

# Securities and Futures Commission

## Report on review of interim financial information To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Introduction

We have reviewed the interim financial information set out on pages 28 to 34, which comprises the condensed consolidated statement of financial position and the condensed statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2020 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 2 December 2020

## Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
<b>Income</b>		
Levies	550,849	320,995
Fees and charges	55,481	36,337
Net investment income		
Investment income	127,137	7,805
Less: custody and advisory expenses	(2,481)	(1,968)
Recoveries from the Investor Compensation Fund	1,447	1,524
Exchange (loss)/income	(381)	13,046
Other income	86	6
	<b>732,138</b>	<b>377,745</b>
<b>Expense</b>		
Staff costs and directors' emoluments	386,063	359,019
Depreciation		
Fixed assets	22,817	10,546
Right-of-use assets	71,175	50,322
Other premises expenses	3,167	10,405
Finance costs	2,306	1,086
Other expenses	40,490	57,458
	<b>526,018</b>	<b>488,836</b>
<b>Surplus/(loss) and total comprehensive income for the quarter</b>	<b>206,120</b>	<b>(111,091)</b>

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2020 is for information only.

## Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
<b>Income</b>			
Levies		964,960	665,336
Fees and charges		108,504	73,769
Net investment income			
Investment income		286,840	57,160
Less: custody and advisory expenses		(4,501)	(3,939)
Recoveries from the Investor Compensation Fund	6(a)	3,006	3,041
Exchange loss		(624)	(5,661)
Other income		229	100
		<b>1,358,414</b>	<b>789,806</b>
<b>Expense</b>			
Staff costs and directors' emoluments	6(b)	746,503	707,426
Depreciation			
Fixed assets		39,545	20,527
Right-of-use assets		158,980	100,618
Other premises expenses		22,641	22,133
Finance costs		4,788	2,170
Other expenses		74,829	100,714
		<b>1,047,286</b>	<b>953,588</b>
<b>Surplus/(loss) and total comprehensive income for the period</b>		<b>311,128</b>	<b>(163,782)</b>

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
<b>Non-current assets</b>			
Fixed assets		295,167	135,712
Right-of-use assets		1,049,135	324,040
Deposits for leases		37,685	33,767
Financial assets at amortised costs – debt securities		2,364,955	1,600,123
		<b>3,746,942</b>	2,093,642
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		400,684	984,239
Financial assets at fair value through profit or loss			
Debt securities		435,179	419,469
Pooled funds		871,488	648,510
Debtors, deposits and prepayments		264,779	265,200
Fixed deposits with banks		2,636,202	2,832,302
Cash at bank and in hand		122,230	51,871
		<b>4,730,562</b>	5,201,591
<b>Current liabilities</b>			
Fees received in advance		16,484	47,097
Creditors and accrued charges		303,805	167,043
Lease liabilities		136,935	96,115
Provisions	3	25,910	66,532
		<b>483,134</b>	376,787
<b>Net current assets</b>		<b>4,247,428</b>	4,824,804
<b>Total assets less current liabilities</b>		<b>7,994,370</b>	6,918,446
<b>Non-current liabilities</b>			
Lease liabilities		899,402	203,558
Provisions	3	88,920	19,968
		<b>988,322</b>	223,526
<b>Net assets</b>		<b>7,006,048</b>	6,694,920
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,963,208	3,652,080
		<b>7,006,048</b>	6,694,920

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

## Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
<b>Non-current assets</b>			
Fixed assets		295,016	135,658
Right-of-use assets		1,049,048	324,040
Deposits for leases		37,685	33,767
Financial assets at amortised costs – debt securities		2,364,955	1,600,123
		3,746,704	2,093,588
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		400,684	984,239
Financial assets at fair value through profit or loss			
Debt securities		435,179	419,469
Pooled funds		871,488	648,510
Debtors, deposits and prepayments		278,293	274,141
Fixed deposits with banks		2,636,202	2,832,302
Cash at bank and in hand		100,571	29,836
		4,722,417	5,188,497
<b>Current liabilities</b>			
Fees received in advance		16,484	47,097
Creditors and accrued charges		295,509	153,895
Lease liabilities		136,917	96,115
Provisions	3	25,910	66,532
		474,820	363,639
<b>Net current assets</b>		4,247,597	4,824,858
<b>Total assets less current liabilities</b>		7,994,301	6,918,446
<b>Non-current liabilities</b>			
Lease liabilities		899,333	203,558
Provisions	3	88,920	19,968
		988,253	223,526
<b>Net assets</b>		7,006,048	6,694,920
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,963,208	3,652,080
		7,006,048	6,694,920

