

# 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 24 to 32, which comprises the condensed consolidated statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2019 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, 28 November, 2019

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

For the three months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>		
Levies	320,995	373,311
Fees and charges	36,337	38,647
Investment income net of third party expenses		
Investment income	7,805	20,863
Less: custody and advisory expenses	(1,968)	(1,963)
Recoveries from the Investor Compensation Fund	1,524	1,478
Exchange income/(loss)	13,046	(10,230)
Other income	6	11,233
	<b>377,745</b>	433,339
<b>Expense</b>		
Staff costs and directors' emoluments	359,019	332,739
Premises		
Rent	-	50,170
Rates, management fees and others	10,405	11,557
Other expenses	57,458	43,238
Depreciation		
Fixed assets	10,546	8,503
Right-of-use assets	50,322	-
Finance costs	1,086	-
	<b>488,836</b>	446,207
<b>(Loss) and total comprehensive income for the quarter</b>	<b>(111,091)</b>	(12,868)

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

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>			
Levies		665,336	764,869
Fees and charges		73,769	68,641
Investment income net of third party expenses			
Investment income		57,160	40,597
Less: custody and advisory expenses		(3,939)	(3,959)
Recoveries from the Investor Compensation Fund	8(a)	3,041	2,962
Exchange loss		(5,661)	(12,351)
Other income		100	11,364
		<b>789,806</b>	872,123
<b>Expense</b>			
Staff costs and directors' emoluments	8(b)	707,426	663,593
Premises			
Rent	2	-	100,342
Rates, management fees and others		22,133	23,008
Other expenses		100,714	74,344
Depreciation			
Fixed assets		20,527	16,366
Right-of-use assets	2	100,618	-
Finance costs	2	2,170	-
		<b>953,588</b>	877,653
<b>(Loss) and total comprehensive income for the period</b>		<b>(163,782)</b>	(5,530)

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

## Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		103,276	94,835
Right-of-use assets	2	185,319	–
Financial assets at amortised costs – debt securities		367,765	981,502
		656,360	1,076,337
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		976,971	563,877
Financial assets at fair value through profit or loss			
Debt securities		815,521	795,946
Pooled funds		748,449	925,476
Debtors, deposits and prepayments		250,104	227,018
Fixed deposits with banks		3,887,054	3,653,456
Cash at bank and in hand		75,247	71,908
		6,753,346	6,237,681
<b>Current liabilities</b>			
Fees received in advance		44,461	8,850
Creditors and accrued charges	8(a)	225,484	189,855
Lease liabilities	2	180,996	–
Provisions	4	50,874	–
		501,815	198,705
<b>Net current assets</b>		6,251,531	6,038,976
<b>Total assets less current liabilities</b>		6,907,891	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	761	–
Provisions	4	690	45,091
		1,451	45,091
<b>Net assets</b>		6,906,440	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		3,863,600	4,027,382
		6,906,440	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 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Non-current assets</b>			
Fixed assets		103,201	94,738
Right-of-use assets	2	185,319	–
Financial assets at amortised costs – debt securities		367,765	981,502
		656,285	1,076,240
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		976,971	563,877
Financial assets at fair value through profit or loss			
Debt securities		815,521	795,946
Pooled funds		748,449	925,476
Debtors, deposits and prepayments		247,694	233,187
Fixed deposits with banks		3,887,054	3,653,456
Cash at bank and in hand		69,394	49,747
		6,745,083	6,221,689
<b>Current liabilities</b>			
Fees received in advance		44,461	8,850
Creditors and accrued charges		217,146	173,766
Lease liabilities	2	180,996	–
Provisions	4	50,874	–
		493,477	182,616
<b>Net current assets</b>		6,251,606	6,039,073
<b>Total assets less current liabilities</b>		6,907,891	7,115,313
<b>Non-current liabilities</b>			
Lease liabilities	2	761	–
Provisions	4	690	45,091
		1,451	45,091
<b>Net assets</b>		6,906,440	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		3,863,600	4,027,382
		6,906,440	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 six months ended 30 September 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
(Loss) and total comprehensive income for the period	–	–	(5,530)	(5,530)
Balance at 30 September 2018	42,840	3,000,000	4,116,394	7,159,234
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 period	–	–	<b>(163,782)</b>	<b>(163,782)</b>
Balance at 30 September 2019	<b>42,840</b>	<b>3,000,000</b>	<b>3,863,600</b>	<b>6,906,440</b>

