

Securities and Futures Commission Financial Statements

Auditors' Report to the Securities and Futures Commission (SFC)

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

We have audited the financial statements on pages 59 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Hong Kong Securities and Futures Commission Ordinance (the Ordinance) requires the SFC to prepare financial statements and the directors of the SFC do so on the basis that these financial statements should give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the SFC in the preparation of the financial statements, and of whether the accounting policies are appropriate to the SFC's circumstances, have been consistently applied and are adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the SFC's financial affairs at 31 March 2000 and of its surplus and cash flows for the year then ended, and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong.

KPMG
Certified Public Accountants
Hong Kong

15 May 2000

Income and Expenditure Account

For the year ended 31 March 2000 (Expressed in HK dollars)

	Note	2000 \$'000	1999 \$'000
Income			
Levies	2 (a)	243,960	134,014
Fees and charges	2 (c)	136,258	92,308
Investment income		62,351	68,811
Others		2,531	5,502
		445,100	300,635
Expenditure			
Staff costs	5	275,205	248,455
Premises			
- rental charges under operating leases		35,550	38,864
- other		9,905	7,961
Other expenses	6	64,794	65,121
		385,454	360,401
Depreciation		17,657	12,325
		403,111	372,726
Surplus / (Deficit) for the Year		41,989	(72,091)
Accumulated Surplus Brought Forward		699,970	922,061
		741,959	849,970
Contribution to Compensation Fund	14	(150,000)	(150,000)
Accumulated Surplus Carried Forward		591,959	699,970

No separate statement of recognized gains or losses has been prepared as the surplus for the year would be the only component of this statement.

The notes on pages 62 to 68 form part of these financial statements.

Balance Sheet

As at 31 March 2000 (Expressed in HK dollars)

	Note	2000 \$'000	1999 \$'000
Non-Current Assets			
Fixed assets	7	27,233	20,864
Non current held-to-maturity debt securities	8	477,289	511,422
Current Assets			
Current held-to-maturity debt securities	8	217,873	276,431
Bank deposits		154,747	133,875
Debtors, deposits and prepayments	9	43,191	23,088
Cash at bank and in hand		692	464
		416,503	433,858
Current Liabilities			
Provision for contribution to compensation fund	14	200,000	150,000
Deferred income	3	27,521	27,356
Creditors and accrued charges		58,705	45,978
		286,226	223,334
Net Current Assets		130,277	210,524
Net Assets		634,799	742,810
Funding and Reserves			
Initial Funding by Government	10	42,840	42,840
Income and Expenditure Account		591,959	699,970
		634,799	742,810

Approved by the Commission on 15 May 2000 and signed on its behalf by

Andrew L T Sheng
Chairman

T Brian Stevenson
Non-Executive Director

The notes on pages 62 to 68 form part of these financial statements.

Cash Flow Statement

For the year ended 31 March 2000 (Expressed in HK dollars)

	Note	2000 \$'000	1999 \$'000
Net cash outflow from operating activities	a	(9,102)	(115,404)
Returns on investments and servicing of finance			
Interest received		61,045	70,653
Payment to the Unified Exchange Compensation Fund		(100,000)	–
Investing activities			
Payments to acquire held-to-maturity debt securities		(586,662)	(106,629)
Receipts from redemption of held-to-maturity debt securities		107,000	168,500
Receipts from disposal of held-to-maturity debt securities		573,004	81,273
Payments to acquire fixed assets		(24,213)	(17,808)
Receipts from disposal of fixed assets		28	79
Net cash inflow from investing activities		69,157	125,415
Increase in cash and cash equivalents		21,100	80,664
Cash and cash equivalents at beginning of the year		134,339	53,675
Cash and cash equivalents at end of the year	b	155,439	134,339
(a) Reconciliation of surplus / (deficit) of income over expenditure to net cash outflow from operating activities:			
		2000 \$'000	1999 \$'000
Surplus / (deficit) of income over expenditure for the year		41,989	(72,091)
Interest income		(61,700)	(69,519)
Premium on investments		1,841	1,427
Discount on investments		(634)	(854)
Depreciation charges		17,657	12,325
Loss / (profit) on disposal of fixed assets		159	(71)
(Gain) / loss on disposal of held-to-maturity debt securities		(1,826)	135
Gain on redemption of held-to-maturity debt securities		(32)	–
(Increase) / decrease in debtors, deposits and prepayments		(19,448)	10,757
Increase in creditors and accrued charges		12,727	1,097
Increase in deferred income		165	1,390
Net cash outflow from operating activities		(9,102)	(115,404)
(b) Analysis of the balance of cash and cash equivalents as shown in the balance sheet:			
		2000 \$'000	1999 \$'000
Bank deposits		154,747	133,875
Cash at bank and in hand		692	464
		155,439	134,339

