

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Income		
Levies	272,269	238,456
Fees and charges	40,854	34,079
Investment income	99,728	13,918
Less: custody and advisory expenses	(1,824)	(1,195)
Investment income net of third party expenses	97,904	12,723
Recoveries from the Investor Compensation Fund	1,450	1,390
Other income	13,139	156
	425,616	286,804
Expenses		
Staff costs and directors' emoluments	317,023	296,983
Premises		
Rent	52,630	51,511
Rates, management fees and others	12,700	12,251
Other expenses	34,391	44,000
Depreciation	6,938	10,684
	423,682	415,429
Surplus/(loss) and total comprehensive income for the quarter	1,934	(128,625)

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The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

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Condensed consolidated statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Non-current assets			
Fixed assets		62,649	63,455
Current assets			
Held-to-maturity debt securities		30,001	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		753,914	716,403
Pooled funds		1,023,656	941,911
Debtors, deposits and prepayments		176,590	158,450
Fixed deposits with banks	2	5,025,129	5,107,808
Cash at bank and in hand	2	38,605	75,462
		7,047,895	7,030,037
Current liabilities			
Fees received in advance		8,524	9,210
Creditors and accrued charges		140,622	128,218
		149,146	137,428
Net current assets		6,898,749	6,892,609
Total assets less current liabilities		6,961,398	6,956,064
Non-current liabilities	3	37,564	34,164
Net assets		6,923,834	6,921,900
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,880,994	3,879,060
		6,923,834	6,921,900

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

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Consolidated statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Non-current assets			
Fixed assets		62,424	63,167
Current assets			
Held-to-maturity debt securities		30,001	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		753,914	716,403
Pooled funds		1,023,656	941,911
Debtors, deposits and prepayments		180,375	158,516
Fixed deposits with banks		5,025,129	5,107,808
Cash at bank and in hand		31,180	71,262
		7,044,255	7,025,903
Current liabilities			
Fees received in advance		8,524	9,210
Creditors and accrued charges		136,757	123,796
		145,281	133,006
Net current assets		6,898,974	6,892,897
Total assets less current liabilities		6,961,398	6,956,064
Non-current liabilities	3	37,564	34,164
Net assets		6,923,834	6,921,900
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,880,994	3,879,060
		6,923,834	6,921,900

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

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Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
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)	–
Loss and total comprehensive income for the quarter	–	–	(128,625)	(128,625)
Balance at 30 June 2016	42,840	3,000,000	4,106,075	7,148,915
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the quarter	–	–	1,934	1,934
Balance at 30 June 2017	42,840	3,000,000	3,880,994	6,923,834

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Condensed consolidated statement of cash flows

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Cash flows from operating activities			
Surplus/(loss) and total comprehensive income for the quarter		1,934	(128,625)
Adjustments for:			
Depreciation		6,938	10,684
Investment income		(99,728)	(13,918)
Exchange difference		(7,793)	(174)
Loss on disposal of fixed assets		–	7
		(98,649)	(132,026)
Increase in debtors, deposits and prepayments		(16,990)	(22,104)
Increase in creditors and accrued charges		12,404	43,293
Decrease in fees received in advance		(686)	(56)
Increase in non-current liabilities		3,400	1,247
<i>Net cash used in operating activities</i>		(100,521)	(109,646)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		54,835	(309,385)
Interest received		19,950	15,861
Debt securities designated at fair value through profit or loss purchased		(159,335)	(945,156)
Debt securities designated at fair value through profit or loss sold or redeemed		125,684	175,898
Pooled funds sold		818	562
Fixed assets purchased		(6,132)	(6,734)
<i>Net cash generated from/(used in) investing activities</i>		35,820	(1,068,954)
Net decrease in cash and cash equivalents		(64,701)	(1,178,600)
Cash and cash equivalents at beginning of the quarter		676,727	1,522,116
Cash and cash equivalents at end of the quarter	2	612,026	343,516

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2017 \$'000	Unaudited at 30 June 2016 \$'000
Fixed deposits with banks	573,421	324,083
Cash at bank and in hand	38,605	19,433
	612,026	343,516

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

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Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2017 (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 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

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 Securities and Futures Commission (SFC) since the annual financial statements for the year ended 31 March 2017. 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.

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2017 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 30 June 2017. 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 2017 to the condensed consolidated interim financial information.

There were no significant changes in the operations of the SFC for the quarter ended 30 June 2017.

2. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Cash at bank and in hand	38,605	75,462
Fixed deposits with banks	5,025,129	5,107,808
Amounts shown in the condensed consolidated statement of financial position	5,063,734	5,183,270
Less : Amounts with an original maturity of beyond three months	(4,451,708)	(4,506,543)
Cash and cash equivalents in the condensed consolidated statement of cash flows	612,026	676,727

3. 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 profit or loss and other comprehensive income on a straight line basis over the lease period ranging from 2017 to 2020 as an integral part of the lease expense.

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Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

4. 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 30 June 2017. Therefore we do not provide an ageing analysis of debtors and creditors.

5. 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 foreign exchange risk.

6. Investments in subsidiaries

The SFC formed ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched 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 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 IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 30 June 2017, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (31 March 2017: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

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

7. 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 quarter, we received reimbursement from the ICF for all ICC's expenses amounting to \$1,450,000 (2016: \$1,390,000), in accordance with section 242(1) of the SFO. As at 30 June 2017, the amount due to the ICF from ICC was \$516,000 (31 March 2017: \$75,000).

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Notes to the condensed consolidated financial statements

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7. Related party transactions (cont'd)

(b) Remuneration of key management personnel comprised:

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,060	7,586
Retirement scheme contributions	736	654
	8,796	8,240

The total remuneration is included in "staff costs and directors' emoluments" on page 23. 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.

8. Commitment to pay rents for offices

At 30 June 2017 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, is as follows :

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Payable next year	202,778	205,077
Payable in one to five years	434,235	477,534
Payable in more than five years	-	-
	637,013	682,611

During the quarter, \$52,630,000 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 (2016: \$51,511,000).