

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
Income			
Levies		415,610	352,256
Fees and charges		29,747	24,904
Net investment income			
Investment income		87,997	45,339
Less: custody and advisory expenses		(2,605)	(2,856)
Recoveries from the Investor Compensation Fund	8(a)	1,568	1,520
Exchange loss		(10,391)	(8,555)
Other income		–	744
		521,926	413,352
Expenses			
Staff costs and directors' emoluments	8(b)	424,677	392,331
Depreciation			
Fixed assets		46,439	25,255
Right-of-use assets		2,743	36,620
Other premises expenses		9,590	8,914
Finance costs		24,366	1,542
Other expenses		51,006	49,751
		558,821	514,413
Deficit and total comprehensive income for the quarter		(36,895)	(101,061)

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Jun 2024 \$'000	Audited At 31 Mar 2024 \$'000
Non-current assets			
Fixed assets		4,380,254	4,410,812
Right-of-use assets		18,734	21,477
Deposits and prepayments		335,414	335,414
Financial assets at amortised costs – debt securities	9(b)	1,878,489	2,102,479
		6,612,891	6,870,182
Current assets			
Financial assets at amortised costs – debt securities	9(b)	1,215,126	898,557
Financial assets at fair value through profit or loss – pooled funds	9(a)	1,143,173	1,087,666
Debtors, deposits and prepayments		202,198	196,080
Fixed deposits with banks	3	577,264	610,147
Cash held for Grant Scheme	4	63,820	58,656
Cash at bank and in hand	3	85,910	146,154
		3,287,491	2,997,260
Current liabilities			
Fees received in advance		8,083	8,497
Creditors and accrued charges		271,624	199,132
Bank loan	5	18,262	18,262
Lease liabilities		8,092	9,212
Provisions for reinstatement cost		574	574
		306,635	235,677
Net current assets		2,980,856	2,761,583
Total assets less current liabilities		9,593,747	9,631,765
Non-current liabilities			
Bank loan	5	2,001,826	2,001,319
Lease liabilities		11,249	12,879
Provisions for reinstatement cost		1,190	1,190
		2,014,265	2,015,388
Net assets		7,579,482	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		6,349,842	6,386,737
		7,579,482	7,616,377

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of changes in equity

For the quarter ended 30 June 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 quarter	–	–	(101,061)	(101,061)
Balance at 30 June 2023	42,840	3,375,000	4,395,232	7,813,072
Balance at 1 April 2024	42,840	1,186,800	6,386,737	7,616,377
Deficit and total comprehensive income for the quarter	–	–	(36,895)	(36,895)
Balance at 30 June 2024	42,840	1,186,800	6,349,842	7,579,482

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

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Condensed consolidated statement of cash flows

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
Cash flows from operating activities			
Deficit for the quarter		(36,895)	(101,061)
Adjustments for:			
Depreciation – Fixed assets		46,439	25,255
Depreciation – Right-of-use assets		2,743	36,620
Finance costs		24,366	1,542
Interest income on deposits for leases		–	(73)
Investment income		(87,997)	(45,339)
Exchange loss		10,343	8,491
Loss on disposal of fixed assets		7	8
		(40,994)	(74,557)
Increase in right-of-use assets		–	(1)
(Increase)/decrease in debtors, deposits and prepayments		(7,034)	35,102
(Increase)/decrease in cash held for Grant Scheme		(5,164)	9,508
Decrease in fees received in advance		(414)	(385)
Increase in creditors and accrued charges		75,950	37,544
Net cash generated from operating activities		22,344	7,211
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		–	490,805
Interest received		29,528	57,188
Debt securities at fair value through profit or loss purchased		–	(66,811)
Debt securities at fair value through profit or loss sold or redeemed		–	67,128
Pooled funds sold		1,533	1,547
Debt securities at amortised cost purchased		(896,644)	(77,499)
Debt securities at amortised cost redeemed at maturity		796,067	43,266
Fixed assets purchased		(19,085)	(12,683)
Net cash (used in)/generated from investing activities		(88,601)	502,941
Cash flows from financing activities			
Principal element of lease payments		(2,750)	(35,771)
Interest element of lease payments		(81)	(1,542)
Interest expense on bank loan		(24,039)	–
Net cash used in financing activities		(26,870)	(37,313)
Net (decrease)/increase in cash and cash equivalents		(93,127)	472,839
Cash and cash equivalents at the beginning of the quarter		731,251	407,901
Cash and cash equivalents at the end of the quarter	3	638,124	880,740

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2024 \$'000	At 30 Jun 2023 \$'000
Fixed deposits with banks	552,214	812,523
Cash at bank and in hand	85,910	68,217
	638,124	880,740

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 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 June 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 quarter ended 30 June 2024.

2. Recent developments in HKFRSs

Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 16

The Group has certain debt securities at amortised cost that are referenced to the 3-month USD London Interbank Offered Rate (LIBOR). The 3-month USD LIBOR continues to be published under a synthetic methodology. These exposures will remain outstanding until the synthetic USD LIBOR ceases and will therefore transit in the future. The Group has assessed the impact and there was no significant effect on the condensed consolidated financial statements. The Group is closely monitoring the market and managing the transition to a new benchmark interest rate.

As at 30 June 2024, the carrying amounts of debt securities at amortised cost that are referenced to synthetic USD LIBOR and have yet to be transitioned to an alternate benchmark was \$32,805,000 (as at 31 March 2024: \$32,892,000). The total notional contract amount was \$32,791,000 (as at 31 March 2024: \$32,871,000).

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Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Jun 2024 \$'000	Audited At 31 Mar 2024 \$'000
Cash at bank and in hand	85,910	146,154
Fixed deposits with banks	577,264	610,147
Amounts shown in the condensed consolidated statement of financial position	663,174	756,301
Less: Amounts with an original maturity beyond three months	(25,050)	(25,050)
Cash and cash equivalents in the condensed consolidated statement of cash flows	638,124	731,251

4. 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.

5. 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.

6. 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.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

7. 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 June 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).

8. 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, \$1,568,000 was recovered from the ICF for the ICC's expenses (30 June 2023: \$1,520,000). As at 30 June 2024, the ICC had an amount due to the ICF of \$188,000 (as at 31 March 2024: \$148,000).

(b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2024 \$'000	30 Jun 2023 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,908	7,481
Retirement scheme contributions	761	654
	9,669	8,135

The total remuneration is included in the staff costs and directors' emoluments. Directors' emoluments are for services in connection with 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 quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

9. 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 June 2024 (Unaudited)</u>				
Pooled funds	1,143,173	–	–	1,143,173
<u>At 31 March 2024 (Audited)</u>				
Pooled funds	1,087,666	–	–	1,087,666

During the quarter ended 30 June 2024 and the year ended 31 March 2024, there were no significant 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 levels of 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 market.

(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 June 2024 and 31 March 2024 except for the following financial instruments, for which their carrying amount, fair value and the level of 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 June 2024 (Unaudited)</u>					
Financial assets at amortised costs – debt securities	3,093,615	2,934,824	–	2,934,824	–
<u>At 31 March 2024 (Audited)</u>					
Financial assets at amortised costs – debt securities	3,001,036	2,829,751	–	2,829,751	–