Notes to the Financial Statements

For the year ended 31 March 2000 (Expressed in HK dollars)

1. Status and Principal Activities of the Securities and Futures Commission (SFC)

The SFC was established under and is governed by the Hong Kong Securities and Futures Commission Ordinance (the Ordinance).

2. Income

Details of the funding of the SFC are set out in Sections 52 to 54 of the Ordinance. In particular,

- a The SFC receives a share of the levies collected by The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council.
- b In each financial year, the SFC shall be paid out of general revenue such moneys as shall be appropriated by the Legislative Council. At the request of the SFC, no appropriation has been made since the financial year ended 31 March 1994.
- c Subsidiary legislation provides for the payment to the SFC of fees or other charges in relation to the functions and services performed by the SFC.

3. Significant Accounting Policies

a *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the SFC are set out below.

b *Basis of preparation of the financial statements*

These financial statements have been prepared on a historical cost basis.

c *Recognition of income*

(i) Levies

Levies from the two Exchanges are credited to the income and expenditure account on an accruals basis.

(ii) Fees and charges

Annual fees from registered persons and in respect of authorized investment arrangements are credited to the income and expenditure account on a straight line basis over the periods to which they relate. Other fees and charges are credited to the income and expenditure account when receivable.

(iii) Investment income

Investment income is credited to the income and expenditure account on an accruals basis. It comprises interest earned on bank deposits and held-to-maturity debt securities and the premium or discount on purchase of held-to-maturity debt securities amortized or accreted on a straight line basis over the periods to redemption.

d *Operating leases*

Rental payable under operating leases is accounted for on a straight line basis over the period to the next rent review date.

Notes to the Financial Statements (cont'd)

For the year ended 31 March 2000 (Expressed in HK dollars)

3. Significant Accounting Policies (cont'd)

e *Fixed assets and depreciation*

Fixed assets are stated at cost less accumulated depreciation, which is calculated to write off their cost over their anticipated useful lives on a straight line basis. The useful lives used are as follows:

Leasehold improvements	– over the shorter of the period of the respective leases and 3 years
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

f *Investments*

Investments, representing debt securities which are intended to be held to maturity, are stated at cost adjusted for the amortization of premiums and accretion of discounts on purchase over the periods to redemption less any provisions for impairments.

The carrying amounts of debt securities are reviewed as at the balance sheet date in order to assess whether the carrying amounts are expected to be recovered. Provisions are made for the parts of the carrying amounts which are not expected to be recovered and are recognized as an expense in the income and expenditure account.

Provisions against the carrying value of debt securities are written back when the circumstances and events that have led 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.

Profits or losses on disposal of debt securities are accounted for in the income and expenditure account as they arise.

g *Related parties*

For the purpose of these financial statements, parties are considered to be related to the SFC if the SFC has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the SFC and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

h *Translation of foreign currencies*

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income and expenditure account.

4. Taxation

In accordance with section 3(3) of the Ordinance, the receipts of the SFC are not subject to Hong Kong taxation under the Hong Kong Inland Revenue Ordinance.

