

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2016 \$'000	Unaudited Three months ended 31 December 2015 \$'000
Income				
Levies	744,321	1,210,529	242,102	274,798
Fees and charges	105,992	100,581	37,900	30,058
Investment income	91,901	6,455	3,696	41,714
Less : custody and advisory expenses	(4,220)	(2,636)	(1,537)	(851)
Investment income net of third party expenses	87,681	3,819	2,159	40,863
Recoveries from the Investor Compensation Fund	4,133	4,015	1,353	1,328
Other income	452	1,372	11	536
	942,579	1,320,316	283,525	347,583
Expenses				
Staff costs and directors' emoluments 8(b)	903,634	824,848	301,679	275,077
Premises				
Rent	156,333	151,544	52,411	50,518
Rates, management fees and others	37,305	34,529	12,474	11,616
Other expenses	137,692	123,799	51,486	65,647
Depreciation	33,485	36,835	12,140	13,216
	1,268,449	1,171,555	430,190	416,074
(Deficit)/surplus and total comprehensive income for the period	(325,870)	148,761	(146,665)	(68,491)

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 31 December 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		63,968	73,247
Held-to-maturity debt securities	2	–	30,009
		63,968	103,256
Current assets			
Held-to-maturity debt securities	2	30,004	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		755,432	–
Pooled funds		850,908	654,585
Debtors, deposits and prepayments		129,594	122,458
Fixed deposits with banks		5,356,065	6,066,032
Cash at bank and in hand		39,620	25,649
		7,161,623	7,330,505
Current liabilities			
Fees received in advance		7,640	8,405
Creditors and accrued charges		234,859	121,969
		242,499	130,374
Net current assets		6,919,124	7,200,131
Total assets less current liabilities		6,983,092	7,303,387
Non-current liabilities	4	31,422	25,847
Net assets		6,951,670	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		3,908,830	7,234,700
		6,951,670	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 31 December 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		63,619	72,701
Held-to-maturity debt securities	2	–	30,009
		63,619	102,710
Current assets			
Held-to-maturity debt securities	2	30,004	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		755,432	–
Pooled funds		850,908	654,585
Debtors, deposits and prepayments		144,230	134,872
Fixed deposits with banks		5,356,065	6,066,032
Cash at bank and in hand		18,827	5,058
		7,155,466	7,322,328
Current liabilities			
Fees received in advance		7,640	8,405
Creditors and accrued charges		228,353	113,246
		235,993	121,651
Net current assets			
		6,919,473	7,200,677
Total assets less current liabilities			
		6,983,092	7,303,387
Non-current liabilities			
	4	31,422	25,847
Net assets			
		6,951,670	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		3,908,830	7,234,700
		6,951,670	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Reserve for property acquisition \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2015	42,840	–	7,198,353	7,241,193
Surplus and total comprehensive income for the period	–	–	148,761	148,761
Balance at 31 December 2015	42,840	–	7,347,114	7,389,954
Balance at 1 April 2016	42,840	–	7,234,700	7,277,540
Transfer to reserve for property acquisition	–	–	(3,000,000)	(3,000,000)
Reserve for property acquisition	–	3,000,000	–	3,000,000
Loss and total comprehensive income for the period	–	–	(325,870)	(325,870)
Balance at 31 December 2016	42,840	3,000,000	3,908,830	6,951,670

Highlights

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The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000
Cash flows from operating activities		
(Deficit)/surplus for the period	(325,870)	148,761
Adjustments for:		
Depreciation	33,281	36,835
Investment income	(91,901)	(6,455)
Exchange difference	1,819	539
Loss on disposal of fixed assets	7	11
	(382,664)	179,691
Decrease in debtors, deposits and prepayments	453	22,400
Increase in creditors and accrued charges	112,890	134,338
Decrease in fees received in advance	(765)	(1,420)
Increase in non-current liabilities	5,575	3,492
Net cash (used in)/generated from operating activities	(264,511)	338,501
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	(636,644)	(1,792,487)
Interest received	49,951	54,703
Held-to-maturity debt securities redeemed at maturity	460,553	380,305
Debt securities purchased	(1,267,501)	–
Debt securities sold	502,830	–
Pooled funds purchased	(155,133)	–
Pooled funds sold	1,824	1,909
Fixed assets purchased	(24,009)	(22,403)
Net cash used in investing activities	(1,068,129)	(1,377,973)
Net decrease in cash and cash equivalents	(1,332,640)	(1,039,472)
Cash and cash equivalents at beginning of the nine-month period	1,522,116	2,104,324
Cash and cash equivalents at end of the nine-month period	189,476	1,064,852

Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2016 \$'000	Unaudited At 31 December 2015 \$'000
Fixed deposits with banks	149,856	1,048,302
Cash at bank and in hand	39,620	16,550
	189,476	1,064,852

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the SFC since the annual financial statements for the year ended 31 March 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the SFC's statutory annual financial statements for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 31 December 2016. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2016 to the condensed interim financial information.

There were no significant changes in the operations of the SFC for the nine months ended 31 December 2016.

2. Held-to-maturity debt securities

As of 31 December 2016, the total carrying cost of held-to-maturity debt securities amounted to \$30,004,000 (at 31 March 2016: \$491,790,000), with a market value of \$29,984,000 (at 31 March 2016: \$492,756,000).

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Cash at bank and in hand	39,620	25,649
Fixed deposits with banks	5,356,065	6,066,032
Amounts shown in the condensed consolidated statement of financial position	5,395,685	6,091,681
Less : Amounts with an original maturity of beyond three months	(5,206,209)	(4,569,565)
Cash and cash equivalents in the condensed consolidated statement of cash flows	189,476	1,522,116

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

4. 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 condensed consolidated statement of profit or loss and other comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of rental expense.

5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 31 December 2016. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange fluctuation

The SFC's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either US dollars or Hong Kong dollars which are closely pegged, we do not consider we are exposed to significant exchange rate risk.

7. Investment in subsidiaries

The SFC formed the ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the IEC as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance (SFO).

The objective of the IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 31 December 2016, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2016: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

The financial statements of the ICC and IEC are included in the condensed consolidated financial statements.

8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions :

- (a) During the period, we received reimbursement from the ICF for all the ICC's expenses amounting to \$4,133,000 (2015: \$4,015,000), which is in accordance with section 242(1) of the SFO. As at 31 December 2016, the amount due to the ICF from the ICC was \$334,000 (at 31 March 2016: \$73,000).

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

8. Related party transactions (cont'd)

(b) Remuneration of key management personnel comprised:

	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000
Directors' fees and salaries, allowances and benefits in kind	23,354	23,109
Retirement scheme contributions	2,092	2,102
	25,446	25,211

The total remuneration is included in "staff costs and directors' emoluments" on page 21. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

9. Commitment to pay rents for offices

At 31 December 2016 the minimum amount we are committed to pay in rent for our offices up to 31 August 2020, being the rent review date as set out in the lease agreements, are as follows:

	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
Payable next year	209,707	208,294
Payable in one to five years	527,048	87,619
Payable in more than five years	-	-
	736,755	295,913

During the period, \$156,333,000 net of lease incentives, was recognised as an expense in the condensed consolidated statement of profit or loss and other comprehensive income in respect of operating leases (2015: \$151,544,000).

10. Funding and reserve management

During the period, the SFC has earmarked \$3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.