

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
Income			
Levies		441,998	534,124
Fees and charges		25,409	49,757
Net investment (loss)/income			
Investment (loss)/income		(77,922)	32,702
Less: custody and advisory expenses		(2,576)	(2,984)
Recoveries from the Investor Compensation Fund	6(a)	1,484	1,424
Exchange gain/(loss)		9,440	(5,467)
Other income		1,371	145
		399,204	609,701
Expenses			
Staff costs and directors' emoluments	6(b)	378,558	359,232
Depreciation			
Fixed assets		26,996	22,739
Right-of-use assets		36,522	35,636
Other premises expenses		8,707	8,195
Finance costs		1,781	2,074
Other expenses		41,450	38,759
		494,014	466,635
(Loss)/surplus and total comprehensive income for the quarter		(94,810)	143,066

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of financial position

As at 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
Non-current assets			
Fixed assets		257,460	263,235
Right-of-use assets		809,986	846,508
Deposits for leases		37,392	38,118
Financial assets at amortised costs – debt securities		3,023,842	3,007,591
		4,128,680	4,155,452
Current assets			
Financial assets at amortised costs – debt securities		202,141	184,105
Financial assets at fair value through profit or loss			
Debt securities		401,965	403,442
Pooled funds		801,626	891,958
Debtors, deposits and prepayments		261,557	310,861
Fixed deposits with banks		3,164,624	3,015,832
Cash held for Grant Scheme	3	150,702	69,296
Cash at bank and in hand		75,833	157,790
		5,058,448	5,033,284
Current liabilities			
Fees received in advance		7,652	7,689
Creditors and accrued charges		364,302	235,589
Lease liabilities		119,570	119,326
Provisions for reinstatement cost		873	–
		492,397	362,604
Net current assets		4,566,051	4,670,680
Total assets less current liabilities		8,694,731	8,826,132
Non-current liabilities			
Lease liabilities		686,471	722,189
Provisions for reinstatement cost		88,047	88,920
		774,518	811,109
Net assets		7,920,213	8,015,023
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,250,000	3,250,000
Accumulated surplus		4,627,373	4,722,183
		7,920,213	8,015,023

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Unaudited			
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2021	42,840	3,125,000	4,506,448	7,674,288
Surplus and total comprehensive income for the quarter	–	–	143,066	143,066
Balance at 30 June 2021	42,840	3,125,000	4,649,514	7,817,354
Balance at 1 April 2022	42,840	3,250,000	4,722,183	8,015,023
Loss and total comprehensive income for the quarter	–	–	(94,810)	(94,810)
Balance at 30 June 2022	42,840	3,250,000	4,627,373	7,920,213

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of cash flows

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
Cash flows from operating activities			
(Loss)/surplus for the quarter		(94,810)	143,066
Adjustments for:			
Depreciation – Fixed assets		26,996	22,739
Depreciation – Right-of-use assets		36,522	35,636
Finance costs		1,781	2,074
Interest income on deposits for leases		(72)	(71)
Investment loss/(income)		77,922	(32,702)
Exchange (gain)/loss		(9,456)	5,453
Gain on disposal of fixed assets		(3)	(8)
		38,880	176,187
Decrease in debtors, deposits and prepayments		53,750	82,858
Increase in cash held for Grant Scheme		(81,406)	–
Decrease in fees received in advance		(37)	(452)
Increase in creditors and accrued charges		128,303	138,802
Net cash generated from operating activities		139,490	397,395
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(703,619)	528,863
Interest received		28,085	25,916
Debt securities at fair value through profit or loss purchased		(78,901)	(135,301)
Debt securities at fair value through profit or loss sold or redeemed		69,569	129,423
Pooled funds sold		1,385	1,600
Debt securities at amortised cost purchased		(66,743)	(50,048)
Debt securities at amortised cost redeemed at maturity		31,423	22,530
Fixed assets purchased		(20,817)	(13,489)
Proceeds from fixed assets disposal		9	8
Net cash (used in)/generated from investing activities		(739,609)	509,502
Cash flows from financing activities			
Principal element of lease payments		(35,474)	(34,303)
Interest element of lease payments		(1,781)	(2,074)
Net cash used in financing activities		(37,255)	(36,377)
Net (decrease)/increase in cash and cash equivalents		(637,374)	870,520
Cash and cash equivalents at the beginning of the quarter		973,151	855,099
Cash and cash equivalents at the end of the quarter	2	335,777	1,725,619

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2022 \$'000	At 30 Jun 2021 \$'000
Fixed deposits with banks	259,944	1,607,925
Cash at bank and in hand	75,833	117,694
	335,777	1,725,619

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

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Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

This 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) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2022. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRS).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2022 included in this report does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 30 June 2022. We eliminated all material intra-group 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 2022 to the interim financial information.

There were no significant changes in the operations of the Group for the quarter ended 30 June 2022.

2. Cash and cash equivalents

	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank and in hand	75,833	157,790
Fixed deposits with banks	3,164,624	3,015,832
Amounts shown in the condensed consolidated statement of financial position	3,240,457	3,173,622
Less: Amounts with an original maturity beyond three months	(2,904,680)	(2,200,471)
Cash and cash equivalents in the condensed consolidated statement of cash flows	335,777	973,151

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Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

3. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government of the Hong Kong Special Administrative Region (the Government) to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme is solely restricted for the use of such subsidies and is therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in the creditors and accrued charges.

4. Exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

5. 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 IFEC 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 IFEC 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 2022, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2022: \$0.2).

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Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

6. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) – Dealers' Deposits Fund and Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund. In addition to the related party transactions disclosed in elsewhere in these condensed consolidated financial statements, the Group has the following 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 period, \$1,484,000 was recovered from the ICF for the ICC's expenses (30 June 2021: \$1,424,000). As at 30 June 2022, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$387,000 (as at 31 March 2022: \$106,000).

(b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Directors' fees and salaries, allowances and benefits in kind	6,703	8,633
Retirement scheme contributions	576	769
	7,279	9,402

The total remuneration is included in "staff costs and directors' emoluments" on page 25. Directors' emoluments are for services in connection with management of the affairs of the SFC. 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.

(c) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED had continued to provide services in respect of matters that commenced prior to his appointment on 1 August 2020. Fees paid or payable to him for such services amounted to \$88,000 (30 June 2021: \$80,000) for the period under normal commercial terms and conditions.

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Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

7. Fair value measurement

(a) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*, which is consistent with the hierarchy adopted in the consolidated financial statements for the year ended 31 March 2022.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>At 30 June 2022 (Unaudited)</u>				
Debt securities	–	401,965	–	401,965
Pooled funds	801,626	–	–	801,626
	801,626	401,965	–	1,203,591
<u>At 31 March 2022 (Audited)</u>				
Debt securities	–	403,442	–	403,442
Pooled funds	891,958	–	–	891,958
	891,958	403,442	–	1,295,400

During the quarter ended 30 June 2022 and year ended 31 March 2022, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2022 and 31 March 2022 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>At 30 June 2022 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,225,983	3,020,399	–	3,020,399	–
<u>At 31 March 2022 (Audited)</u>					
Financial assets at amortised costs					
– debt securities	3,191,696	3,057,436	–	3,057,436	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed debt securities is based on quoted prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair value for unlisted debt investments are based on third-party quotes.