

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Income					
Levies		972,326	1,108,814	306,990	343,945
Fees and charges		118,998	97,297	45,229	28,656
Investment income net of third party expenses					
Investment income/(loss)		177,781	(21,416)	120,621	(62,013)
Less: custody and advisory expenses		(5,854)	(5,797)	(1,915)	(1,838)
Recoveries from the Investor Compensation Fund	8(a)	4,544	4,423	1,503	1,461
Exchange (loss)/gain		(29,608)	(10,303)	(23,947)	2,048
Other income		292	11,533	192	169
		1,238,479	1,184,551	448,673	312,428
Expense					
Staff costs and directors' emoluments	8(b)	1,057,169	1,003,423	349,743	339,830
Premises					
Rent	2	–	150,539	–	50,197
Rates, management fees and others		33,401	34,898	11,268	11,890
Other expenses		159,418	112,536	58,704	38,192
Depreciation					
Fixed assets		31,054	25,365	10,527	8,999
Right-of-use assets	2	157,686	–	57,068	–
Finance costs	2	2,519	–	349	–
		1,441,247	1,326,761	487,659	449,108
Loss and total comprehensive income for the period		(202,768)	(142,210)	(38,986)	(136,680)

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Non-current assets			
Fixed assets		106,880	94,835
Right-of-use assets	2	146,121	–
Financial assets at amortised costs – debt securities		1,190,091	981,502
		1,443,092	1,076,337
Current assets			
Financial assets at amortised costs – debt securities		1,083,034	563,877
Financial assets at fair value through profit or loss			
Debt securities		405,434	795,946
Pooled funds		827,581	925,476
Debtors, deposits and prepayments		238,286	227,018
Fixed deposits with banks		3,335,179	3,653,456
Cash at bank and in hand		66,670	71,908
		5,956,184	6,237,681
Current liabilities			
Fees received in advance		59,550	8,850
Creditors and accrued charges	8(a)	271,022	189,855
Lease liabilities	2	133,534	–
Provisions	4	66,532	–
		530,638	198,705
Net current assets		5,425,546	6,038,976
Total assets less current liabilities		6,868,638	7,115,313
Non-current liabilities			
Lease liabilities	2	610	–
Provisions	4	574	45,091
		1,184	45,091
Net assets		6,867,454	7,070,222
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,824,614	4,027,382
		6,867,454	7,070,222

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Non-current assets			
Fixed assets		106,815	94,738
Right-of-use assets	2	146,121	–
Financial assets at amortised costs – debt securities		1,190,091	981,502
		1,443,027	1,076,240
Current assets			
Financial assets at amortised costs – debt securities		1,083,034	563,877
Financial assets at fair value through profit or loss			
Debt securities		405,434	795,946
Pooled funds		827,581	925,476
Debtors, deposits and prepayments		271,115	233,187
Fixed deposits with banks		3,335,179	3,653,456
Cash at bank and in hand		22,009	49,747
		5,944,352	6,221,689
Current liabilities			
Fees received in advance		59,550	8,850
Creditors and accrued charges		259,125	173,766
Lease liabilities	2	133,534	–
Provisions	4	66,532	–
		518,741	182,616
Net current assets		5,425,611	6,039,073
Total assets less current liabilities		6,868,638	7,115,313
Non-current liabilities			
Lease liabilities	2	610	–
Provisions	4	574	45,091
		1,184	45,091
Net assets		6,867,454	7,070,222
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,824,614	4,027,382
		6,867,454	7,070,222

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 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	–	–	(142,210)	(142,210)
Balance at 31 December 2018	42,840	3,000,000	3,979,714	7,022,554
Balance at 1 April 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the period	–	–	(202,768)	(202,768)
Balance at 31 December 2019	42,840	3,000,000	3,824,614	6,867,454

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities			
Loss for the period		(202,768)	(142,210)
Adjustments for:			
Depreciation – Fixed assets		31,054	25,365
Depreciation – Right-of-use assets		157,686	–
Finance costs		2,519	–
Investment (income)/loss		(177,781)	21,416
Exchange difference		29,635	10,338
Loss on disposal of fixed assets		3	–
		(159,652)	(85,091)
(Increase)/decrease in debtors, deposits and prepayments		(17,076)	49,520
Increase/(decrease) in fees received in advance		50,700	(797)
Increase in creditors and accrued charges		81,844	137,381
Increase in non-current liabilities		–	3,185
Net cash (used in)/generated from operating activities		(44,184)	104,198
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		1,373,433	(226,014)
Interest received		113,549	87,833
Debt securities at fair value through profit or loss purchased		(326,992)	(198,529)
Debt securities at fair value through profit or loss sold or redeemed		722,468	182,288
Pooled funds sold		153,396	3,299
Debt securities at amortised cost purchased		(1,086,352)	–
Debt securities at amortised cost redeemed at maturity		342,842	–
Fixed assets purchased		(43,102)	(40,593)
Net cash generated from/(used in) investing activities		1,249,242	(191,716)
Cash flows from financing activities			
Lease payments		(150,844)	–
Net cash used in financing activities		(150,844)	–
Net increase/(decrease) in cash and cash equivalents		1,054,214	(87,518)
Cash and cash equivalents at the beginning of the nine-month period		289,657	292,105
Cash and cash equivalents at the end of the nine-month period	3	1,343,871	204,587

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	1,277,201	137,284
Cash at bank and in hand	66,670	67,303
	1,343,871	204,587

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 31 December 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 nine months ended 31 December 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 nine months ended 31 December 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 classified as 'operating leases' under the HKAS 17 Leases are now recognised in the condensed consolidated statement of financial position as lease liabilities with 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 \$303,807,000 and lease liabilities of \$282,469,000 discounted at 1.55% as at 1 April 2019.

For the nine months ended 31 December 2018, the Group recognised rent expense for the operating lease of \$150,539,000. Following the adoption of HKFRS 16, the Group recognised depreciation expense for right-of-use assets of \$157,686,000 and interest expense on lease liabilities of \$2,519,000 for the nine months ended 31 December 2019.

During the period, the Group has entered into a new operating lease for the office premises 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 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank and in hand	66,670	71,908
Fixed deposits with banks	3,335,179	3,653,456
Amounts shown in the condensed consolidated statement of financial position	3,401,849	3,725,364
Less: Amounts with an original maturity beyond three months	(2,057,978)	(3,435,707)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,343,871	289,657

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 31 December 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 31 December 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 nine months ended 31 December 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 party transactions disclosed 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, \$4,544,000 was recovered from the ICF for the ICC’s expenses (2018: \$4,423,000). As at 31 December 2019, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$300,000 (as at 31 March 2019: \$54,000).

(b) Remuneration of key management personnel

	Unaudited nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Directors’ fees and salaries, allowances and benefits in kind	26,839	25,219
Retirement scheme contributions	2,320	2,300
	29,159	27,519

The total remuneration is included in “staff costs and directors’ emoluments” on page 23. Discretionary pay is not included above as the decision to pay is subject to an approval process at the end of the financial year and therefore is not determined until then.