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# 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 79 which comprise the consolidated and the SFC statement of financial position as at 31 March 2010 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2010 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

28 May 2010

## Consolidated statement of comprehensive income

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
<b>Income</b>			
Levies		<b>1,498,659</b>	1,304,619
Fees and charges		<b>154,583</b>	220,955
Investment income	5	<b>138,351</b>	164,281
Less: custody and advisory expenses		<b>(2,230)</b>	(1,967)
Investment income net of third party expenses		<b>136,121</b>	162,314
Recoveries from Investor Compensation Fund		<b>4,165</b>	4,235
Other income	6	<b>4,879</b>	3,939
		<b>1,798,407</b>	1,696,062
<b>Expenses</b>			
Staff costs and directors' emoluments	7	<b>529,274</b>	496,564
Premises			
rent		<b>58,491</b>	52,257
other		<b>23,632</b>	21,511
Other expenses	8	<b>84,785</b>	88,085
Depreciation		<b>33,468</b>	25,363
		<b>729,650</b>	683,780
<b>Surplus and total comprehensive income for the year</b>		<b>1,068,757</b>	1,012,282

The notes on pages 64 to 79 form part of these financial statements.

## Consolidated statement of financial position

At 31 March 2010

(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
<b>Non-current assets</b>			
Fixed assets	10(a)	49,423	42,015
Held-to-maturity debt securities	9	3,769,238	3,588,538
		<b>3,818,661</b>	3,630,553
<b>Current assets</b>			
Held-to-maturity debt securities	9	1,536,402	858,870
Debtors, deposits and prepayments	14	208,198	181,908
Bank deposits	11	566,709	454,140
Cash at bank and in hand	11	2,617	2,264
		<b>2,313,926</b>	1,497,182
<b>Current liabilities</b>			
Fees received in advance		9,260	65,582
Creditors and accrued charges		71,298	70,704
		<b>80,558</b>	136,286
<b>Net current assets</b>		<b>2,233,368</b>	1,360,896
<b>Total assets less current liabilities</b>		<b>6,052,029</b>	4,991,449
<b>Non-current liabilities</b>		13	29,789
<b>Net assets</b>		<b>6,022,240</b>	4,953,483
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>		15	42,840
<b>Accumulated surplus</b>		<b>5,979,400</b>	4,910,643
		<b>6,022,240</b>	4,953,483

Approved and authorised for issue by the SFC on 28 May 2010 and signed on its behalf by

**Martin Wheatley**  
Chief Executive Officer

**Eddy C Fong**  
Chairman

The notes on pages 64 to 79 form part of these financial statements.

## Statement of financial position

At 31 March 2010

(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
<b>Non-current assets</b>			
Fixed assets	10(b)	49,398	41,977
Held-to-maturity debt securities	9	3,769,238	3,588,538
		<b>3,818,636</b>	3,630,515
<b>Current assets</b>			
Held-to-maturity debt securities	9	1,536,402	858,870
Debtors, deposits and prepayments	14	208,048	181,734
Bank deposits	11	566,709	454,140
Cash at bank and in hand	11	2,318	1,784
		<b>2,313,477</b>	1,496,528
<b>Current liabilities</b>			
Fees received in advance		9,260	65,582
Creditors and accrued charges		70,824	70,012
		<b>80,084</b>	135,594
<b>Net current assets</b>		<b>2,233,393</b>	1,360,934
<b>Total assets less current liabilities</b>		<b>6,052,029</b>	4,991,449
<b>Non-current liabilities</b>		13	29,789
<b>Net assets</b>		<b>6,022,240</b>	4,953,483
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>	15	42,840	42,840
<b>Accumulated surplus</b>		<b>5,979,400</b>	4,910,643
		<b>6,022,240</b>	4,953,483

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The notes on pages 64 to 79 form part of these financial statements.

## Consolidated statement of changes in equity

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2008	42,840	3,898,361	3,941,201
Total comprehensive income for the year	–	1,012,282	1,012,282
Balance at 31 March 2009	42,840	4,910,643	4,953,483
Balance at 1 April 2009	42,840	4,910,643	4,953,483
Total comprehensive income for the year	–	1,068,757	1,068,757
Balance at 31 March 2010	42,840	5,979,400	6,022,240

The notes on pages 64 to 79 form part of these financial statements.

