DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Note	2019 HK$	2018 HK$
Income			
Contributions		**524,194,131**	485,892,994
Interest income from cash and balances with banks and the Exchange Fund		**59,104,904**	8,194,331
Interest income from available-for-sale securities	5	**–**	23,105,926
Net realised losses on disposal of available-for-sale securities	5	**–**	(1,561,477)
Exchange gains		**–**	15,671,955
Other income		**90,000**	95,063
		583,389,035	531,398,792
Expenditure			
Staff costs	6	**10,438,859**	10,309,803
Premises costs		**5,885,483**	5,866,687
Depreciation and amortisation		**2,037,686**	3,227,788
Office supplies		**98,369**	55,811
Overseas travel		**84,690**	148,742
Transport and travelling		**3,056**	7,108
Operating expenses reimbursable to the HKMA	11	**24,719,955**	24,250,327
Hire of services		**7,132,066**	9,668,986
Communications		**104,380**	160,845
Publicity and printing		**10,864,267**	10,660,858
Other expenses		**2,714,919**	4,697,734
		64,083,730	69,054,689
Surplus for the year		**519,305,305**	462,344,103
Total comprehensive income for the year		**519,305,305**	462,344,103

The notes on pages 38 to 56 form part of this statement of accounts.

DEPOSIT PROTECTION SCHEME FUND — BALANCE SHEET

As at 31 March 2019

	Note	2019 HK$	2018 HK$
Non-current assets			
Fixed assets	7	**8,608,173**	9,025,449
Intangible assets	8	**11,259,557**	6,659,449
		19,867,730	15,684,898
Current assets			
Other receivables	9	**1,189,496**	2,873,949
Cash and balances with banks and the Exchange Fund		**4,582,189,098**	4,044,426,439
		4,583,378,594	4,047,300,388
Current liabilities			
Contributions received in advance		**410,602,984**	389,909,270
Other payables	10	**27,603,539**	27,341,520
		438,206,523	417,250,790
Net current assets		**4,145,172,071**	3,630,049,598
Net assets		**4,165,039,801**	3,645,734,496
Represented by			
Accumulated surplus		**4,165,039,801**	3,645,734,496
		4,165,039,801	3,645,734,496

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 19 June 2019

Professor Hui King-man, Michael
Chairman

The notes on pages 38 to 56 form part of this statement of accounts.

DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	2019 HK$	2018 HK$
Fund balance as at 1 April	**3,645,734,496**	3,183,390,393
Surplus for the year	**519,305,305**	462,344,103
Fund balance as at 31 March	**4,165,039,801**	3,645,734,496

The notes on pages 38 to 56 form part of this statement of accounts.

DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	2019 HK$	2018 HK$
Operating activities		
Surplus for the year	**519,305,305**	462,344,103
Interest income	**(59,104,904)**	(31,300,257)
Exchange gains on available-for-sale securities	**–**	(14,000,265)
Net realised losses on disposal of available-for-sale securities	**–**	1,561,477
Depreciation and amortisation	**2,037,686**	3,227,788
Cash from operating surplus before changes in operating assets and liabilities	**462,238,087**	421,832,846
Changes in operating assets and liabilities		
Decrease/(increase) in other receivables	**1,767,847**	(845,597)
Increase in contributions received in advance	**20,693,714**	33,892,819
Increase/(decrease) in other payables	**262,019**	(682,414)
Net cash from operating activities	**484,961,667**	454,197,654
Investing activities		
Purchase of intangible assets	**(6,220,518)**	(4,180,320)
Purchase of fixed assets	**–**	(8,424,434)
Interest received	**59,021,510**	8,108,189
Purchase of available-for-sale securities	**–**	(2,543,475,173)
Proceeds from disposal of available-for-sale securities	**–**	2,579,019,887
Net cash from investing activities	**52,800,992**	31,048,149
Net increase in cash and cash equivalents	**537,762,659**	485,245,803
Cash and cash equivalents at 1 April	**4,044,426,439**	3,559,180,636
Cash and cash equivalents at 31 March	**4,582,189,098**	4,044,426,439
Analysis of balance of cash and cash equivalents		
Cash and balances with banks and the Exchange Fund	**4,582,189,098**	4,044,426,439

The notes on pages 38 to 56 form part of this statement of accounts.

