

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 42 to 49, which comprises the condensed consolidated statement of financial position of the Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) as at 30 September 2024 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 selected explanatory notes. The directors of the SFC 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 of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 December 2024

Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2024 (Expressed in Hong Kong dollars)

| | Unaudited and unreviewed Three months ended | |
|---|--|-----------------------|
| | 30 Sep 2024 \$'000 | 30 Sep 2023 \$'000 |
| Income | | |
| Levies | 421,534 | 353,947 |
| Fees and charges | 29,388 | 31,057 |
| Net investment income | | |
| Investment income | 124,697 | 6,744 |
| Less: custody and advisory expenses | (2,748) | (2,615) |
| Recoveries from the Investor Compensation Fund | 1,621 | 1,532 |
| Exchange loss | (22,371) | (3,879) |
| Other income | 781 | 109 |
| | 552,902 | 386,895 |
| Expenses | | |
| Staff costs and directors' emoluments | 413,134 | 388,051 |
| Depreciation | | |
| Fixed assets | 48,576 | 25,246 |
| Right-of-use assets | 2,741 | 36,602 |
| Other premises expenses | 9,651 | 9,025 |
| Finance costs | 24,618 | 1,543 |
| Other expenses | 58,698 | 49,029 |
| | 557,418 | 509,496 |
| Deficit and total comprehensive income for the quarter | (4,516) | (122,601) |

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2024 is for information only.

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

| | Note | Unaudited Six months ended | |
|--|------|-------------------------------|-----------------------|
| | | 30 Sep 2024 \$'000 | 30 Sep 2023 \$'000 |
| Income | | | |
| Levies | | 837,144 | 706,203 |
| Fees and charges | | 59,135 | 55,961 |
| Net investment income | | | |
| Investment income | | 212,694 | 52,083 |
| Less: custody and advisory expenses | | (5,353) | (5,471) |
| Recoveries from the Investor Compensation Fund | 7(a) | 3,189 | 3,052 |
| Exchange loss | | (32,762) | (12,434) |
| Other income | | 781 | 853 |
| | | 1,074,828 | 800,247 |
| Expenses | | | |
| Staff costs and directors' emoluments | 7(b) | 837,811 | 780,382 |
| Depreciation | | | |
| Fixed assets | | 95,015 | 50,501 |
| Right-of-use assets | | 5,484 | 73,222 |
| Other premises expenses | | 19,241 | 17,939 |
| Finance costs | | 48,984 | 3,085 |
| Other expenses | | 109,704 | 98,780 |
| | | 1,116,239 | 1,023,909 |
| Deficit and total comprehensive income for the period | | (41,411) | (223,662) |

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 30 September 2024 (Expressed in Hong Kong dollars)

| | Note | Unaudited At 30 Sep 2024 \$'000 | Audited At 31 Mar 2024 \$'000 |
|---|------|---------------------------------------|-------------------------------------|
| Non-current assets | | | |
| Fixed assets | | 4,353,746 | 4,410,812 |
| Right-of-use assets | | 15,993 | 21,477 |
| Deposits and prepayments | | 335,414 | 335,414 |
| Financial assets at amortised cost – debt securities | 8(b) | 1,728,530 | 2,102,479 |
| | | 6,433,683 | 6,870,182 |
| Current assets | | | |
| Financial assets at amortised cost– debt securities | 8(b) | 1,371,139 | 898,557 |
| Financial assets at fair value through profit or loss – pooled funds | 8(a) | 1,231,381 | 1,087,666 |
| Debtors, deposits and prepayments | | 284,547 | 196,080 |
| Fixed deposits with banks | 2 | 496,350 | 610,147 |
| Cash held for Grant Scheme | 3 | 36,103 | 58,656 |
| Cash at bank and in hand | 2 | 32,447 | 146,154 |
| | | 3,451,967 | 2,997,260 |
| Current liabilities | | | |
| Fees received in advance | | 7,390 | 8,497 |
| Creditors and accrued charges | | 264,354 | 199,132 |
| Bank loan | 4 | 18,262 | 18,262 |
| Lease liabilities | | 6,838 | 9,212 |
| Provisions for reinstatement costs | | 574 | 574 |
| | | 297,418 | 235,677 |
| Net current assets | | 3,154,549 | 2,761,583 |
| Total assets less current liabilities | | 9,588,232 | 9,631,765 |
| Non-current liabilities | | | |
| Bank loan | 4 | 2,002,333 | 2,001,319 |
| Lease liabilities | | 9,743 | 12,879 |
| Provisions for reinstatement costs | | 1,190 | 1,190 |
| | | 2,013,266 | 2,015,388 |
| Net assets | | 7,574,966 | 7,616,377 |
| Funding and reserves | | | |
| Initial funding by Government | | 42,840 | 42,840 |
| Reserve for property acquisition | | 1,186,800 | 1,186,800 |
| Accumulated surplus | | 6,345,326 | 6,386,737 |
| | | 7,574,966 | 7,616,377 |