## Consolidated statement of cash flows

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	1,068,757	1,012,282
Adjustments for:		
Depreciation	33,468	25,363
Investment income	(138,351)	(164,281)
Loss/(profit) on disposal of fixed assets	47	(56)
	963,921	873,308
(Increase)/decrease in debtors, deposits and prepayments	(27,022)	58,051
(Decrease)/increase in fees received in advance	(56,322)	8,397
Increase in creditors and accrued charges	594	17,171
Decrease in non-current liabilities	(8,177)	(9,065)
Net cash generated from operating activities	872,994	947,862
<b>Cash flows from investing activities</b>		
Interest received	189,147	172,577
Held-to-maturity debt securities purchased	(1,765,672)	(2,412,946)
Held-to-maturity debt securities redeemed at maturity	857,376	1,616,048
Held-to-maturity debt securities sold	–	96,099
Fixed assets purchased	(40,923)	(51,639)
Fixed assets sold	–	66
Net cash used in investing activities	(760,072)	(579,795)
<b>Net increase in cash and cash equivalents</b>	112,922	368,067
<b>Cash and cash equivalents at beginning of the year</b>	456,404	88,337
<b>Cash and cash equivalents at end of the year</b>	569,326	456,404

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

	2010 \$'000	2009 \$'000
Bank deposits	566,709	454,140
Cash at bank and in hand	2,617	2,264
	569,326	456,404

## Notes to the consolidated financial statements

For the year ended 31 March 2010

(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.

### 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 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.

#### Recognition of income

We recognise income in the statement of comprehensive income 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:

<b>Levies</b>	We record levies from The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited as income on an accruals basis.
<b>Fees and charges</b>	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.
<b>Investment income</b>	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 statement of comprehensive income 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.

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

#### 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 67). We charge depreciation to the statement of comprehensive income 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 statement of comprehensive income as an expense as incurred.

We review the carrying amounts of fixed assets for indications of impairment at the end of each reporting period. 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 statement of comprehensive income 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 67). 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, any transaction with other government departments and agencies under normal dealings are not necessarily regarded as related parties in the context of International Accounting Standard ("IAS") 24.

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

#### Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of comprehensive income.

#### Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of debtors and other receivables at the end of each reporting period 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 statement of comprehensive income (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.

#### Creditors and accrued charges

We state creditors and accrued charges 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 statement of financial position.

#### Impairment

##### Recognition of impairment loss

We review the carrying amounts of the SFC's assets at the end of each reporting period 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 statement of comprehensive income 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.

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

#### Provisions and contingent liabilities

We recognise a provision in the statement of financial position 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.

When 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 one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the SFC. Of these, the following development is relevant to the SFC's financial statements:

– IAS 1 (revised 2007), Presentation of financial statements

The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. The application of the revised standard did not have any impact on reported surplus or deficit, total income and expense or net assets for any period presented.

### 4. Taxation

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

### 5. Investment income

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Interest income	<b>188,415</b>	187,325
Gain on disposal of held-to-maturity debt securities	–	1,302
Amortisation of premium on held-to-maturity debt securities	<b>(53,259)</b>	(33,300)
Amortisation of discount on held-to-maturity debt securities	<b>3,195</b>	8,954
	<b>138,351</b>	164,281

Interest income is derived as follows:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Interest income from held-to-maturity debt securities	<b>187,440</b>	182,816
Other interest income	<b>975</b>	4,509
Total interest income on financial assets not at fair value through profit or loss	<b>188,415</b>	187,325

## 6. Other income

	2010 \$'000	2009 \$'000
Investigation costs awarded	2,302	1,702
FinNet managed network and support fee	974	1,421
Exchange gain	1,022	–
Sale of SFC publications	361	425
Profit on disposal of fixed assets	–	56
Others	220	335
	<b>4,879</b>	<b>3,939</b>

## 7. Staff costs and directors' emoluments

	2010 \$'000	2009 \$'000
Salaries and allowances	479,672	449,735
Retirement benefits	31,087	28,627
Medical and life insurance	16,394	14,722
Staff functions	709	944
Recruitment	764	1,934
Registration and membership fees	648	602
	<b>529,274</b>	<b>496,564</b>

The total number of staff as at 31 March 2010 was 504 (501 for the SFC and 3 for the Investor Compensation Company Limited) (at 31 March 2009: the total number of staff was 481 comprising 478 for the SFC and 3 for the Investor Compensation Company Limited).