1 PURPOSE AND ACTIVITIES

The Deposit Protection Scheme Fund (the Fund) is established under the Deposit Protection Scheme Ordinance (the Ordinance) for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks that are members of the Deposit Protection Scheme (the Scheme or the DPS). Currently, the protection limit is set at HK$500,000 per depositor per bank. The Hong Kong Deposit Protection Board (the Board) manages the Fund in accordance with the provisions of the Ordinance. The Fund mainly consists of contributions collected from Scheme members and returns on investments of the Fund. Expenditure incurred in the establishment and maintenance of the Scheme, as well as the management and administration of the Fund are paid from the Fund.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The statement of accounts of the Fund has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs" is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Hong Kong (IFRIC) Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), and accounting principles generally accepted in Hong Kong. The statement of accounts has been prepared under the historical cost convention.

The preparation of statement of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies.

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions made in the preparation of these accounts do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

(i) New and amended standards adopted by the Fund

The following new standards have been adopted by the Fund for the first time for the accounting year beginning on 1 April 2018:

- HKFRS 9, Financial Instruments
- HKFRS 15, Revenue from Contracts with Customers

<u>HKFRS 9: Financial Instruments</u>

HKFRS 9, which replaces the HKAS 39, includes revised guidance on the classification and measurement of financial instruments; more timely recognition of expected credit loss (ECL) of financial assets; and introduces revised requirements for general hedge accounting. HKFRS 9 has been applied retrospectively by the Fund and did not result in a change to the classification and measurement of financial instruments as outlined in note 2(f).

Also, there was no material impact on adoption from the application of the new impairment methodology.

The details of major changes to the accounting policies from the implementation of HKFRS 9 are covered in Note 2(f).

<u>HKFRS 15: Revenue from Contracts with Customers</u>

From 1 January 2018, HKFRS 15 replaced the existing revenue recognition guidance and established a comprehensive framework for determining whether, how much and when revenue is recognised. Revenue is recognised when a performance obligation is satisfied, which could either be at a point in time or when the obligation is satisfied over time.

Management has assessed the impact of the new standard and considered that there is no significant effect on these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 April 2019 and have not been early adopted

The Fund has chosen not to early adopt the following new and revised HKFRSs which have been issued but are not yet effective.

HKFRS 16: Leases

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It will supersede HKAS 17 related to leases. The new standard is mandatory for financial years beginning on or after 1 January 2019.

It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability. The right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease. In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17.

HKFRS 16 will primarily affect the Fund's accounting as a lessee of leases for premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income and expenditure account over the period of the leases. As disclosed in note 12, the Fund has non-cancellable operating leases commitments of approximately HK$8 million as at 31 March 2019.

The Fund has made an assessment of the impact of this new standard and will apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Management has quantified the financial impact of HKFRS 16 and expects that the standard will not have, when applied, material impacts on the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Revenue recognition

Revenue is recognised in the statement of comprehensive income when it is probable that economic benefits will flow to the Fund and the revenue can be measured reliably.

Contributions and exemption fees are collected from Scheme members as specified in Schedule 4 to the Ordinance. They are accounted for on an accrual basis.

Contributions are calculated based on the amount of relevant deposits and the respective supervisory rating of each non-exempted bank applicable at a specified date. Contributions are collected annually in advance for each calendar year.

Interest income is recognised in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) Expenses

All expenses are recognised in the statement of comprehensive income on an accrual basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

	Years
Computer hardware/software costs:	
• Servers	5
• Others, e.g. personal computers, printers and accessories	3
Office furniture, equipment and fixtures	5

Only items costing HK$10,000 or more are capitalised. Gains or losses arising from the disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income in the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's net selling price and value in use.

(e) Intangible assets

Costs that are directly associated with the development of identifiable and unique systems controlled and used by the Fund, and that will probably generate economic benefit exceeding costs beyond 1 year, are recognised as intangible assets. Intangible assets include expenditures on development of the Payout System. Such expenditure is capitalised if the systems are technically and commercially feasible. The expenditure capitalised includes the direct labour and costs of materials. Intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation of intangible assets with definite life is charged to the statement of comprehensive income on a straight-line basis over the assets' estimated useful life of 5 years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial assets

Classification

The Fund classifies its financial assets into different categories for determining the subsequent measurement methods, on the basis of both the Fund's business model for managing the assets and the contractual cash flow characteristics of the assets. Management determines the classification of its financial assets at initial recognition. The Fund reclassifies a financial asset when and only when it changes its business model for managing the asset.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise "other receivables" and "cash and balances with banks and the Exchange Fund" in the balance sheet.

