2009	2008
	\$'000	\$'000
Interest income from held-to-maturity debt securities	182,816	117,950
Other interest income	4,509	4,849
Total interest income on financial assets not at fair value through profit or loss	187,325	122,799

6. Other income

	2009	2008
	\$'000	\$'000
Investigation costs awarded	1,702	1,453
FinNet managed network and support fee	1,421	287
Exchange gain	–	1,064
Sale of SFC publications	425	324
Profit on disposal of fixed assets	57	22
Others	334	73
	3,939	3,223

7. Staff costs and directors' emoluments

	2009	2008
	\$'000	\$'000
Salaries and allowances	448,101	428,758
Retirement benefits	28,627	26,383
Medical and life insurance	14,722	13,295
Staff functions	944	524
Recruitment	1,934	717
Registration and membership fees	602	552
Overtime pay	1,634	696
	496,564	470,925

The total number of staff as at 31 March 2009 was 481 (478 for the SFC and 3 for the Investor Compensation Company Limited) (at 31 March 2008: the total number of staff was 445, comprising 442 for the SFC and 3 for the Investor Compensation Company Limited).

Directors' emoluments included in the above comprised:

	Directors' fee	Salaries, allowances & benefits in kind	Discretionary pay	Retirement scheme contribution	2009 Total	2008 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
				(Note 1)		
Chief Executive Officer						
Martin Wheatley, JP	–	6,775	970	479	8,224	8,181
Executive Directors						
Alexa Lam	–	5,000	1,219	500	6,719	5,491
Brian Ho	–	3,960	772	396	5,128	4,900
Keith Lui	–	3,960	772	396	5,128	4,900
Mark Steward	–	4,000	1,140	400	5,540	5,399
Paul Kennedy	–	4,500	1,080	450	6,030	6,409
	–	28,195	5,953	2,621	36,769	35,280
Non-executive Chairman						
Eddy Fong, GBS, JP	702	–	–	–	702	702
Non-executive Directors						
The Hon Chan Kam-lam, SBS, JP (appointed 15 Nov 2007)	234	–	–	–	234	88
Angelina Lee, JP	234	–	–	–	234	234
Christopher Cheng, GBS, JP	234	–	–	–	234	234
Kenneth Kwok, BBS, SC	234	–	–	–	234	234
Professor Liu Pak-wai, SBS, JP	234	–	–	–	234	234
Shengman Zhang	234	–	–	–	234	234
The Hon Tsang Yok Sing, GBS, JP (retired 14 Nov 2007 ^(Note 2))	–	–	–	–	–	146
Dr. York Liao, SBS, JP	234	–	–	–	234	234
	2,340	–	–	–	2,340	2,340
Total directors' emoluments	2,340	28,195	5,953	2,621	39,109	37,620

Note 1 This represents net contribution expenses accrued during the year ended 31 March 2009 in accordance with the accounting policy set out in note 3. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested at 31 March 2009 was \$1,436,000.

Note 2 Retired having completed appointment period.

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

Aggregate of the emoluments of the five highest paid individuals

The aggregate of the emoluments of the five highest paid individuals in 2008/2009, representing the emoluments of five executive directors, was \$31,641,000 (2007/2008: \$30,380,000 for five executive directors) with the breakdown as follows:

	2009 \$'000	2008 \$'000
Salaries, allowances & benefits in kind	24,235	22,534
Discretionary pay	5,181	6,335
Retirement scheme contribution	2,225	1,511
	31,641	30,380

Their emoluments are within the following bands:

	2009 No. of individuals	2008 No. of individuals
\$4,500,001 to \$5,000,000	0	1
\$5,000,001 to \$5,500,000	1	2
\$5,500,001 to \$6,000,000	1	0
\$6,000,001 to \$6,500,000	1	1
\$6,500,001 to \$7,000,000	1	0
\$7,000,001 to \$7,500,000	0	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	1	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 \$20,000(2008: \$44,000).

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 \$2,052,000 (2008: \$1,933,000) and the amount so forfeited available at the balance sheet date was \$282,000 (2008: \$414,000).

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

	2009	2008
	\$'000	\$'000
Training and development	4,537	3,649
Legal and professional services	34,143	23,000
Information and systems services	21,985	18,371
Auditor's remuneration	404	374
Funding for the Financial Reporting Council	2,500	2,500
Funding for the International Accounting Standards Committee Foundation	390	–
General office and insurance	6,834	5,352
External relations	15,862	7,583
Exchange loss	1,430	–
	88,085	60,829

9. Held-to-maturity debt securities

The Group and the SFC

		2009	2008
		\$'000	\$'000
Maturing after one year			
In the second to sixth years	– unlisted	402,207	470,182
	– listed in Hong Kong	98,565	–
	– listed outside Hong Kong	3,087,766	1,653,428
		3,588,538	2,123,610
Maturing within one year	– unlisted	251,469	650,557
	– listed outside Hong Kong	607,401	995,486
		858,870	1,646,043
		4,447,408	3,769,653
Amortised cost at 31 March	– unlisted	653,676	1,120,739
	– listed in Hong Kong	98,565	–
	– listed outside Hong Kong	3,695,167	2,648,914
		4,447,408	3,769,653
Market value at 31 March	– unlisted	663,342	1,144,453
	– listed in Hong Kong	102,530	–
	– listed outside Hong Kong	3,742,527	2,709,693
		4,508,399	3,854,146

The average yield to maturity of the debt securities was 2.53% at 31 March 2009 (2008: 2.78%).

