

SECURITIES AND FUTURES ORDINANCE (Chapter 571)

Pursuant to section 88(4) of the Securities and Futures Ordinance, the audited financial statements of the Investor Compensation Company Limited for the financial year ended 31 March 2005 are set out on pages 7412 to 7419:—

Anna WU Hung Yuk *Chairperson,*  
*Investor Compensation Company Limited*

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 2005.

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 7414 to 7419.

3. *Directors*

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

Ms. WU Hung Yuk, Anna, (Chairperson)

Mr. David RICHARDSON, (Deputy  
Chairperson with effect from 29 March 2005)

Mr. CHAM Yau Nam, Allen  
Mr. Anthony ESPINA  
Mr. Gerald Dale GREINER (resigned on 17 May 2004 and re-appointed on 21 June 2004)

Dr. KWOK Chi Piu, Bill  
Mr. LUI Kei Kwong (appointed on 17 May 2004)  
Mr. PO Wai Kwong  
Mr. TANG Kwai Nang  
Mr. CHOW Man Yiu, Paul (resigned on 21 June 2004)  
Mr. Mark DICKENS (resigned on 31 March 2005)

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

Anna WU Hung Yuk  
*Chairperson*

David RICHARDSON  
*Deputy Chairperson*

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 7414 to 7419, 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 Institute of Certified Public 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 2005 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.

22 April 2005

KPMG  
Certified Public Accountants  
Hong Kong

INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2005

(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>For the year ended 31 March 2005</i> \$	<i>For the year ended 31 March 2004</i> \$
<i>Income</i>			
Recoveries from the Investor Compensation Fund		4,065,846	3,161,533
<i>Expenses</i>			
Consultancy and management fees		580,000	1,160,000
Premises			
rent	10	260,664	169,511
others		119,050	70,292
Staff costs	4	1,816,479	1,045,646
Other expenses	6	1,066,677	502,667
Depreciation	7	222,976	213,417
		<u>4,065,846</u>	<u>3,161,533</u>
<i>Result for the year before taxation</i>		—	—
Taxation	3	—	—
<i>Result for the year after taxation</i>		<u>—</u>	<u>—</u>

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2005

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

The notes on page 7416 to 7419 form part of these financial statements.

BALANCE SHEET  
AS AT 31 MARCH 2005  
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>For the year ended 31 March 2005</i>	<i>For the year ended 31 March 2004</i>
		\$	\$
<i>Non-current assets</i>			
Fixed assets	7	245,189	439,488
<i>Current assets</i>			
Cash and cash equivalents		747,503	1,220,622
Prepayments and deposits		335,942	224,917
		<u>1,083,445</u>	<u>1,445,539</u>
<i>Current liabilities</i>			
Other payables		159,440	—
Accrued charges		42,820	54,500
Amount due to Investor Compensation Fund		1,110,855	1,777,772
		<u>1,313,115</u>	<u>1,832,272</u>
<i>Net current liabilities</i>		<u>(229,670)</u>	<u>(386,733)</u>
<i>Total assets less current liabilities</i>		15,519	52,755
<i>Non-current liabilities</i>			
Deferred lease incentives	9	15,518	52,754
<i>Net assets</i>		<u>1</u>	<u>1</u>
<i>Capital and reserves</i>			
Share capital	8	<u>1</u>	<u>1</u>

Approved and authorised for issue by the board of directors on 22 April 2005 and signed on its behalf by

Anna WU Hung Yuk

David RICHARDSON

William John LAU

The notes on page 7416 to 7419 form part of these financial statements.

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2005**  
(Expressed in Hong Kong dollars)

	<i>For the year ended 31 March 2005</i> \$	<i>For the year ended 31 March 2004</i> \$
<i>Cash flows from operating activities</i>		
Result for the year	—	—
Depreciation	222,976	213,417
Increase in prepayments and deposits	(111,025)	(224,917)
Decrease in amount due from Investor Compensation Fund (Decrease)/increase in amount due to Investor Compensation Fund	— (666,917)	1,272,887 1,777,772
Decrease in amount due to holding company	—	(1,257,887)
Increase in other payables and accrued charges	147,760	39,500
(Decrease)/increase in deferred lease incentives	(37,236)	52,754
<i>Net cash (outflow)/inflow from operating activities</i>	<u>(444,442)</u>	<u>1,873,526</u>
<i>Investing activities</i>		
Purchase of fixed assets	<u>(28,677)</u>	<u>(652,905)</u>
Net (decrease)/increase in cash and cash equivalents	(473,119)	1,220,621
Cash and cash equivalents at the beginning of the year	<u>1,220,622</u>	<u>1</u>
<i>Cash and cash equivalents at the end of the year</i>	<u>747,503</u>	<u>1,220,622</u>
<i>Analysis of the balance of cash and cash equivalents:—</i>		
Cash at bank and in hand	<u>747,503</u>	<u>1,220,622</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*

We have prepared these financial statements 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 we had prepared these financial statements 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

(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*

	2005	2004
	\$	\$
Salaries, wages and other benefits	1,778,479	1,024,399
Contributions to defined contribution plan	38,000	21,247
	<u>1,816,479</u>	<u>1,045,646</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*

	2005 \$	2004 \$
Audit fees	63,000	60,000
Market communications and public relations	195,975	6,900
Information technology expenses	292,851	161,388
Professional insurances	266,521	101,525
Miscellaneous expenses	248,330	172,854
	<u>1,066,677</u>	<u>502,667</u>

7. *Fixed assets*

	<i>Leasehold Improvements</i> \$	<i>Office equipment</i> \$	<i>Personal computers and software</i> \$	<i>Furniture and fixtures</i> \$	<i>Total</i> \$
<i>Cost</i>					
At 1 April 2004	285,296	31,636	291,614	44,359	652,905
Additions	—	—	4,352	24,325	28,677
	<u>285,296</u>	<u>31,636</u>	<u>295,966</u>	<u>68,684</u>	<u>681,582</u>
<i>Depreciation</i>					
At 1 April 2004	95,099	6,327	97,205	14,786	213,417
Charge for the year	95,099	6,327	98,655	22,895	222,976
	<u>190,198</u>	<u>12,654</u>	<u>195,860</u>	<u>37,681</u>	<u>436,393</u>
<i>Net book value</i>					
At 31 March 2005	<u>95,098</u>	<u>18,982</u>	<u>100,106</u>	<u>31,003</u>	<u>245,189</u>
At 31 March 2004	<u>190,197</u>	<u>25,309</u>	<u>194,409</u>	<u>29,573</u>	<u>439,488</u>

8. *Share capital*

	2005 \$	2004 \$
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 2005, the minimum amount we are committed to pay in rent for our offices up to 31 August 2006 is as follows:—

	2005 \$
Payable next year	297,900
Payable in two to five years	86,888
	<hr/>
	384,788
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During the year ended 31 March 2005, \$260,664 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.