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the six months ended 30 September 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 period	–	–	(163,782)	(163,782)
Balance at 30 September 2019	42,840	3,000,000	3,863,600	6,906,440
Balance at 1 April 2020	<b>42,840</b>	<b>3,000,000</b>	<b>3,652,080</b>	<b>6,694,920</b>
Surplus and total comprehensive income for the period	–	–	311,128	311,128
Balance at 30 September 2020	<b>42,840</b>	<b>3,000,000</b>	<b>3,963,208</b>	<b>7,006,048</b>

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2020 \$'000	30 Sep 2019 \$'000
<b>Cash flows from operating activities</b>			
Surplus/(loss) for the period		311,128	(163,782)
Adjustments for:			
Depreciation – Fixed assets		39,545	20,527
Depreciation – Right-of-use assets		158,980	100,618
Provisions for reinstatement		(12,196)	–
Finance costs		4,788	2,170
Interest income on deposits for leases		(141)	–
Investment income		(286,840)	(57,160)
Exchange difference		476	5,661
Loss on disposal of fixed assets		4,889	2
		220,629	(91,964)
Increase in right-of-use assets		(40)	–
Increase in debtors, deposits and prepayments		(13,431)	(26,452)
(Decrease)/increase in fees received in advance		(30,613)	35,611
Increase in creditors and accrued charges		68,714	36,306
Decrease in provisions for reinstatement		(28,426)	–
Net cash generated from/(used in) operating activities		216,833	(46,499)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		911,731	319,139
Interest received		67,363	75,376
Debt securities at fair value through profit or loss purchased		(122,672)	(277,846)
Debt securities at fair value through profit or loss sold or redeemed		116,259	265,556
Pooled funds sold		2,183	152,241
Debt securities at amortised cost purchased		(793,213)	–
Debt securities at amortised cost redeemed at maturity		604,613	197,945
Fixed assets purchased		(131,389)	(28,970)
Proceeds from fixed assets disposal		1	–
Net cash generated from investing activities		654,876	703,441
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(80,833)	(98,384)
Interest element of lease payments		(4,788)	(2,170)
Net cash used in financing activities		(85,621)	(100,554)
<b>Net increase in cash and cash equivalents</b>		<b>786,088</b>	<b>556,388</b>
Cash and cash equivalents at the beginning of the six-month period		753,406	289,657
<b>Cash and cash equivalents at the end of the six-month period</b>	2	<b>1,539,494</b>	<b>846,045</b>

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2020 \$'000	At 30 Sep 2019 \$'000
Fixed deposits with banks	1,417,264	770,798
Cash at bank and in hand	122,230	75,247
	<b>1,539,494</b>	<b>846,045</b>

The notes on pages 33 to 34 form part of these condensed consolidated financial statements.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

We have prepared the 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 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.

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 September 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 six months ended 30 September 2020.

### 2. Cash and cash equivalents

	Unaudited At 30 Sep 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank and in hand	122,230	51,871
Fixed deposits with banks	2,636,202	2,832,302
Amounts shown in the condensed consolidated statement of financial position	2,758,432	2,884,173
Less: Amounts with an original maturity beyond three months	(1,218,938)	(2,130,767)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,539,494	753,406

### 3. Provisions

Provisions represent premises reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2020 (Expressed in Hong Kong dollars)

### 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 loss or income was mainly driven by the USD revaluation on financial assets.

### 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 September 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.

### 6. 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, \$3,006,000 was recovered from the ICF for the ICC's expenses (2019: \$3,041,000). As at 30 September 2020, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$455,000 (as at 31 March 2020: \$138,000).

#### (b) Remuneration of key management personnel

	Unaudited Six months ended	
	30 Sep 2020 \$'000	30 Sep 2019 \$'000
Directors' fees and salaries, allowances and benefits in kind	17,109	18,285
Retirement scheme contributions	1,538	1,551
	<b>18,647</b>	19,836

The total remuneration is included in "staff costs and directors' emoluments" on page 28. 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.