If collection of loans and other receivables is expected in 1 year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(ii) Other financial assets

Other financial assets are non-derivatives that are measured at amortised cost. This category includes investment instruments that are specified under section 21 of the Ordinance.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership. Loans and receivables and other financial assets are subsequently carried at amortised cost using the effective interest method (net of any impairment loss allowance).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial assets *(continued)*

Impairment of financial assets

The Fund applies a three-stage approach to measure ECLs and impairment losses or reversals, for financial instruments that are not measured at fair value through profit or loss.

The change in credit risk since initial recognition determines the measurement bases for ECLs:

Stage 1: 12-month ECLs

For financial instruments for which there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECLs that represent the ECLs that result from default events that are possible within the 12 months after the reporting period are recognised.

Stage 2: Lifetime ECLs – not credit impaired

For financial instruments for which there has been a significant increase in credit risk since initial recognition but that are not credit impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial instrument are recognised.

Stage 3: Lifetime ECLs – credit impaired

For financial instruments that have become credit impaired, lifetime ECLs are recognised and interest income is calculated by applying the effective interest rate to the amortised cost (net of loss allowance) rather than the gross carrying amount.

Determining the stage for impairment

At each reporting date, the Fund assesses whether there has been a significant increase in credit risk for financial instruments since initial recognition by comparing the risk of default occurring over the remaining expected life as at the reporting date with that as at the date of initial recognition. For this purpose, the date of initial recognition of loan commitments is the date that the Fund becomes a party to the irrevocable commitment. The assessment considers quantitative and qualitative information as well as forward-looking information. A financial asset is assessed to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial assets *(continued)*

Impairment of financial assets (continued)

Determining the stage for impairment ***(continued)***

The Fund assesses whether there has been a significant increase in credit risk since initial recognition on an individual or collective basis. For collective assessment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account investment type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the counterparty or borrower and other relevant factors.

Debt investments with an external credit rating of investment grade are considered to have a low credit risk. Other financial instruments are considered to have a low credit risk if they have a low risk of default and the counterparty or borrower has a strong capacity to meet its contractual cash flow obligations in the near term. The credit risk on these financial instruments is assessed as not having increased significantly since initial recognition.

For a financial asset with lifetime ECLs recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime ECLs to 12-month ECLs.

When a financial asset is uncollectible, it is written off against the related loss allowance. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of comprehensive income.

Measurement of ECLs

ECLs of a financial instrument are an unbiased and probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A credit loss is the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. For a financial asset that is credit impaired at the reporting date, the Fund measures the ECLs as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

(h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of transaction including: cash at bank and on hand, demand deposits with banks, other financial institutions and the Monetary Authority (MA) for the account of the Exchange Fund, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Other payables

Other payables are initially recognised at fair value and thereafter stated at amortised cost.

Other payables are classified as current liabilities if payment is due within 1 year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the statement of accounts are measured using the currency of the primary economic environment in which the Fund operates (the functional currency). The statement of accounts is presented in Hong Kong dollars, which is the Fund's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the surplus, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets are included in other comprehensive income.

(k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Provisions and contingent liabilities

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events where it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are recognised when the absence occurs.

(ii) Pension obligations

The Fund offers a mandatory provident fund scheme, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Fund. The Fund's contributions to the mandatory provident fund scheme are expensed as incurred.

(n) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

3 RISK MANAGEMENT

(a) Governance

The Fund is established under the Ordinance for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks which are members of the Scheme. Under Part 4 of the Ordinance, the Fund is to consist of:

- contributions and late payment fees collected from Scheme members;
- money recovered by the Board from, or out of the assets of, failed Scheme members;
- returns on investments;
- money borrowed by the Board for the purpose of performing its functions; and
- any other money lawfully paid into the Fund.

