

# Securities and Futures Commission

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

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
<b>Income</b>			
Levies		344,341	391,558
Fees and charges		37,432	29,994
Investment income net of third party expenses			
Investment income		49,355	19,734
Less: custody and advisory expenses		(1,971)	(1,996)
Recoveries from the Investor Compensation Fund		1,517	1,484
Exchange loss		(18,707)	(2,121)
Other income		94	131
		412,061	438,784
<b>Expenses</b>			
Staff costs and directors' emoluments	8(b)	348,407	330,855
Premises			
Rent		-	50,171
Rates, management fees and others		11,728	11,450
Other expenses		43,256	31,105
Depreciation		60,277	7,865
Finance costs	2	1,084	-
		464,752	431,446
<b>(Loss)/surplus and total comprehensive income for the quarter</b>		<b>(52,691)</b>	<b>7,338</b>

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

## Condensed consolidated statement of financial position

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		97,917	94,835
Right-of-use assets	2	235,640	–
Financial assets at amortised costs – debt securities		522,592	981,502
		856,149	1,076,337
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		936,962	563,877
Financial assets at fair value through profit or loss			
Debt securities		788,750	795,946
Pooled funds		926,339	925,476
Debtors, deposits and prepayments		263,071	227,018
Fixed deposits with banks		3,669,978	3,653,456
Cash at bank and in hand		47,105	71,908
		6,632,205	6,237,681
<b>Current liabilities</b>			
Fees received in advance		29,460	8,850
Creditors and accrued charges		158,838	189,855
Lease liabilities	2	197,134	–
		385,432	198,705
<b>Net current assets</b>		6,246,773	6,038,976
<b>Total assets less current liabilities</b>		7,102,922	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	33,827	–
Provisions	4	51,564	45,091
		85,391	45,091
<b>Net assets</b>		7,017,531	7,070,222
<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		3,974,691	4,027,382
		7,017,531	7,070,222

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

## Condensed statement of financial position

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		97,831	94,738
Right-of-use assets	2	235,640	–
Financial assets at amortised costs – debt securities		522,592	981,502
		856,063	1,076,240
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		936,962	563,877
Financial assets at fair value through profit or loss			
Debt securities		788,750	795,946
Pooled funds		926,339	925,476
Debtors, deposits and prepayments		260,868	233,187
Fixed deposits with banks		3,669,978	3,653,456
Cash at bank and in hand		46,110	49,747
		6,629,007	6,221,689
<b>Current liabilities</b>			
Fees received in advance		29,460	8,850
Creditors and accrued charges		155,554	173,766
Lease liabilities	2	197,134	–
		382,148	182,616
<b>Net current assets</b>		6,246,859	6,039,073
<b>Total assets less current liabilities</b>		7,102,922	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	33,827	–
Provisions	4	51,564	45,091
		85,391	45,091
<b>Net assets</b>		7,017,531	7,070,222
<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		3,974,691	4,027,382
		7,017,531	7,070,222

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

## Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2019 (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 2018	42,840	3,000,000	4,121,924	7,164,764
Surplus and total comprehensive income for the quarter	–	–	7,338	7,338
Balance at 30 June 2018	42,840	3,000,000	4,129,262	7,172,102
Balance at 1 April 2019	<b>42,840</b>	<b>3,000,000</b>	<b>4,027,382</b>	<b>7,070,222</b>
Loss and total comprehensive income for the quarter	–	–	(52,691)	(52,691)
Balance at 30 June 2019	<b>42,840</b>	<b>3,000,000</b>	<b>3,974,691</b>	<b>7,017,531</b>

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

## Condensed consolidated statement of cash flows

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
<b>Cash flows from operating activities</b>			
(Loss)/surplus for the quarter		(52,691)	7,338
Adjustments for:			
Depreciation		60,277	7,865
Investment income		(49,355)	(19,734)
Exchange difference		18,703	1,614
Loss on disposal of fixed assets		2	–
		(23,064)	(2,917)
(Increase)/decrease in debtors, deposits and prepayments		(29,375)	3,879
Increase/(decrease) in fees received in advance		20,610	(596)
(Decrease)/increase in creditors and accrued charges		(30,339)	30,775
Increase in non-current liabilities		–	1,313
Net cash (used in)/generated from operating activities		(62,168)	32,454
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		285,203	596,622
Interest received		29,490	31,748
Debt securities at fair value through profit or loss purchased		(80,717)	(81,019)
Debt securities at fair value through profit or loss sold or redeemed		91,017	76,680
Pooled funds sold		1,103	1,150
Debt securities at amortised costs redeemed at maturity		78,454	–
Fixed assets purchased		(13,065)	(9,599)
Net cash generated from investing activities		391,485	615,582
<b>Cash flows from financing activities</b>			
Principal elements of lease payments		(49,180)	–
Net cash used in financing activities		(49,180)	–
<b>Net increase in cash and cash equivalents</b>		<b>280,137</b>	<b>648,036</b>
<b>Cash and cash equivalents at the beginning of the quarter</b>		<b>289,657</b>	<b>292,105</b>
<b>Cash and cash equivalents at the end of the quarter</b>	3	<b>569,794</b>	<b>940,141</b>