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of changes in equity

For the six months ended 30 September 2024 (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 2023 | 42,840 | 3,375,000 | 4,496,293 | 7,914,133 |
| Deficit and total comprehensive income for the period | – | – | (223,662) | (223,662) |
| Balance at 30 September 2023 | 42,840 | 3,375,000 | 4,272,631 | 7,690,471 |
| Balance at 1 April 2024 | 42,840 | 1,186,800 | 6,386,737 | 7,616,377 |
| Deficit and total comprehensive income for the period | – | – | (41,411) | (41,411) |
| Balance at 30 September 2024 | 42,840 | 1,186,800 | 6,345,326 | 7,574,966 |

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of cash flows

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

| | Note | Unaudited six months ended | |
|---|------|----------------------------|-----------------------|
| | | 30 Sep 2024 \$'000 | 30 Sep 2023 \$'000 |
| Cash flows from operating activities | | | |
| Deficit for the period | | (41,411) | (223,662) |
| Adjustments for: | | | |
| Depreciation – Fixed assets | | 95,015 | 50,501 |
| Depreciation – Right-of-use assets | | 5,484 | 73,222 |
| Finance costs | | 48,984 | 3,085 |
| Interest income on deposits for leases | | – | (146) |
| Investment income | | (212,694) | (52,083) |
| Exchange loss | | 32,648 | 11,225 |
| Loss on disposal of fixed assets | | 7 | 16 |
| | | (71,967) | (137,842) |
| Increase in right-of-use assets | | – | (7) |
| (Increase)/decrease in debtors, deposits and prepayments | | (92,451) | 23,525 |
| Decrease in cash held for Grant Scheme | | 22,553 | 27,452 |
| Decrease in fees received in advance | | (1,107) | (800) |
| Increase in creditors and accrued charges | | 68,755 | 60,451 |
| Net cash used in operating activities | | (74,217) | (27,221) |
| Cash flows from investing activities | | | |
| Decrease in fixed deposits other than cash and cash equivalents | | 25,050 | 1,551,881 |
| Interest received | | 59,828 | 138,362 |
| Debt securities at fair value through profit or loss purchased | | – | (72,193) |
| Debt securities at fair value through profit or loss sold or redeemed | | – | 466,030 |
| Pooled funds sold | | 3,165 | 3,054 |
| Debt securities at amortised cost purchased | | (2,368,873) | (321,868) |
| Debt securities at amortised cost redeemed at maturity | | 2,247,562 | 278,005 |
| Fixed assets purchased | | (40,705) | (30,348) |
| Net cash (used in)/generated from investing activities | | (73,973) | 2,012,923 |
| Cash flows from financing activities | | | |
| Principal element of lease payments | | (5,510) | (71,519) |
| Interest element of lease payments | | (154) | (3,085) |
| Interest expense on bank loan | | (48,600) | – |
| Net cash used in financing activities | | (54,264) | (74,604) |
| Net (decrease)/increase in cash and cash equivalents | | (202,454) | 1,911,098 |
| Cash and cash equivalents at the beginning of the six-month period | | 731,251 | 407,901 |
| Cash and cash equivalents at the end of the six-month period | 2 | 528,797 | 2,318,999 |

Analysis of the balance of cash and cash equivalents

| | Unaudited | |
|---------------------------|--------------------------|--------------------------|
| | At 30 Sep 2024 \$'000 | At 30 Sep 2023 \$'000 |
| Fixed deposits with banks | 496,350 | 2,242,111 |
| Cash at bank and in hand | 32,447 | 76,888 |
| | 528,797 | 2,318,999 |

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

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 the 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 2024. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2024 included in this report as comparative information 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, the Investor Compensation Company Limited (ICC) and the Investor and Financial Education Council (IFEC), are made up to 30 September 2024. 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 2024 to the interim financial information.

