

# Securities and Futures Commission

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

For the nine months ended 31 December 2018  
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<b>Income</b>					
Levies		1,108,814	1,019,101	343,945	390,758
Fees and charges		97,297	120,278	28,656	45,662
Investment (loss)/income		(21,416)	271,939	(62,013)	90,638
Less: custody and advisory expenses		(5,797)	(5,726)	(1,838)	(1,984)
Investment (loss)/income net of third party expenses		(27,213)	266,213	(63,851)	88,654
Recoveries from the Investor Compensation Fund		4,423	4,314	1,461	1,431
Exchange (loss)/gain		(10,303)	18,154	2,048	3,111
Other income		11,533	336	169	239
		1,184,551	1,428,396	312,428	529,855
<b>Expenses</b>					
Staff costs and directors' emoluments	8(b)	1,003,423	961,033	339,830	318,721
Premises					
Rent		150,539	154,209	50,197	49,807
Rates, management fees and others		34,898	36,036	11,890	11,147
Other expenses		112,536	136,802	38,192	51,981
Depreciation		25,365	21,810	8,999	7,635
		1,326,761	1,309,890	449,108	439,291
<b>(Loss)/surplus and total comprehensive (loss)/income for the period</b>		<b>(142,210)</b>	118,506	<b>(136,680)</b>	90,564

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of financial position

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
<b>Non-current assets</b>			
Fixed assets		87,151	71,923
Financial assets at amortised cost		1,277,348	–
Held-to-maturity debt securities		–	1,546,613
		1,364,499	1,618,536
<b>Current assets</b>			
Financial assets at amortised cost		299,631	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		787,350	772,300
Pooled funds		808,972	934,768
Debtors, deposits and prepayments		180,904	219,778
Fixed deposits with banks		3,816,615	3,713,477
Cash at bank and in hand		67,303	33,353
		5,960,775	5,709,179
<b>Current liabilities</b>			
Fees received in advance		8,013	8,810
Creditors and accrued charges		250,698	113,317
		258,711	122,127
<b>Net current assets</b>		5,702,064	5,587,052
<b>Total assets less current liabilities</b>		7,066,563	7,205,588
<b>Non-current liabilities</b>	4	44,009	40,824
<b>Net assets</b>		7,022,554	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		3,979,714	4,121,924
		7,022,554	7,164,764

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

## Condensed statement of financial position

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
<b>Non-current assets</b>			
Fixed assets		87,119	71,859
Financial assets at amortised cost		1,277,348	–
Held-to-maturity debt securities		–	1,546,613
		<b>1,364,467</b>	1,618,472
<b>Current assets</b>			
Financial assets at amortised cost		299,631	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		787,350	772,300
Pooled funds		808,972	934,768
Debtors, deposits and prepayments		192,784	221,338
Fixed deposits with banks		3,816,615	3,713,477
Cash at bank and in hand		46,505	21,171
		<b>5,951,857</b>	5,698,557
<b>Current liabilities</b>			
Fees received in advance		8,013	8,810
Creditors and accrued charges		241,748	102,631
		<b>249,761</b>	111,441
<b>Net current assets</b>		<b>5,702,096</b>	5,587,116
<b>Total assets less current liabilities</b>		<b>7,066,563</b>	7,205,588
<b>Non-current liabilities</b>	4	44,009	40,824
<b>Net assets</b>		<b>7,022,554</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		3,979,714	4,121,924
		<b>7,022,554</b>	7,164,764

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2018  
(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 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
Balance at 1 April 2018	<b>42,840</b>	<b>3,000,000</b>	<b>4,121,924</b>	<b>7,164,764</b>
Loss and total comprehensive loss for the period	–	–	(142,210)	(142,210)
Balance at 31 December 2018	<b>42,840</b>	<b>3,000,000</b>	<b>3,979,714</b>	<b>7,022,554</b>

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the nine months ended 31 December 2018  
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
<b>Cash flows from operating activities</b>			
(Loss)/surplus and total comprehensive (loss)/income for the period		(142,210)	118,506
Adjustments for:			
Depreciation		25,365	21,810
Investment loss/(income)		21,416	(271,939)
Exchange difference		10,338	(10,293)
Loss on disposal of fixed assets		–	719
		(85,091)	(141,197)
Decrease/(increase) in debtors, deposits and prepayments		49,520	(20,111)
Increase in creditors and accrued charges		137,381	119,486
Decrease in fees received in advance		(797)	(1,199)
Increase in non-current liabilities		3,185	5,607
<i>Net cash generated from/(used in) operating activities</i>		<b>104,198</b>	(37,414)
<b>Cash flows from investing activities</b>			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(226,014)	1,091,420
Interest received		87,833	61,417
Held-to-maturity debt securities purchased		–	(879,337)
Held-to-maturity debt securities redeemed at maturity		–	30,000
Debt securities at fair value through profit or loss purchased		(198,529)	(487,785)
Debt securities at fair value through profit or loss sold or redeemed		182,288	438,565
Pooled funds at fair value through profit or loss sold		3,299	104,882
Fixed assets purchased		(40,593)	(22,672)
<i>Net cash (used in)/generated from investing activities</i>		<b>(191,716)</b>	336,490
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(87,518)</b>	299,076
<b>Cash and cash equivalents at beginning of the nine-month period</b>		<b>292,105</b>	676,727
<b>Cash and cash equivalents at end of the nine-month period</b>	3	<b>204,587</b>	975,803

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

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	137,284	929,127
Cash at bank and in hand	67,303	46,676
	<b>204,587</b>	975,803

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2018  
(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 SFC since the annual financial statements for the year ended 31 March 2018. 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 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 and Financial Education Council (IFEC) (formerly known as Investor Education Centre) in the SFC's condensed consolidated financial statements made up to 31 December 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 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 nine months ended 31 December 2018.

### 2. Changes in accounting policies

#### Impact on the 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 condensed consolidated 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, continue 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 recognised in relation to these assets from the adoption of HKFRS 9.

### 3. Cash and cash equivalents

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank and in hand	67,303	33,353
Fixed deposits with banks	3,816,615	3,713,477
Amounts shown in the condensed consolidated statement of financial position	3,883,918	3,746,830
Less: Amounts with an original maturity of beyond three months	(3,679,331)	(3,454,725)
Cash and cash equivalents in the consolidated statement of cash flows	204,587	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 31 December 2018. Therefore we do not provide an ageing analysis of debtors and creditors.

### 6. Exchange risk

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 IFEC as a company limited by guarantee with no 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 31 December 2018, the investment in subsidiaries, which is 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 condensed statement of financial position which is expressed in thousands of dollars.

## 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 \$4,423,000 (2017: \$4,314,000), which is in accordance with section 242(1) of the SFO. As at 31 December 2018, the amount due to the ICF from the ICC was \$226,000 (at 31 March 2018: \$203,000).
- b) Remuneration for key management personnel comprised:

	Unaudited nine months ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Directors’ fees and salaries, allowances and benefits in kind	25,219	24,264
Retirement scheme contributions	2,300	2,218
	27,519	26,482

The total remuneration is included in “staff costs and directors’ emoluments” on page 22. 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. Operating lease commitments

During the period, we have entered into a new operating lease for the office premise for eight years commencing 1 January 2020.

At 31 December 2018 the minimum amount we are committed to pay in rent for our offices up to 31 December 2027 are as follows:

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Payable next year	201,162	200,457
Payable in one to five years	593,683	284,069
Payable in more than five years	612,427	–
	1,407,272	484,526

\$150,539,000 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: \$154,209,000) during the period.