

# Securities and Futures Commission

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

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
<b>Income</b>		
Levies	391,558	272,269
Fees and charges	29,994	40,854
Investment income	19,734	99,728
Less : custody and advisory expenses	(1,996)	(1,824)
Investment income net of third party expenses	17,738	97,904
Recoveries from the Investor Compensation Fund	1,484	1,450
Other income	131	13,139
	440,905	425,616
<b>Expenses</b>		
Staff costs and directors' emoluments	330,855	317,023
Premises		
Rent	50,171	52,630
Rates, management fees and others	11,450	12,700
Other expenses	33,226	34,391
Depreciation	7,865	6,938
	433,567	423,682
<b>Surplus and total comprehensive income for the quarter</b>	<b>7,338</b>	<b>1,934</b>

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of financial position

At 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
<b>Non-current assets</b>			
Fixed assets		73,657	71,923
Financial assets at amortised cost		1,446,879	–
Held-to-maturity debt securities		–	1,546,613
		<b>1,540,536</b>	1,618,536
<b>Current assets</b>			
Financial assets at amortised cost		114,225	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		775,018	772,300
Pooled funds		924,898	934,768
Debtors, deposits and prepayments		213,624	219,778
Fixed deposits with banks	3	3,753,413	3,713,477
Cash at bank and in hand	3	44,831	33,353
		<b>5,826,009</b>	5,709,179
<b>Current liabilities</b>			
Fees received in advance		8,214	8,810
Creditors and accrued charges		144,092	113,317
		<b>152,306</b>	122,127
<b>Net current assets</b>		<b>5,673,703</b>	5,587,052
<b>Total assets less current liabilities</b>		<b>7,214,239</b>	7,205,588
<b>Non-current liabilities</b>	4	<b>42,137</b>	40,824
<b>Net assets</b>		<b>7,172,102</b>	7,164,764
<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		4,129,262	4,121,924
		<b>7,172,102</b>	7,164,764

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

## Condensed statement of financial position

At 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
<b>Non-current assets</b>			
Fixed assets		73,622	71,859
Financial assets at amortised cost		1,466,879	–
Held-to-maturity debt securities		–	1,546,613
		<b>1,540,501</b>	1,618,472
<b>Current assets</b>			
Financial assets at amortised cost		114,225	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		775,018	772,300
Pooled funds		924,898	934,768
Debtors, deposits and prepayments		219,566	221,338
Fixed deposits with banks		3,753,413	3,713,477
Cash at bank and in hand		31,662	21,171
		<b>5,818,782</b>	5,698,557
<b>Current liabilities</b>			
Fees received in advance		8,214	8,810
Creditors and accrued charges		136,830	102,631
		<b>145,044</b>	111,441
<b>Net current assets</b>		<b>5,673,738</b>	5,587,116
<b>Total assets less current liabilities</b>		<b>7,214,239</b>	7,205,588
<b>Non-current liabilities</b>	4	42,137	40,824
<b>Net assets</b>		<b>7,172,102</b>	7,164,764
<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		4,129,262	4,121,924
		<b>7,172,102</b>	7,164,764

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
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
Balance at 1 April 2018	<b>42,840</b>	<b>3,000,000</b>	<b>4,121,924</b>	<b>7,164,764</b>
Surplus and total comprehensive income for the quarter	–	–	<b>7,338</b>	<b>7,338</b>
Balance at 30 June 2018	<b>42,840</b>	<b>3,000,000</b>	<b>4,129,262</b>	<b>7,172,102</b>