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

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances & benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contribution \$'000	<b>2010 Total</b> <b>\$'000</b>	2009 Total \$'000
				(Note 1)		
<b>Chief Executive Officer</b>						
Martin Wheatley, JP	–	7,200	1,350	540	<b>9,090</b>	8,224
<b>Executive Directors</b>						
Alexa Lam	–	5,000	1,125	500	<b>6,625</b>	6,719
Brian Ho	–	3,960	1,049	396	<b>5,405</b>	5,128
Keith Lui	–	3,960	832	396	<b>5,188</b>	5,128
Mark Steward	–	4,000	1,180	400	<b>5,580</b>	5,540
Paul Kennedy	–	4,500	1,035	450	<b>5,985</b>	6,030
	–	28,620	6,571	2,682	<b>37,873</b>	36,769
<b>Non-executive Chairman</b>						
Eddy Fong, GBS, JP	702	–	–	–	<b>702</b>	702
<b>Non-executive Directors</b>						
The Hon Chan Kam-lam, SBS, JP	234	–	–	–	<b>234</b>	234
Angelina Lee, JP	234	–	–	–	<b>234</b>	234
Christopher Cheng, GBS, JP (retired 14 Nov 2009 (Note 2))	146	–	–	–	<b>146</b>	234
Kenneth Kwok, BBS, SC	234	–	–	–	<b>234</b>	234
Professor Liu Pak-wai, SBS, JP	234	–	–	–	<b>234</b>	234
Shengman Zhang	234	–	–	–	<b>234</b>	234
Dr York Liao, SBS, JP (retired 25 May 2009 (Note 2))	35	–	–	–	<b>35</b>	234
Lawrence Lee (appointed 15 Nov 2009)	88	–	–	–	<b>88</b>	–
Wong Kai Man (appointed 26 May 2009)	199	–	–	–	<b>199</b>	–
	2,340	–	–	–	<b>2,340</b>	2,340
<b>Total directors' emoluments</b>	2,340	28,620	6,571	2,682	<b>40,213</b>	39,109

Note 1 This represents net contribution expenses accrued during the period ended 31 March 2010 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 2010 was \$1,763,000 (At 31 March 2009: \$1,436,000).

Note 2 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 2009/2010, representing the emoluments of five executive directors, was \$32,685,000 (2008/2009: \$31,641,000 for five executive directors) with the breakdown as follows:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Salaries, allowances & benefits in kind	<b>24,660</b>	24,235
Discretionary pay	<b>5,739</b>	5,181
Retirement scheme contribution	<b>2,286</b>	2,225
	<b>32,685</b>	31,641

Their emoluments are within the following bands:

	<b>2010</b>	2009
	<b>No. of</b>	No. of
	<b>individuals</b>	individuals
\$5,000,001 to \$5,500,000	<b>1</b>	1
\$5,500,001 to \$6,000,000	<b>2</b>	1
\$6,000,001 to \$6,500,000	<b>0</b>	1
\$6,500,001 to \$7,000,000	<b>1</b>	1
\$7,000,001 to \$7,500,000	<b>0</b>	0
\$7,500,001 to \$8,000,000	<b>0</b>	0
\$8,000,001 to \$8,500,000	<b>0</b>	1
\$8,500,001 to \$9,000,000	<b>0</b>	0
\$9,000,001 to \$9,500,000	<b>1</b>	0

## 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 \$nil (2009: \$20,000).

**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 \$1,201,000 (2009: \$2,052,000) and the amount so forfeited available at the end of the reporting period was \$307,000 (2009: \$282,000).

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>2010</b>	2009
	<b>\$'000</b>	\$'000
Training and development	<b>4,989</b>	4,537
Legal and professional services	<b>26,287</b>	34,143
Information and systems services	<b>25,355</b>	21,985
Auditor's remuneration	<b>409</b>	404
Funding for the Financial Reporting Council	<b>4,000</b>	2,500
Funding for the International Accounting Standards Committee Foundation	<b>388</b>	390
General office and insurance	<b>6,124</b>	6,834
External relations	<b>17,186</b>	15,862
Exchange loss	–	1,430
Loss on disposal of fixed assets	<b>47</b>	–
	<b>84,785</b>	88,085

## 9. Held-to-maturity debt securities

### The Group and the SFC

		<b>2010</b>	2009
		<b>\$'000</b>	\$'000
Maturing after one year			
In the second to sixth years	– unlisted	<b>367,743</b>	402,207
	– listed in Hong Kong	<b>96,930</b>	98,565
	– listed outside Hong Kong	<b>3,304,565</b>	3,087,766
		<b>3,769,238</b>	3,588,538
Maturing within one year	– unlisted	<b>206,186</b>	251,469
	– listed outside Hong Kong	<b>1,330,216</b>	607,401
		<b>1,536,402</b>	858,870
		<b>5,305,640</b>	4,447,408
Amortised cost at 31 March	– unlisted	<b>573,929</b>	653,676
	– listed in Hong Kong	<b>96,930</b>	98,565
	– listed outside Hong Kong	<b>4,634,781</b>	3,695,167
		<b>5,305,640</b>	4,447,408
Market value at 31 March	– unlisted	<b>583,473</b>	663,342
	– listed in Hong Kong	<b>99,853</b>	102,530
	– listed outside Hong Kong	<b>4,714,668</b>	3,742,527
		<b>5,397,994</b>	4,508,399

The average yield to maturity of the debt securities was 1.6% at 31 March 2010 (2009: 2.53%).