The Board established an Investment Committee and delegated its power to the Committee to place, or invest, money of the Fund that is not immediately required by the Board for the performance of its functions. In particular, the Investment Committee:

- makes recommendations on the investment policy and strategy in respect of the Fund;
- monitors the investment performance of the Fund and establishes proper risk management controls for the investment activities of the Board; and
- works on any other investment-related matters as determined from time to time by the Board.

Operating within the requirements under the Ordinance and policies endorsed by the Investment Committee, the Board's staff conduct the day-to-day investment management and risk management of the Fund.

3 RISK MANAGEMENT *(continued)*

(b) Investment management and control

Under section 21 of the Ordinance, the Fund or any part of it may be invested in the following investment instruments:

- deposits with the MA for the account of the Exchange Fund;
- Exchange Fund Bills;
- US Treasury Bills; and
- any other investment approved by the Financial Secretary.

In December 2008, the Financial Secretary approved an expansion of the investment scope of the Fund to cover Exchange Fund Notes and US Treasury Notes with remaining term to maturity of not more than 2 years, and Hong Kong dollar and US dollar deposits of up to 3 months in tenor with financial institutions.

Investment activities of the Fund are conducted in accordance with the requirements set out in the Ordinance and the policies endorsed by the Investment Committee to ensure the investment objectives of capital preservation and maintaining sufficient liquidity are met.

The Board's Management Team is responsible for the day-to-day investment management of the Fund. Investment reports showing the latest market values, rate of return, maturity profile, types of financial instruments held and limits versus exposures are regularly submitted to the Investment Committee for control purpose.

(c) Financial risk management

Market risk

Market risk is the risk that changes in market variables such as interest rates, equity prices and exchange rates which may affect the fair value or cash flows of a financial instrument. Market risk to the Fund mainly comprises interest rate risk and currency risk.

3 RISK MANAGEMENT *(continued)*

(c) Financial risk management *(continued)*

Market risk (continued)

(i) Interest rate risk

Interest rate risk refers to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Since the majority of the financial assets represent the cash balances with bank and the Exchange Fund, the impact of interest rate fluctuations on the Fund is considered minimal.

(ii) Currency risk

Currency risk is the risk of loss arising from changes in foreign exchange rates. The investments held by the Fund are denominated either in Hong Kong dollars or US dollars. Because of the linked exchange rate with the US dollar, the currency risk to the Fund is considered minimal.

Liquidity risk

Liquidity risk refers to the risk that the Fund may not have sufficient funds available to meet its liabilities as they fall due. In addition, the Fund may not be able to liquidate its financial assets at a price close to the fair value within a short period of time.

Given that the Fund can only make deposits with the MA for the account of the Exchange Fund or with financial institutions approved by the Investment Committee or invest in the highly liquid Exchange Fund Bills and Notes and US Treasury Bills and Notes, the liquidity of the Fund is maintained at a high level at all times.

Credit risk

The Fund is exposed to credit risk as a borrower or a counterparty may not be able or willing to perform its contractual obligations in full when due. The credit risk of the Fund can be broken into (i) counterparty risk from placement activities; (ii) counterparty risk from investment transactions; (iii) issuer risk arising from debt securities holdings; and (iv) country risk.

3 RISK MANAGEMENT *(continued)*

(c) Financial risk management *(continued)*

Credit risk (continued)

Counterparty credit exposures arise mainly from the Fund's deposit placements with the MA for the account of the Exchange Fund and financial institutions approved by the Investment Committee and securities transactions with financial institutions. In this respect, the Fund will only conduct securities transactions with counterparties approved by the Investment Committee. Issuer risk arises from investments in debt securities. The types of investment securities of the Fund are limited to Exchange Fund Bills and Notes and US Treasury Bills and Notes, both with minimal default risk. Management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. In addition to the counterparty and issuer risks, the Fund is exposed to country risk, which is confined to the sovereign risk of Hong Kong and the US and the country risk of financial institutions approved by the Investment Committee given the Fund's limited types of investments. The Fund's credit exposures are reported regularly to the Investment Committee based on its delegated authority from the Board.

4 TAXATION

No provision for Hong Kong Profits Tax for 2019 and 2018 have been made as the Board is exempt from Hong Kong Profits Tax pursuant to section 10 of the Ordinance.

