

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Income			
Levies		414,111	344,341
Fees and charges		53,023	37,432
Investment income net of third party expenses			
Investment income		159,703	49,355
Less: custody and advisory expenses		(2,020)	(1,971)
Recoveries from the Investor Compensation Fund	7(a)	1,559	1,517
Exchange loss		(243)	(18,707)
Other income		143	94
		626,276	412,061
Expense			
Staff costs and directors' emoluments	7(b)	360,440	348,407
Other premises expenses		19,474	11,728
Depreciation			
Fixed assets		16,728	9,981
Right-of-use assets		87,805	50,296
Finance costs		2,482	1,084
Other expenses		34,339	43,256
		521,268	464,752
Surplus/(loss) and total comprehensive income for the quarter		105,008	(52,691)

The notes on pages 30 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		301,519	135,712
Right-of-use assets		1,111,708	324,040
Deposits for leases		33,299	33,767
Financial assets at amortised costs – debt securities		1,584,810	1,600,123
		3,031,336	2,093,642
Current assets			
Financial assets at amortised costs – debt securities		555,613	984,239
Financial assets at fair value through profit or loss			
Debt securities		425,405	419,469
Pooled funds		768,782	648,510
Debtors, deposits and prepayments		258,470	265,200
Fixed deposits with banks		3,260,671	2,832,302
Cash at bank and in hand		56,058	51,871
		5,324,999	5,201,591
Current liabilities			
Fees received in advance		31,250	47,097
Creditors and accrued charges	7(a)	316,848	167,043
Lease liabilities		132,890	96,115
Provisions	3	59,295	66,532
		540,283	376,787
Net current assets		4,784,716	4,824,804
Total assets less current liabilities		7,816,052	6,918,446
Non-current liabilities			
Lease liabilities		928,077	203,558
Provisions	3	88,047	19,968
		1,016,124	223,526
Net assets		6,799,928	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,757,088	3,652,080
		6,799,928	6,694,920

The notes on pages 30 to 31 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		301,366	135,658
Right-of-use assets		1,111,708	324,040
Deposits for leases		33,299	33,767
Financial assets at amortised costs – debt securities		1,584,810	1,600,123
		3,031,183	2,093,588
Current assets			
Financial assets at amortised costs – debt securities		555,613	984,239
Financial assets at fair value through profit or loss			
Debt securities		425,405	419,469
Pooled funds		768,782	648,510
Debtors, deposits and prepayments		266,430	274,141
Fixed deposits with banks		3,260,671	2,832,302
Cash at bank and in hand		41,170	29,836
		5,318,071	5,188,497
Current liabilities			
Fees received in advance		31,250	47,097
Creditors and accrued charges		309,767	153,895
Lease liabilities		132,890	96,115
Provisions	3	59,295	66,532
		533,202	363,639
Net current assets		4,784,869	4,824,858
Total assets less current liabilities		7,816,052	6,918,446
Non-current liabilities			
Lease liabilities		928,077	203,558
Provisions	3	88,047	19,968
		1,016,124	223,526
Net assets		6,799,928	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,757,088	3,652,080
		6,799,928	6,694,920

The notes on pages 30 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2020 (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 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the quarter	–	–	(52,691)	(52,691)
Balance at 30 June 2019	42,840	3,000,000	3,974,691	7,017,531
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the quarter	–	–	105,008	105,008
Balance at 30 June 2020	42,840	3,000,000	3,757,088	6,799,928

The notes on pages 30 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter end	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash flows from operating activities			
Surplus/(loss) for the quarter		105,008	(52,691)
Adjustments for:			
Depreciation – Fixed assets		16,728	9,981
Depreciation – Right-of-use assets		87,805	50,296
Finance costs		2,482	1,084
Interest income on deposits for leases		(71)	–
Investment income		(159,703)	(49,355)
Exchange difference		230	18,703
Loss on disposal of fixed assets		–	2
		52,479	(21,980)
Decrease/(increase) in debtors, deposits and prepayments		189	(29,375)
(Decrease)/increase in fees received in advance		(15,847)	20,610
Increase/(decrease) in creditors and accrued charges		154,213	(30,339)
Decrease in provisions		(7,237)	–
Net cash generated from/(used in) operating activities		183,797	(61,084)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		539,735	285,203
Interest received		37,004	29,490
Debt securities at fair value through profit or loss purchased		(72,848)	(80,717)
Debt securities at fair value through profit or loss sold or redeemed		76,006	91,017
Pooled funds sold		1,094	1,103
Debt securities at amortised cost purchased		(8,525)	–
Debt securities at amortised cost redeemed at maturity		449,608	78,454
Fixed assets purchased		(182,535)	(13,065)
Net cash generated from investing activities		839,539	391,485
Cash flows from financing activities			
Principal element of lease payments		(48,470)	(49,180)
Interest element of lease payments		(2,482)	(1,084)
Net cash used in financing activities		(50,952)	(50,264)
Net increase in cash and cash equivalents		972,384	280,137
Cash and cash equivalents at the beginning of the quarter		753,406	289,657
Cash and cash equivalents at the end of the quarter	2	1,725,790	569,794

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2020 \$'000	at 30 Jun 2019 \$'000
Fixed deposits with banks	1,669,732	522,689
Cash at bank and in hand	56,058	47,105
	1,725,790	569,794

The notes on pages 30 to 31 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the 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 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 2020. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2020 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 2020. 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 2020 to the interim financial information.

There were no significant changes in the operations of the Group for the quarter ended 30 June 2020.

2. Cash and cash equivalents

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Cash at bank and in hand	56,058	51,871
Fixed deposits with banks	3,260,671	2,832,302
Amounts shown in the condensed consolidated statement of financial position	3,316,729	2,884,173
Less: Amounts with an original maturity beyond three months	(1,590,939)	(2,130,767)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,725,790	753,406

3. Provisions

Provisions represent premises reinstatement cost to restore the premises to its original condition when the lease expires.

4. Ageing analysis of debtors and creditors

There was no material overdue debtors and creditors balance included in "debtors, deposits and prepayment" and "creditors and accrued charges" respectively as at 30 June 2020. Therefore, an ageing analysis of debtors and creditors is not provided.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

5. Exchange risk

The Group'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, the exposure to exchange rate risk is not considered significant.

6. 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 2020, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2020: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

7. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) – Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the related parties 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, \$1,559,000 was recovered from the ICF for the ICC's expenses (2019: \$1,517,000). As at 30 June 2020, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$538,000 (as at 31 March 2020: \$138,000).

(b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,554	8,614
Retirement scheme contributions	769	775
	9,323	9,389

The total remuneration is included in "staff costs and directors' emoluments" on page 25. 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.