## 10. Fixed assets

### (a) The Group

	<b>Furniture, fixtures and leasehold improvements</b> \$'000	<b>Office equipment</b> \$'000	<b>Computer application systems</b> \$'000	<b>Personal computers and software</b> \$'000	<b>Motor vehicles</b> \$'000	<b>Total</b> \$'000
<b>Cost</b>						
At 1 April 2009	61,263	11,147	138,838	32,091	1,967	245,306
Additions	360	1,223	22,803	16,537	–	40,923
Disposals	(476)	(4,842)	–	(328)	–	(5,646)
At 31 March 2010	61,147	7,528	161,641	48,300	1,967	280,583
<b>Accumulated depreciation</b>						
At 1 April 2009	43,045	9,102	123,629	25,795	1,720	203,291
Charge for the year	8,775	717	14,753	8,976	247	33,468
Written back on disposals	(476)	(4,795)	–	(328)	–	(5,599)
At 31 March 2010	51,344	5,024	138,382	34,443	1,967	231,160
<b>Net book value</b>						
At 31 March 2010	9,803	2,504	23,259	13,857	–	49,423
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Net book value</b>						
At 31 March 2009	18,218	2,045	15,209	6,296	247	42,015

## 10. Fixed assets (Cont'd)

### (b) The SFC

	<b>Furniture, fixtures and leasehold improvements</b>	<b>Office equipment</b>	<b>Computer 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 2009	61,248	11,091	138,838	31,850	1,967	244,994
Additions	360	1,223	22,803	16,537	–	40,923
Disposals	(476)	(4,842)	–	(328)	–	(5,646)
At 31 March 2010	61,132	7,472	161,641	48,059	1,967	280,271
<b>Accumulated depreciation</b>						
At 1 April 2009	43,029	9,071	123,629	25,568	1,720	203,017
Charge for the year	8,775	711	14,753	8,969	247	33,455
Written back on disposals	(476)	(4,795)	–	(328)	–	(5,599)
At 31 March 2010	51,328	4,987	138,382	34,209	1,967	230,873
<b>Net book value</b>						
At 31 March 2010	9,804	2,485	23,259	13,850	–	49,398
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Net book value</b>						
At 31 March 2009	18,219	2,020	15,209	6,282	247	41,977

## 11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2010 ranged from 0.01% to 0.33% (2009: 0.05% to 0.85%). These balances mature within one year at both 31 March 2010 and 31 March 2009.

## 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 2010, 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 statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 31 March 2010 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 statement of comprehensive income 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 \$198,321,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2009: \$173,478,000). 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 2009 and 2010.

## 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 2010 not provided for in the financial statements were as follows:

	2010 \$'000	2009 \$'000
Authorised and contracted for	35,072	32,761
Authorised but not contracted for	23,026	8,056

## 17. Commitment to pay rents for offices

At 31 March 2010, 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 and the SFC	
	2010 \$'000	2009 \$'000
Payable next year	74,765	68,343
Payable in one to five years	148,738	202,631
Payable in more than five years	—	—
	223,503	270,974

During the year ended 31 March 2010, \$58,491,000, net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2009: \$52,257,000).

## 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, \$4,165,000 was recovered from ICF for ICC's expenses (2009: \$4,235,000). As at 31 March 2010, the amount due to ICF from ICC was \$260,000 (at 31 March 2009: \$477,000).

### (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 (2009: \$19,000) including the provision for audit fee of \$10,000 (2009: \$10,000).

## 19. Financial instruments

Financial instruments 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 adviser 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 statement of financial position after deducting any impairment allowance.

### (b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rate 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 2010, it is estimated that a general increase of 100 basis points, with all other variables held constant, would increase the SFC's surplus and accumulated surplus by approximately \$13.6 million (2009: \$8.5 million). The extent of any decrease in interest rates is expected to be minimal (2009: 1%) which would decrease the SFC's surplus by an insignificant amount (2009: \$8.5 million). As at 31 March 2010 the average duration of the SFC's investment portfolio was 1.06 years (31 March 2009: 1.88 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2009.

### (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 end of the reporting period.

### (d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2010 and 2009 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 end of the reporting period using current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.

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## **20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2010**

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 2010 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 SFC's results of operations and financial position.

In addition, the following developments may 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
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010