5 PURCHASE AND DISPOSAL OF AVAILABLE-FOR-SALE SECURITIES

In 2018, the Fund purchased and disposed of the US Treasury Bills resulting in interest income of HK$23,105,926, exchange gain of HK$14,000,265 and net realised losses on disposal of available-for-sale securities of HK$1,561,477 which have been separately disclosed in the statement of comprehensive income. Taking these three components together, the purchase and sale of the US Treasury Bills have generated a net income amounted to HK$35,544,714 in 2018.

In 2019, there was no such income arising from purchase or disposal of US Treasury Bills.

6 STAFF COSTS

	2019 HK$	2018 HK$
Salaries	**9,522,670**	9,205,353
Gratuity	**8,768**	196,484
Other employee benefits	**907,421**	907,966
	10,438,859	10,309,803

7 FIXED ASSETS

	Office equipment, furniture and fixtures HK$	**Computer hardware/ software** HK$	**Total** HK$
Cost			
As at 1 April 2018	1,647,992	25,158,820	26,806,812
Additions	–	–	–
As at 31 March 2019	1,647,992	25,158,820	26,806,812
Accumulated depreciation			
As at 1 April 2018	1,545,414	16,235,949	17,781,363
Charge for the year	42,543	374,733	417,276
As at 31 March 2019	1,587,957	16,610,682	18,198,639
Net book value			
As at 31 March 2019	60,035	8,548,138	8,608,173
As at 31 March 2018	102,578	8,922,871	9,025,449

8 INTANGIBLE ASSETS

	Development costs of Payout System HK$
Cost	
As at 1 April 2018	34,885,758
Additions	6,220,518
As at 31 March 2019	41,106,276
Accumulated amortisation	
As at 1 April 2018	28,226,309
Charge for the year	1,620,410
As at 31 March 2019	29,846,719
Net book value	
As at 31 March 2019	11,259,557
As at 31 March 2018	6,659,449

9 OTHER RECEIVABLES

	2019 HK$	2018 HK$
Prepayment	926,296	2,215,962
Interest receivables	200,700	117,306
Others	62,500	540,681
	1,189,496	2,873,949

10 OTHER PAYABLES

	Note	2019 HK$	2018 HK$
Hire of services	(a)	**25,352,840**	25,065,796
Staff expenses		**1,105,875**	1,369,834
Others		**1,144,824**	905,890
		27,603,539	27,341,520

(a) This amount includes operating expenses of HK$24,719,955 (2018: HK$24,250,327) reimbursed to the Hong Kong Monetary Authority (HKMA).

11 MATERIAL RELATED PARTY TRANSACTIONS

Pursuant to section 6 of the Ordinance, the Board shall perform its functions through the MA unless indicated otherwise by the Financial Secretary. The HKMA has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources, and information technology.

The related party transactions with the HKMA are as follows:

	Note	2019 HK$	2018 HK$
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	**4,578,468,535**	4,039,314,656
Transactions during the year			
Interest income from balances with the Exchange Fund	(a)	**59,104,453**	8,193,999
Operating expenses reimbursed to the HKMA	(b)	**24,719,955**	24,250,327

11 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK$4,578,468,535 (2018: HK$4,039,314,656) and earned interest amounting to HK$59,104,453 (2018: HK$8,193,999) at a rate which is referenced to the market interest rates.

(b) Certain operating expenses are reimbursed to the HKMA on a cost recovery basis in accordance with the provisions set out in the Ordinance. The expenses include the cost of staff and supporting services incurred by the HKMA for assisting the Board in carrying out its functions.

(c) During the year, the HKMA provided the Board a standby facility from the Exchange Fund for meeting the necessary liquidity required for payment of compensation in the event of a bank failure. The maximum amount which may be drawn under the facility is HK$120 billion (2018: HK$120 billion) of which nil (2018: nil) was drawn during the year.

12 OPERATING LEASE COMMITMENTS

The future minimum lease payments under non-cancellable operating leases contracted for at the balance sheet date, but not recognised as liabilities, are as follows:

	2019 **HK$**	2018 HK$
No later than 1 year	**5,168,100**	5,168,100
Later than 1 year and no later than 5 years	**2,778,548**	7,946,648
	7,946,648	13,114,748

13 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 19 June 2019.