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
<b>Cash flows from operating activities</b>			
Surplus and total comprehensive income for the quarter		7,338	1,934
Adjustments for :			
Depreciation		7,865	6,938
Investment income		(19,734)	(99,728)
Exchange difference		1,614	(7,793)
		(2,917)	(98,649)
Decrease/(increase) in debtors, deposits and prepayments		3,879	(16,990)
Increase in creditors and accrued charges		30,775	12,404
Decrease in fees received in advance		(596)	(686)
Increase in non-current liabilities		1,313	3,400
Net cash generated from/(used in) operating activities		32,454	(100,521)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		596,622	54,835
Interest received		31,748	19,950
Debt securities at fair value through profit or loss purchased		(81,019)	(159,335)
Debt securities at fair value through profit or loss sold or redeemed		76,680	125,684
Pooled funds sold		1,150	818
Fixed assets purchased		(9,599)	(6,132)
Net cash generated from investing activities		615,582	35,820
<b>Net increase/(decrease) in cash and cash equivalents</b>		648,036	(64,701)
<b>Cash and cash equivalents at beginning of the quarter</b>		292,105	676,727
<b>Cash and cash equivalents at end of the quarter</b>	3	940,141	612,026

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

	Unaudited at 30 June 2018 \$'000	Unaudited at 30 June 2017 \$'000
Fixed deposits with banks	895,310	573,421
Cash at bank and in hand	44,831	38,605
	940,141	612,026

The notes on pages 30 to 32 form part of the condensed consolidated financial statements.

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2018 (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 Securities and Futures Commission (SFC) since the annual financial statements for the year ended 31 March 2018. 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 2018 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 2018. 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 2018 to the condensed consolidated interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, *Financial instruments* and HKFRS 15, *Revenue from contracts with customers* as issued by the HKICPA, both with a date of transition of 1 January 2018. The adoption of HKFRS 15 did not have any impact on the Group's accounting policies and did not require retrospective adjustments. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the SFC for the quarter ended 30 June 2018.

### 2. Changes in accounting policies

#### Impact on the condensed consolidated interim financial information

HKFRS 9 replaces the provisions of HKAS 39, *Financial instruments: Recognition and measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Debt securities that would have previously been classified as held-to-maturity are now classified as financial assets at amortised cost. We intended to hold the debt securities to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Debt securities carried at amortised cost are subject to HKFRS 9's new expected credit loss model. All the debt securities are considered to have low credit risk as they are rated A or above. The loss allowance as a result of applying the expected credit loss model was immaterial.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, are now required to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement. There was no impact on the amounts recognized in relation to these assets from the adoption of HKFRS 9.

### 3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
Cash at bank and in hand	44,831	33,353
Fixed deposits with banks	3,753,413	3,713,477
Amounts shown in the condensed consolidated statement of financial position	3,798,244	3,746,830
Less : Amounts with an original maturity of beyond three months	(2,858,103)	(3,454,725)
Cash and cash equivalents in the condensed consolidated statement of cash flows	940,141	292,105

### 4. Non-current liabilities

Non-current liabilities represent provision for premises reinstatement cost to restore the premises to its original condition when the lease has expired.

### 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 30 June 2018. 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 foreign exchange risk.

### 7. 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 2018, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2018: \$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.

## 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 quarter, we received reimbursement from the ICF for all ICC's expenses amounting to \$1,484,000 (2017: \$1,450,000), in accordance with section 242(1) of the SFO. As at 30 June 2018, the amount due to the ICF from ICC was \$612,000 (at 31 March 2018: \$203,000).
- (b) Remuneration of key management personnel comprised:

	Unaudited quarter ended	
	30 Jun 2018 \$'000	30 Jun 2017 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,307	8,060
Retirement scheme contributions	761	736
	9,068	8,796

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.

## 9. Commitment to pay rents for offices

As at 30 June 2018, the minimum amount we are committed to pay in rent for our offices up to 31 August 2020 are as follows:

	Unaudited at 30 Jun 2018 \$'000	Audited at 31 Mar 2018 \$'000
Payable next year	200,296	200,457
Payable in one to five years	233,940	284,069
Payable in more than five years	-	-
	434,236	484,526

During the quarter, \$50,171,000 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 (2017: \$52,630,000).