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

## Condensed consolidated statement of cash flows

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Cash flows from operating activities</b>			
Loss for the period		(163,782)	(5,530)
Adjustments for:			
Depreciation – Fixed assets		20,527	16,366
Depreciation – Right-of-use assets		100,618	–
Finance costs		2,170	–
Investment income		(57,160)	(40,597)
Exchange difference		5,661	10,403
Loss on disposal of fixed assets		2	–
		(91,964)	(19,358)
(Increase)/decrease in debtors, deposits and prepayments		(26,452)	25,257
Increase/(decrease) in fees received in advance		35,611	(936)
Increase in creditors and accrued charges		36,306	83,526
Increase in non-current liabilities		–	2,107
Net cash (used in)/generated from operating activities		(46,499)	90,596
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		319,139	(179,626)
Interest received		75,376	59,268
Debt securities at fair value through profit or loss purchased		(277,846)	(125,816)
Debt securities at fair value through profit or loss sold or redeemed		265,556	123,321
Pooled funds sold		152,241	2,312
Debt securities at amortised cost redeemed at maturity		197,945	–
Fixed assets purchased		(28,970)	(26,280)
Net cash generated from/(used in) investing activities		703,441	(146,821)
<b>Cash flows from financing activities</b>			
Lease payments		(100,554)	–
Net cash used in financing activities		(100,554)	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>556,388</b>	<b>(56,225)</b>
<b>Cash and cash equivalents at the beginning of the six-month period</b>		<b>289,657</b>	<b>292,105</b>
<b>Cash and cash equivalents at the end of the six-month period</b>	3	<b>846,045</b>	<b>235,880</b>

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

	Unaudited	
	At 30 Sep 2019 \$'000	At 30 Sep 2018 \$'000
Fixed deposits with banks	770,798	179,750
Cash at bank and in hand	75,247	56,130
	<b>846,045</b>	<b>235,880</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 six months ended 30 September 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) and its subsidiaries (together, the Group) 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 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 2019. 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 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.

There were no significant changes in the operations of the Group for the six months ended 30 September 2019.

### 2. Changes in accounting policies

#### Impact on the interim financial information

The Group has applied HKFRS 16 from 1 April 2019. The Group applied the simplified transition approach and did not restate comparative amounts. In applying HKFRS 16 for the first time, the Group has adopted the following practical expedients as permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019; and
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application.



## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 2. Changes in accounting policies (continued)

#### Impact on the interim financial information (continued)

Upon adoption of HKFRS 16, leases that were previously been classified as 'operating leases' under the HKAS 17 *Leases* are now recognised in the condensed consolidated statement of financial position as lease liabilities with a corresponding right-of-use assets. The lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period. The right-of-use assets are measured at the amount equal to the lease liability, adjusted for any prepaid or accrued lease payments or provisions for reinstatement relating to that lease as at 31 March 2019. The right-of-use assets are depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis.

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 discounted at 1.55% as at 1 April 2019.

For the six months ended 30 September 2018, the Group recognised rent expense for the operating lease of \$100,342,000. Following the adoption of HKFRS 16, the Group recognised depreciation expense for right-of-use assets of \$100,618,000 and interest expense on lease liabilities of \$2,170,000 for the six months ended 30 September 2019.

During the period, the Group has entered into a new operating lease for the office premise for eight years commencing on 1 February 2020. Minimum lease payment throughout the lease term is \$1,036,692,000.

### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank and in hand	75,247	71,908
Fixed deposits with banks	3,887,054	3,653,456
Amounts shown in the condensed consolidated statement of financial position	3,962,301	3,725,364
Less: Amounts with an original maturity beyond three months	(3,116,256)	(3,435,707)
Cash and cash equivalents in the condensed consolidated statement of cash flows	846,045	289,657

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 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 September 2019. Therefore, an ageing analysis of debtors and creditors is not provided.

### 6. 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.

### 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 September 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 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.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 8. 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 relationship 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, \$3,041,000 was recovered from the ICF for the ICC's expenses (2018: \$2,962,000). As at 30 September 2019, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$576,000 (as at 31 March 2019: \$54,000).

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

	Unaudited six months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
Directors' fees and salaries, allowances and benefits in kind	18,285	16,660
Retirement scheme contributions	1,551	1,527
	19,836	18,187

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.