10. Fixed assets

(a) The Group

	Furniture, fixtures and leasehold improvements	Office equipment	Computer application systems	Personal computers and software	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
At 1 April 2008	35,572	9,505	127,529	24,695	1,967	199,268
Additions	26,642	2,126	14,479	8,392	–	51,639
Disposals	(951)	(484)	(3,170)	(996)	–	(5,601)
At 31 March 2009	61,263	11,147	138,838	32,091	1,967	245,306
Accumulated depreciation						
At 1 April 2008	35,362	8,813	116,152	21,719	1,473	183,519
Charge for the year	8,624	773	10,647	5,072	247	25,363
Written back on disposals	(941)	(484)	(3,170)	(996)	–	(5,591)
At 31 March 2009	43,045	9,102	123,629	25,795	1,720	203,291
Net book value						
At 31 March 2009	18,218	2,045	15,209	6,296	247	42,015
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

10. Fixed assets (cont'd)
(b) The SFC

	Furniture, fixtures and leasehold improvements	Office equipment	Computer application systems	Personal computers and software	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
At 1 April 2008	35,228	9,473	127,529	24,442	1,967	198,639
Additions	26,642	2,096	14,479	8,371	–	51,588
Disposals	(622)	(478)	(3,170)	(963)	–	(5,233)
At 31 March 2009	61,248	11,091	138,838	31,850	1,967	244,994
Accumulated depreciation						
At 1 April 2008	35,029	8,782	116,152	21,466	1,473	182,902
Charge for the year	8,622	767	10,647	5,065	247	25,348
Written back on disposals	(622)	(478)	(3,170)	(963)	–	(5,233)
At 31 March 2009	43,029	9,071	123,629	25,568	1,720	203,017
Net book value						
At 31 March 2009	18,219	2,020	15,209	6,282	247	41,977
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

11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2009 ranged from 0.05% to 0.85% (2008: 1% to 1.6%). These balances mature within one year at both 31 March 2009 and 31 March 2008.

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 2009, the investments in subsidiaries, which are 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 2009 was immaterial and its expenses have been paid by the SFC. We have not therefore 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.

14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$173,478,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2008: \$216,602,000). 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 2008 and 2009.

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. 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 an appropriation to it. The SFC manages its funding requirements from its income and accumulated surplus.

16. Capital commitments

Capital commitments outstanding at 31 March 2009 not provided for in the financial statements were as follows:

	2009	2008
	\$'000	\$'000
Authorised and contracted for	32,761	16,324
Authorised but not contracted for	8,056	22,937

17. Commitment to pay rents for offices

At 31 March 2009, 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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Payable next year	68,343	62,578	68,343	62,578
Payable in one to five years	202,631	257,326	202,631	257,326
Payable in more than five years	–	13,647	–	13,647
	270,974	333,551	270,974	333,551

During the year ended 31 March 2009, \$52,257,000, net of lease incentives, was recognised as an expense in the income and expenditure account in respect of operating leases (2008: \$23,487,000).

18. 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, \$4,235,000 was recovered from ICF for ICC’s expenses (2008 : \$3,809,000). As at 31 March 2009, the amount due to ICF from ICC was \$477,000 (at 31 March 2008: \$536,000).

(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.

(c) Operating expenses of FinNet

During the year, all operating expenses incurred by FinNet were absorbed by the SFC. The amount being absorbed for the year was \$19,000 (2008: \$23,000) including the provision for audit fee of \$10,000 (2008: \$10,000).

19. 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 2009, 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 \$8.5 million (2008: \$7.4 million). As at 31 March 2009 the average duration of the SFC’s investment portfolio was 1.88 years (31 March 2008: 1.65 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the balance sheet date. The analysis is performed on the same basis for 2008.

19. Financial instruments (cont'd)

(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.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008 except for held-to-maturity debt securities as disclosed in note 9. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed held-to-maturity debt securities is based on quoted market prices at the balance sheet date using current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.

20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2009

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 2009 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 result in a restatement of the SFC's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

Effective for accounting periods beginning on or after

IAS 1 (revised 2007), Presentation of financial statements

1 January 2009