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

	Unaudited	
	at 30 Jun 2019 \$'000	at 30 Jun 2018 \$'000
Fixed deposits with banks	522,689	895,310
Cash at bank and in hand	47,105	44,831
	<b>569,794</b>	<b>940,141</b>

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

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2019 (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) since the annual financial statements for the year ended 31 March 2019. 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 2019 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.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), (the Group) are made up to 30 June 2019. 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 2019 to the interim financial information, except for the adoption of HKFRS 16, *Leases* as issued by the HKICPA and effective for accounting periods beginning on or after 1 April 2019. The impact of the adoption of HKFRS 16 is disclosed in note 2 below.

There were no significant changes in the operations of the SFC for the quarter ended 30 June 2019.

## 2. Changes in accounting policies

### Impact on the interim financial information

#### *Nature of change*

HKFRS 16 primarily affects the accounting as a lessee of leases for assets which are previously classified as operating leases. The application of the new accounting model leads to an increase in both assets and liabilities and impacts the timing of the expense recognition in the condensed consolidated statement of profit or loss and other comprehensive income over the period of the lease. The Group applied the simplified transition approach and did not restate comparative amounts for the period prior to first adoption.

Prior to the adoption of HKFRS 16, leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as a lessee are classified as operating leases. We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the condensed consolidated statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments made.

Upon adoption of HKFRS 16, leases are recognised in the condensed consolidated statement of financial position as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

#### *Impact*

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease liabilities include the net present value of future lease payments and are subsequently measured at amortised costs. The right-of-use assets are measured at net present value (which comprises the initial measurement of lease liabilities, initial direct costs, reinstatement costs, any payments made at or before the commencement date less any lease incentives received) and depreciated on a straight-line basis during the lease term. For short-term leases and leases of low-value assets, lease rentals are recognised under operating expenses in the condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease terms.

The Group has applied HKFRS 16 from 1 April 2019. As permitted by the simplified transitional approach of HKFRS 16, comparatives were not restated. As at 31 March 2019, the Group has non-cancellable operating lease commitments for properties of \$285,809,000. As a result of initially applying HKFRS 16, the Group recognised right-of-use assets of \$285,936,000 and lease liabilities of \$280,141,000. The discount rate applied to the lease liabilities was 1.55%. Overall net assets increased by \$5,795,000. Surplus decreased by \$1,117,000 for the quarter as a result of adopting HKFRS 16. During the quarter ended 30 June 2019, the Group recognised depreciation expense for right-of-use assets of \$50,296,000 and interest expense on lease liabilities of \$1,084,000.

### 3. Cash and cash equivalents

	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Cash at bank and in hand	47,105	71,908
Fixed deposits with banks	3,669,978	3,653,456
Amounts shown in the condensed consolidated statement of financial position	3,717,083	3,725,364
Less: Amounts with an original maturity beyond three months	(3,147,289)	(3,435,707)
Cash and cash equivalents in the condensed consolidated statement of cash flows	569,794	289,657

### 4. Provisions

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

### 5. 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 2019. 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 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 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as 31 March 2019: \$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, Unified Exchange Compensation Fund (UECF), Securities Ordinance (Chapter 333) – Dealers’ Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers’ Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers’ Security Fund (SMF). In addition to the related parties relationship disclosed in elsewhere in these condensed consolidated financial statements, we have the following significant 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 quarter, \$1,517,000 was recovered from the ICF for the ICC’s expenses (2018: \$1,484,000). As at 30 June 2019, the amount due to the ICF from the ICC was \$428,000 (as at 31 March 2019: \$54,000).

- b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2019 \$'000	30 Jun 2018 \$'000
Directors’ fees and salaries, allowances and benefits in kind	8,614	8,307
Retirement scheme contributions	775	761
	9,389	9,068

The total remuneration is included in “staff costs and directors’ emoluments” on page 24. 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.