

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Income					
Levies		1,479,250	972,326	514,290	306,990
Fees and charges		146,211	118,998	37,707	45,229
Net investment income					
Investment income		469,525	177,781	182,685	120,621
Less: custody and advisory expenses		(7,585)	(5,854)	(3,084)	(1,915)
Recoveries from the Investor Compensation Fund	6(a)	4,593	4,544	1,587	1,503
Exchange gain/(loss)		1,504	(29,608)	2,128	(23,947)
Other income		1,091	292	862	192
		2,094,589	1,238,479	736,175	448,673
Expenses					
Staff costs and directors' emoluments	6(b)	1,104,907	1,057,169	358,404	349,743
Depreciation					
Fixed assets		62,026	31,054	22,481	10,527
Right-of-use assets		194,596	157,686	35,616	57,068
Other premises expenses		31,008	33,401	8,367	11,268
Finance costs		7,008	2,519	2,220	349
Other expenses		114,718	159,418	39,889	58,704
		1,514,263	1,441,247	466,977	487,659
Surplus/(loss) and total comprehensive income for the period		580,326	(202,768)	269,198	(38,986)

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		288,081	135,712
Right-of-use assets		1,013,519	324,040
Deposits for leases		37,585	33,767
Financial assets at amortised costs – debt securities		3,079,176	1,600,123
		4,418,361	2,093,642
Current assets			
Financial assets at amortised costs – debt securities		145,044	984,239
Financial assets at fair value through profit or loss			
Debt securities		432,540	419,469
Pooled funds		1,033,477	648,510
Debtors, deposits and prepayments		277,383	265,200
Fixed deposits with banks		2,347,710	2,832,302
Cash at bank and in hand		36,444	51,871
		4,272,598	5,201,591
Current liabilities			
Fees received in advance		8,801	47,097
Creditors and accrued charges		299,398	167,043
Lease liabilities		137,254	96,115
Provisions	3	16,969	66,532
		462,422	376,787
Net current assets		3,810,176	4,824,804
Total assets less current liabilities		8,228,537	6,918,446
Non-current liabilities			
Lease liabilities		864,945	203,558
Provisions	3	88,346	19,968
		953,291	223,526
Net assets		7,275,246	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,232,406	3,652,080
		7,275,246	6,694,920

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		287,934	135,658
Right-of-use assets		1,013,436	324,040
Deposits for leases		37,585	33,767
Financial assets at amortised costs – debt securities		3,079,176	1,600,123
		4,418,131	2,093,588
Current assets			
Financial assets at amortised costs – debt securities		145,044	984,239
Financial assets at fair value through profit or loss			
Debt securities		432,540	419,469
Pooled funds		1,033,477	648,510
Debtors, deposits and prepayments		277,521	274,141
Fixed deposits with banks		2,347,710	2,832,302
Cash at bank and in hand		24,264	29,836
		4,260,556	5,188,497
Current liabilities			
Fees received in advance		8,801	47,097
Creditors and accrued charges		287,208	153,895
Lease liabilities		137,236	96,115
Provisions	3	16,969	66,532
		450,214	363,639
Net current assets		3,810,342	4,824,858
Total assets less current liabilities		8,228,473	6,918,446
Non-current liabilities			
Lease liabilities		864,881	203,558
Provisions	3	88,346	19,968
		953,227	223,526
Net assets		7,275,246	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,232,406	3,652,080
		7,275,246	6,694,920

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2020 (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 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
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the period	–	–	580,326	580,326
Balance at 31 December 2020	42,840	3,000,000	4,232,406	7,275,246

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Surplus/(loss) for the period		580,326	(202,768)
Adjustments for:			
Depreciation – Fixed assets		62,026	31,054
Depreciation – Right-of-use assets		194,596	157,686
Provisions for reinstatement		(12,197)	–
Finance costs		7,008	2,519
Interest income on deposits for leases		(212)	–
Investment income		(469,525)	(177,781)
Exchange difference		(1,616)	29,635
Loss on disposal of fixed assets		4,889	3
		365,295	(159,652)
Increase in right-of-use assets		(50)	–
Increase in debtors, deposits and prepayments		(23,043)	(17,076)
(Decrease)/increase in fees received in advance		(38,296)	50,700
Increase in creditors and accrued charges		111,569	81,844
Decrease in provisions for reinstatement		(37,940)	–
Net cash generated from/(used in) operating activities		377,535	(44,184)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		353,378	1,373,433
Interest received		91,111	113,549
Debt securities at fair value through profit or loss purchased		(150,699)	(326,992)
Debt securities at fair value through profit or loss sold or redeemed		146,429	722,468
Pooled funds sold		3,485	153,396
Debt securities at amortised cost purchased		(1,512,389)	(1,086,352)
Debt securities at amortised cost redeemed at maturity		860,401	342,842
Fixed assets purchased		(194,037)	(43,102)
Proceeds from fixed assets disposal		2	–
Net cash (used in)/generated from investing activities		(402,319)	1,249,242
Cash flows from financing activities			
Principal element of lease payments		(114,971)	(148,325)
Interest element of lease payments		(7,008)	(2,519)
Net cash used in financing activities		(121,979)	(150,844)
Net (decrease)/increase in cash and cash equivalents		(146,763)	1,054,214
Cash and cash equivalents at the beginning of the nine-month period		753,406	289,657
Cash and cash equivalents at the end of the nine-month period	2	606,643	1,343,871

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2020 \$'000	At 31 Dec 2019 \$'000
Fixed deposits with banks	570,199	1,277,201
Cash at bank and in hand	36,444	66,670
	606,643	1,343,871

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted 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 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 2020. 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.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2020 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 2020. 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 2020 to the interim financial information.

There were no significant changes in the operations of the Group for the nine months ended 31 December 2020.

2. Cash and cash equivalents

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank and in hand	36,444	51,871
Fixed deposits with banks	2,347,710	2,832,302
Amounts shown in the condensed consolidated statement of financial position	2,384,154	2,884,173
Less: Amounts with an original maturity beyond three months	(1,777,511)	(2,130,767)
Cash and cash equivalents in the condensed consolidated statement of cash flows	606,643	753,406

3. Provisions

Provisions represent premises reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

4. 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 or income was mainly driven by the USD revaluation on financial assets.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

5. 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 2020, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2020: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

6. 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 transactions 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, \$4,593,000 was recovered from the ICF for the ICC’s expenses (2019: \$4,544,000). As at 31 December 2020, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$176,000 (as at 31 March 2020: \$138,000).

(b) Remuneration of key management personnel

	Unaudited Nine months ended	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Directors’ fees and salaries, allowances and benefits in kind	25,662	26,839
Retirement scheme contributions	2,307	2,320
	27,969	29,159

The total remuneration is included in “staff costs and directors’ emoluments” on page 26. 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.