Notes to the Financial Statements (cont'd)

For the year ended 31 March 2000 (Expressed in HK dollars)

5. Staff Costs

a Staff costs comprise:

	2000 \$'000	1999 \$'000
Directors' fees	1,404	1,229
Directors' salaries, allowances and gratuities	27,670	26,761
Directors' bonuses / variable pay	1,295	447
Staff salaries, allowances and gratuities	233,179	209,507
Retirement benefits	3,722	3,277
Medical and life insurance	6,768	6,131
Overtime pay	1,167	1,103
	275,205	248,455

b The number of directors whose emoluments fell within the following bands were:

Emolument Ranges	2000 No. of directors	1999 No. of directors
\$0 to \$1,000,000	6	9
\$1,000,001 to \$1,500,000	-	1
\$3,500,001 to \$4,000,000	1	-
\$4,000,001 to \$4,500,000	3	3
\$4,500,001 to \$5,000,000	-	1
\$5,000,001 to \$5,500,000	1	2
\$6,500,001 to \$7,000,000	1	-
	12	16

c The five highest paid individuals during the year were all directors of the SFC, the aggregate remuneration of whom has been included in 5(a) and (b) above.

Notes to the Financial Statements (cont'd)

For the year ended 31 March 2000 (Expressed in HK dollars)

5. Staff Costs (cont'd)

- d Retirement benefits are provided to all staff through a defined contribution scheme. For general grade staff, the SFC makes monthly contributions equal to 12% of the basic pay of each staff. Forfeited contributions in respect of general grade staff who leave the SFC prior to qualifying for 100% disbursement of the contributions are reinvested into the total pool of contributions and shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was \$453,000 (1999: \$238,000).

For professional staff, effective from 1 March 2000, the SFC makes monthly contributions equal to 5% of their fixed pay but subject to a cap. Forfeited contributions in respect of professional staff who leave the SFC prior to qualifying for 100% disbursement of the contributions are used to offset the SFC's future contributions. There was no forfeiture during the year.

6. Other Expenses

Other expenses comprise:

	2000 \$'000	1999 \$'000
Training and development	7,113	7,230
Legal and professional services	34,368	36,468
Legal claims and costs awarded	2,500	770
Information and systems services	10,439	9,408
Auditors' remuneration	152	148
General office and insurance	8,063	4,597
Funding for the Hong Kong Securities Institute	2,000	3,000
Funding for the Investment Resources Centre	-	3,500
Loss on disposal of fixed assets	159	-
	64,794	65,121

Notes to the Financial Statements (cont'd)

For the year ended 31 March 2000 (Expressed in HK dollars)

7. Fixed Assets

	Furniture, Fixtures and Leasehold Improvements \$'000	Office Equipment \$'000	Mainframe Computers and Application Systems \$'000	Personal Computers and Software \$'000	Motor Vehicles \$'000	Total \$'000
Cost						
At 1 April 1999	24,873	6,973	29,414	17,106	1,456	79,822
Additions during the year	5,730	1,081	13,414	3,988	–	24,213
Disposals during the year	–	(196)	(798)	(5,369)	–	(6,363)
At 31 March 2000	<u>30,603</u>	<u>7,858</u>	<u>42,030</u>	<u>15,725</u>	<u>1,456</u>	<u>97,672</u>
Depreciation						
At 1 April 1999	19,619	4,730	19,555	14,446	608	58,958
Charge for the year	5,805	1,254	7,187	3,047	364	17,657
Written back on disposals	–	(196)	(798)	(5,182)	–	(6,176)
At 31 March 2000	<u>25,424</u>	<u>5,788</u>	<u>25,944</u>	<u>12,311</u>	<u>972</u>	<u>70,439</u>
Net book value						
At 31 March 2000	<u>5,179</u>	<u>2,070</u>	<u>16,086</u>	<u>3,414</u>	<u>484</u>	<u>27,233</u>
Net book value						
At 31 March 1999	<u>5,254</u>	<u>2,243</u>	<u>9,859</u>	<u>2,660</u>	<u>848</u>	<u>20,864</u>

