



Directors' Report and Financial Statements

For the year ended 31 March 2004

Investor Compensation Company Limited

Report of the directors

The directors present herewith their report and the audited financial statements for the year ended 31 March 2004.

1. Principal activities

The Securities and Futures Ordinance provides for the establishment of the Investor Compensation Fund (“the Fund”). The Securities and Futures Commission has recognised the Investor Compensation Company Limited (“the company”) to facilitate the administration and management of the Fund.

2. Financial results

The financial results are set out in the audited financial statements presented on pages 3 to 9.

3. Directors

The directors during the year and up to the date of the report were:

Ms <u>Wu</u> Hung Yuk, Anna, (Chairperson)	(appointed on 8 August 2003)
Mr. <u>Cham</u> Yau Nam, Allen,	(appointed on 1 April 2003)
Mr. <u>Chow</u> Man Yiu, Paul	(appointed on 30 June 2003)
Mr. Mark <u>Dickens</u>	(appointed on 11 September 2002)
Mr. Anthony <u>Espina</u>	(appointed on 1 April 2003)
Mr. Gerald Dale <u>Greiner</u>	(appointed on 11 September 2002)
Dr. <u>Kwok</u> Chi Pui, Bill	(appointed on 1 April 2003)
Mr. <u>Po</u> Wai Kwong	(appointed on 1 April 2003)
Mr. David <u>Richardson</u>	(appointed on 1 April 2003)
Mr. <u>Tang</u> Kwai Nang	(appointed on 1 April 2003)
M. Frederick <u>Grede</u>	(resigned on 8 July 2003)

4. Directors’ interests in contracts

No contract of significance to which the company, its holding company or fellow subsidiaries, was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the year.

5. Auditors

KPMG were first appointed as auditors of the company in 2003. KPMG retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chairperson
Anna Wu Hung Yuk

**Auditors' report to the shareholders of
Investor Compensation Company Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 3 to 9 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2004 and of its result and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG
Certified Public Accountants
Hong Kong,
30 April 2004

Income and expenditure account
For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

	<i>Note</i>	For the year ended 31 March 2004	For the period from 11 September 2002 (date of incorporation) to 31 March 2003
		\$	\$
Income			
Recoveries from the Investor Compensation Fund		3,161,533	1,272,887
Expenses			
Consultancy and management fees		1,160,000	-
Pre-operation consultancy fee		-	1,200,000
Premises			
rent	10	169,511	-
other		70,292	-
Staff costs	4	1,045,646	57,687
Other expenses	6	502,667	15,200
Depreciation	7	213,417	-
		3,161,533	1,272,887
Result for the year before taxation		-	-
Taxation	3	-	-
Result for the year after taxation		-	-

Statement of changes in equity
For the year ended 31 March 2004

The result in the above income and expenditure account is the only change in equity for both the current year and prior period.

The notes on page 6 to 9 form part of these financial statements.

Balance sheet

As at 31 March 2004

(Expressed in Hong Kong dollars)

	Note	2004	2003
Non-current assets		\$	\$
Fixed assets	7	439,488	-
Current assets			
Cash and cash equivalents		1,220,622	1
Prepayments and deposits		224,917	-
Amount due from Investor Compensation Fund		-	1,272,887
		<u>1,445,539</u>	<u>1,272,887</u>
Current liabilities			
Accrued charges		54,500	15,000
Amount due to Investor Compensation Fund		1,777,772	-
Amount due to holding company		-	1,257,887
		<u>1,832,272</u>	<u>1,272,887</u>
Net current (liabilities) / assets		<u>(386,733)</u>	<u>1</u>
Total assets less current liabilities		52,755	1
Non-current liabilities			
Deferred lease incentives	9	<u>52,754</u>	-
Net assets		<u>1</u>	<u>1</u>
Capital and reserves			
Share capital	8	<u>1</u>	<u>1</u>

Approved and authorised for issue by the board of directors on 30 April 2004 and signed on its behalf by

Anna Wu Hung Yuk

Mark Dickens

The notes on page 6 to 9 form part of these financial statements.

Cash flow statement
For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

	For the year ended 31 March 2004	For the period from 11 September 2002 (date of incorporation) to 31 March 2003
	\$	\$
Cash flows from operating activities		
Result for the year / period	-	-
Depreciation	213,417	-
Increase in prepayments and deposits	(224,917)	-
Decrease/(increase) in amount due from Investor Compensation Fund	1,272,887	(1,272,887)
Increase in amount due to Investor Compensation Fund	1,777,772	-
(Decrease)/increase in amount due to holding company	(1,257,887)	1,257,887
Increase in creditors and accrued charges	39,500	15,000
Increase in deferred lease incentives	52,754	-
	<u>1,873,526</u>	<u>-</u>
Net cash inflow from operating activities		
Investing activities		
Purchase of fixed assets	(652,905)	-
	<u>-</u>	<u>-</u>
Financing activities		
Proceed from shares issue	-	1
	<u>-</u>	<u>1</u>
Net cash inflow from financing activities		
Net increase in cash and cash equivalents	1,220,621	1
Cash and cash equivalents at the beginning of the year / period	1	-
	<u>1,220,622</u>	<u>1</u>
Cash and cash equivalents at the end of the year / period		
Analysis of the balance of cash and cash equivalents :		
Cash at bank and in hand	1,220,622	1
	<u>1,220,622</u>	<u>1</u>

Notes to the financial statements (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Ordinance provides for the establishment of the Investor Compensation Fund (“the Fund”). The Securities and Futures Commission (“the SFC”) has recognised the Investor Compensation Company Limited (“the company”) to facilitate the administration and management of the Fund.

2. Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the requirements of the Hong Kong Companies Ordinance. There would be no material differences to the amounts shown if the financial statements had been prepared in accordance with applicable Hong Kong Financial Reporting Standards (including applicable Statements of Standard Accounting Practice and Interpretations).

(a) *Basis of preparation of the financial statements*

We have prepared these financial statements using the historical cost basis.

(b) *Recognition of income*

We recognise recoveries from the Fund on an accrual basis.

(c) *Operating leases*

We treat the rent payable under operating leases as an expense on a straight-line basis over the life of the lease. We recognise lease incentives received in the income and expenditure account as an integral part of the total lease expense.

(d) *Retirement benefits*

We recognise obligations for contributions to defined contribution schemes as an expense in the income and expenditure account when they are payable.

(e) *Fixed assets and depreciation*

We state fixed assets at cost less accumulated depreciation, which is calculated to write off their costs over their anticipated useful lives on a straight-line basis, and impairment losses (see note 2h). We use the following useful lives:

■ Leasehold improvements	3 years or, if shorter, the life of the respective lease
■ Furniture and fixtures	3 years
■ Office equipment	5 years
■ Personal computers and software	3 years

2. Significant accounting policies (continued)

(f) Related parties

For the purposes of these financial statements, we consider that the following are related parties of the company:

- (a) parties that the company has the ability, directly or indirectly, to control or exercise significant influence over in making financial and operating decisions;
- (b) parties that have the ability, directly or indirectly, to control or to significantly influence the company in making financial and operating decisions; and
- (c) parties that are subject to common control or common significant influence.

Related parties may be individuals or related companies.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand.

(h) Impairment

We review the carrying amounts of the company's assets at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, we estimate the asset's recoverable amount. We recognise in the income and expenditure account an impairment loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3. Taxation

- (a) No provision for Hong Kong profits tax has been made as the company did not have any taxable profit.
- (b) There is no significant deferred taxation liability not provided for.

4. Staff costs

	2004	2003
	\$	\$
Salaries, wages and other benefits	1,024,399	57,687
Contributions to defined contribution plan	21,247	-
	<u>1,045,646</u>	<u>57,687</u>

5. Directors' remuneration

None of the directors received any remuneration in respect of their services to the company during the year.

6. Other expenses

	2004	2003
	\$	\$
Audit fees	60,000	15,000
Website hosting & maintenance	161,388	200
Miscellaneous expenses	<u>281,279</u>	<u>-</u>
	<u>502,667</u>	<u>15,200</u>

7. Fixed assets

	Leasehold improve- ments \$	Office equipment \$	Personal computers and software \$	Furniture and fixtures \$	Total \$
<i>Cost</i>					
At 1 April 2003	-	-	-	-	-
Additions	<u>285,296</u>	<u>31,636</u>	<u>291,614</u>	<u>44,359</u>	<u>652,905</u>
At 31 March 2004	<u>285,296</u>	<u>31,636</u>	<u>291,614</u>	<u>44,359</u>	<u>652,905</u>
<i>Depreciation</i>					
At 1 April 2003	-	-	-	-	-
Charge for the year	<u>95,099</u>	<u>6,327</u>	<u>97,205</u>	<u>14,786</u>	<u>213,417</u>
At 31 March 2004	<u>95,099</u>	<u>6,327</u>	<u>97,205</u>	<u>14,786</u>	<u>213,417</u>
<i>Net book value</i>					
At 31 March 2004	<u>190,197</u>	<u>25,309</u>	<u>194,409</u>	<u>29,573</u>	<u>439,488</u>
At 31 March 2003	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

8. Share capital

	2004	2003
	\$	\$
Authorised:		
10,000 ordinary shares of HK\$0.1 each	<u>HK\$1,000</u>	<u>HK\$1,000</u>
Issued and fully paid:		
2 ordinary shares of HK\$0.1 each	<u>HK\$ 0.20</u>	<u>HK\$ 0.20</u>

In the balance sheet, share capital is rounded up to HK\$1.

9. Deferred lease incentives

Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. In accordance with accounting policies we recognise these benefits as an integral part of the lease expense. We will recognise the deferred lease incentives in our income and expenditure account on a straight line basis over the lease period from 2004 to 2006.

10. Commitment to pay rents for offices

We have entered into an operating lease for office premises for 3 years starting 1 September 2003.

At 31 March 2004, the minimum amount we are committed to pay in rent for our offices up to 31 August 2006 is as follows:

	2004
	\$
Payable next year	297,900
Payable in one to five years	<u>384,788</u>
	<u>682,688</u>

During the year ended 31 March 2004, \$169,511 was recognised as an expense in the income and expenditure account in respect of operating lease.

11. Related party transactions

We have related party relationships with the Securities and Futures Commission (“the SFC”), the ultimate holding entity, and the Fund. During the year, certain expenses were paid by the SFC on behalf of the company. The company has reimbursed the SFC for these expenses as it has received the corresponding reimbursement from the Fund.