There were no significant changes in the operations of the Group for the six months ended 30 September 2024.

2. Cash and cash equivalents

| | Unaudited At 30 Sep 2024 \$'000 | Audited At 31 Mar 2024 \$'000 |
|---|--|--|
| Cash at bank and in hand | 32,447 | 146,154 |
| Fixed deposits with banks | 496,350 | 610,147 |
| Amounts shown in the condensed consolidated statement of financial position | 528,797 | 756,301 |
| Less: Amounts with an original maturity beyond three months | – | (25,050) |
| Cash and cash equivalents in the condensed consolidated statement of cash flows | 528,797 | 731,251 |

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

3. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government of the Hong Kong Special Administrative Region (the Government) to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in creditors and accrued charges.

4. Bank loan

To finance the property acquisition transaction, the Group has obtained a 5-year term loan of \$2,029,160,000 on 21 December 2023. The term loan carries a fixed interest rate of 4.7% per annum for the first two years and subsequently carries a floating interest rate of 1-month HIBOR plus 0.55% per annum. The term loan is secured by the Group's land and buildings.

5. Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange loss was mainly driven by the revaluation of USD denominated financial assets.

6. Consolidation

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 2024, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2024: \$0.2).

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

7. Related party transactions

The Group has related party relationships with the ICF and the Unified Exchange Compensation Fund. In addition to the related party transactions disclosed elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions and balances.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the period, \$3,189,000 was recovered from the ICF for the ICC's expenses (30 September 2023: \$3,052,000). As at 30 September 2024, the ICC had an amount due to the ICF of \$74,000 (as at 31 March 2024: \$148,000).

(b) Remuneration of key management personnel

| | Unaudited Six months ended | |
|--|-------------------------------|-----------------------|
| | 30 Sep 2024 \$'000 | 30 Sep 2023 \$'000 |
| Directors' fee and salaries, allowances and benefits in kind | 18,237 | 15,544 |
| Retirement scheme contributions | 1,600 | 1,365 |
| | 19,837 | 16,909 |

The total remuneration is included in the staff costs and directors' emoluments. Directors' emoluments are for services in connection with the management of the affairs of the SFC. 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.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

8. Fair value measurement

(a) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement, which is consistent with the hierarchy adopted in the consolidated financial statements for the year ended 31 March 2024.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| <u>At 30 September 2024 (Unaudited)</u> | | | | |
| Pooled funds | 1,231,381 | – | – | 1,231,381 |
| <u>At 31 March 2024 (Audited)</u> | | | | |
| Pooled funds | 1,087,666 | – | – | 1,087,666 |

During the six months ended 30 September 2024 and the year ended 31 March 2024, there were no transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between the different levels of the fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of the investment in the pooled funds is determined based on the net asset values of the pooled funds which are publicly available in the active markets.

(b) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 September 2024 and 31 March 2024 except for the following financial instruments, for which their carrying amount, fair value and the level of their fair value hierarchy were disclosed below:

| | Carrying amount \$'000 | Fair value | | | |
|---|------------------------------|-----------------|-------------------|-------------------|-------------------|
| | | Total \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| <u>At 30 September 2024 (Unaudited)</u> | | | | | |
| Financial assets at amortised cost – debt securities | 3,099,669 | 3,001,866 | – | 3,001,866 | – |
| <u>At 31 March 2024 (Audited)</u> | | | | | |
| Financial assets at amortised cost – debt securities | 3,001,036 | 2,829,751 | – | 2,829,751 | – |