8. Held-to-Maturity Debt Securities

		2000 \$'000	1999 \$'000
Maturing after one year	- unlisted	360,192	505,503
	- listed in Hong Kong	80,105	5,919
	- listed outside Hong Kong	36,992	–
		<u>477,289</u>	<u>511,422</u>
Maturing within one year	- unlisted	217,873	236,406
	- listed in Hong Kong	–	40,025
		<u>217,873</u>	<u>276,431</u>
		<u>695,162</u>	<u>787,853</u>
Market value at 31 March	- unlisted	580,206	742,513
	- listed in Hong Kong	80,162	46,031
	- listed outside Hong Kong	37,096	–
		<u>697,464</u>	<u>788,544</u>

During the year, held-to-maturity debt securities, with an amortized cost of \$484,207,000, and which were within a few months of maturity, were sold to purchase debt securities with longer maturities. In addition, held-to-maturity debt securities with an amortized cost of \$86,971,000 were disposed of because of deterioration in the credit rating of the issuer. The aggregate profit on the disposal amounted to \$1,826,000.

Notes to the Financial Statements (cont'd)

For the year ended 31 March 2000 (Expressed in HK dollars)

9. Debtors, Deposits and Prepayments

Included in debtors, deposits and prepayments is an interest-free loan to an executive for initial settling-in purpose amounting to \$108,000 (1999 : nil). The loan is repayable in equal installments over six months.

The maximum balance of outstanding loans to executives during the year was \$217,000 (1999 : nil).

10. Initial Funding by Government

This represents funds provided by Government to pay for the SFC's non-recurrent and capital expenditure when it was established. These funds are not repayable to Government.

11. Capital Commitments

Capital commitments outstanding at 31 March 2000 not provided for in the financial statements were as follows:

	2000 \$'000	1999 \$'000
Contracted for	21,665	5,270
Authorized but not contracted for	8,489	24,220

12. Operating Lease Commitments

At 31 March 2000 the SFC had commitments under an operating lease in respect of its premises to make payments in the next year as follows:

	2000 \$'000	1999 \$'000
Lease expiring within 5 years	17,227	31,436

13. Funds Held in Escrow

At 31 March 2000 the SFC held \$146,942,000 in escrow (1999 : \$139,811,000). These funds are not included in the financial statements as they are not beneficially owned by the SFC.

Notes to the Financial Statements (cont'd)

For the year ended 31 March 2000 (Expressed in HK dollars)

14. Related Party Transactions

As a result of the turmoil in the Asian markets in late 1997, and the subsequent failure of certain institutions connected with the securities markets, the Government, the SFC and the Stock Exchange of Hong Kong Limited (the Exchange) announced on 26 January 1998 that they would review the statutory limit of the Unified Exchange Compensation Fund (the Fund), which is established and maintained by the SFC, in the case of CA Pacific Securities Limited (CA Pacific). On 10 June 1998, the Exchange and the SFC announced that compensation to each claimant of CA Pacific would be allowed up to the higher of \$150,000 or the pro rata share of the statutory limit of \$8 million. The legislative amendments for such arrangements were enacted on 20 November 1998. In the financial year ended 31 March 1999, the Exchange and the SFC committed to make a contribution of \$150 million to the Fund. In addition, the SFC recorded its agreement to contribute a further \$150 million to the Fund as a contingent liability, subject to a similar contribution of \$150 million by the Exchange. This further contribution of \$150 million was fully provided for at 31 March 2000.

15. Comparative Figures

The presentation and classification of items in the financial statements have been changed due to the adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements" and SSAP 24 "Accounting for investments in securities". As a result, additional line items have been included on the face of the income and expenditure account and balance sheet as required by SSAP 1 (revised).