

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Income					
Levies		1,019,101	744,321	390,758	242,102
Fees and charges		120,278	105,992	45,662	37,900
Investment income		271,939	91,901	90,638	3,696
Less : custody and advisory expenses		(5,726)	(4,220)	(1,984)	(1,537)
Investment income net of third party expenses		266,213	87,681	88,654	2,159
Recoveries from the Investor Compensation Fund		4,314	4,133	1,431	1,353
Other income		18,490	452	3,350	11
		1,428,396	942,579	529,855	283,525
Expenses					
Staff costs and directors' emoluments	8(b)	961,033	903,634	318,721	301,679
Premises					
rent		154,209	156,333	49,807	52,411
rates, management fees and others		36,036	37,305	11,147	12,474
Other expenses		136,802	137,692	51,981	51,486
Depreciation		21,810	33,485	7,635	12,140
		1,309,890	1,268,449	439,291	430,190
Surplus / (deficit) and total comprehensive income for the period		118,506	(325,870)	90,564	(146,665)

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

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Condensed consolidated statement of financial position

At 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2017 \$'000	Audited At 31 Mar 2017 \$'000
Non-current assets			
Fixed assets		63,598	63,455
Held-to-maturity debt securities	2	878,000	–
		941,598	63,455
Current assets			
Held-to-maturity debt securities	2	–	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		767,066	716,403
Pooled funds		1,053,367	941,911
Debtors, deposits and prepayments		182,935	158,450
Fixed deposits with banks		4,344,250	5,107,808
Cash at bank and in hand		46,676	75,462
		6,394,294	7,030,037
Current liabilities			
Fees received in advance		8,011	9,210
Creditors and accrued charges		247,704	128,218
		255,715	137,428
Net current assets		6,138,579	6,892,609
Total assets less current liabilities		7,080,177	6,956,064
Non-current liabilities	4	39,771	34,164
Net assets		7,040,406	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		3,997,566	3,879,060
		7,040,406	6,921,900

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

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Condensed statement of financial position

At 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2017 \$'000	Audited At 31 Mar 2017 \$'000
Non-current assets			
Fixed assets		63,483	63,167
Held-to-maturity debt securities	2	878,000	–
		941,483	63,167
Current assets			
Held-to-maturity debt securities	2	–	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		767,066	716,403
Pooled funds		1,053,367	941,911
Debtors, deposits and prepayments		189,261	158,516
Fixed deposits with banks		4,344,250	5,107,808
Cash at bank and in hand		31,131	71,262
		6,385,075	7,025,903
Current liabilities			
Fees received in advance		8,011	9,210
Creditors and accrued charges		238,370	123,796
		246,381	133,006
Net current assets		6,138,694	6,892,897
Total assets less current liabilities		7,080,177	6,956,064
Non-current liabilities	4	39,771	34,164
Net assets		7,040,406	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		3,997,566	3,879,060
		7,040,406	6,921,900

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

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Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Unaudited		Total \$'000
		Reserve for property acquisition \$'000	Accumulated surplus \$'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 period	–	–	(325,870)	(325,870)
Balance at 31 December 2016	42,840	3,000,000	3,908,830	6,951,670
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the period	–	–	118,506	118,506
Balance at 31 December 2017	42,840	3,000,000	3,997,566	7,040,406

Highlights

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

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Condensed consolidated statement of cash flows

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
Cash flows from operating activities			
Surplus / (deficit) for the period		118,506	(325,870)
Adjustments for :			
Depreciation		21,810	33,281
Investment income		(271,939)	(91,901)
Exchange difference		(10,293)	1,819
Loss on disposal of fixed assets		719	7
		(141,197)	(382,664)
(Increase) / decrease in debtors, deposits and prepayments		(20,111)	453
Increase in creditors and accrued charges		119,486	112,890
Decrease in fees received in advance		(1,199)	(765)
Increase in non-current liabilities		5,607	5,575
<i>Net cash used in operating activities</i>		(37,414)	(264,511)
Cash flows from investing activities			
Decrease / (increase) in fixed deposits other than cash and cash equivalents		1,091,420	(636,644)
Interest received		61,417	49,951
Held-to-maturity debt securities purchased		(879,337)	-
Held-to-maturity debt securities redeemed at maturity		30,000	460,553
Debt securities designated at fair value through profit or loss purchased		(487,785)	(1,267,501)
Debt securities designated at fair value through profit or loss sold or redeemed		438,565	502,830
Pooled funds purchased		-	(155,133)
Pooled funds sold		104,882	1,824
Fixed assets purchased		(22,672)	(24,009)
<i>Net cash generated from / (used in) investing activities</i>		336,490	(1,068,129)
Net increase / (decrease) in cash and cash equivalents		299,076	(1,332,640)
Cash and cash equivalents at beginning of the nine-month period		676,727	1,522,116
Cash and cash equivalents at end of the nine-month period	3	975,803	189,476

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2017 \$'000	At 31 Dec 2016 \$'000
Fixed deposits with banks	929,127	149,856
Cash at bank and in hand	46,676	39,620
	975,803	189,476

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

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 (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 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 (HKFRSs).

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 31 December 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 nine months ended 31 December 2017.

2. Held-to-maturity debt securities

As of 31 December 2017, the total carrying cost of held-to-maturity debt securities amounted to \$878,000,000 (at 31 March 2017: \$30,003,000), with a market value of \$869,091,000 (at 31 March 2017: \$30,006,000).

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 31 Dec 2017 \$'000	Audited At 31 Mar 2017 \$'000
Cash at bank and in hand	46,676	75,462
Fixed deposits with banks	4,344,250	5,107,808
Amounts shown in the condensed consolidated statement of financial position	4,390,926	5,183,270
Less : Amounts with an original maturity of beyond three months	(3,415,123)	(4,506,543)
Cash and cash equivalents in the consolidated statement of cash flows	975,803	676,727

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 2017 to 2020 as an integral part of rental expense.

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Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

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 2017. 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. Investments 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 2017, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2017: \$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 \$4,314,000 (2016: \$4,133,000), which is in accordance with section 242(1) of the SFO. As at 31 December 2017, the amount due to the ICF from the ICC was \$172,000 (at 31 March 2017: \$75,000).

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Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

8. Related party transactions (cont'd)

(b) Remuneration for key management personnel comprised:

	Unaudited Nine months ended	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Directors' fees and salaries, allowances and benefits in kind	24,264	23,354
Retirement scheme contributions	2,218	2,092
	26,482	25,446

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 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, are as follows:

	Unaudited At 31 Dec 2017 \$'000	Audited At 31 Mar 2017 \$'000
Payable next year	200,617	205,077
Payable in one to five years	334,199	477,534
Payable in more than five years	–	–
	534,816	682,611

During the period, \$154,209,000 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: \$156,333,000).