

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 2006 are set out on pages 8231 to 8241.

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

INVESTOR COMPENSATION COMPANY LIMITED
REPORT OF THE DIRECTORS

The directors present herewith their annual report together with the audited financial statements for the year ended 31 March 2006.

1. *Principal place of business*

Investor Compensation Company Limited ('the company') is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 408, 4/F St George's Building, 2 Ice House Street, Central, Hong Kong.

2. *Principal activities*

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

3. *Financial statements*

The financial results for the year ended 31 March 2006 and the state of the company's affairs as at that date are set out in the audited financial statements presented on pages 8234 to 8241.

4. *Directors*

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

1. Ms. WU Hung Yuk, Anna, (Chairperson)
2. Mr. LUI Kei Kwong
3. Mr. ANG Cheung Yick (appointed on 1 April 2006)
4. Mr. Peter AU-YANG Cheong Yan (appointed on 1 April 2006)
5. Mr. Martin WHEATLEY (appointed on 17 June 2005)
6. Mr. David RICHARDSON, (*Deputy Chairperson*) (resigned on 1 April 2006)
7. Mr. CHAM Yau Nam, Allen (resigned on 1 April 2006)
8. Mr. Anthony ESPINA (resigned on 1 April 2006)
9. Mr. Gerald Dale GREINER (resigned on 1 April 2006)
10. Dr. KWOK Chi Piu, Bill (resigned on 1 April 2006)
11. Mr. PO Wai Kwong (resigned on 1 April 2006)
12. Mr. TANG Kwai Nang (resigned on 1 April 2006)

In March 2006, the Securities and Futures Commission decided to streamline the structure of the company to enhance administrative efficiency. As a result, the size of the company's board was reduced from ten members to five.

5. *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.

6. *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
21 April 2006

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 8234 to 8241, 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 Hong Kong Standards on Auditing 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 2006 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, 21 April 2006

INVESTOR COMPENSATION COMPANY LIMITED
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006

(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>For the year ended 31 March 2006</i>	<i>For the year ended 31 March 2005</i>
		\$	\$
<i>Income</i>			
Recoveries from the Investor Compensation Fund		3,263,152	4,065,846
<i>Expenses</i>			
Consultancy and management fees		220,000	580,000
Premises			
rent	10	260,661	260,664
others		123,939	119,050
Staff costs	4	1,544,644	1,816,479
Other expenses	6	868,721	1,066,677
Depreciation	7	245,187	222,976
		3,263,152	4,065,846
<i>Result for the year before taxation</i>		—	—
Taxation	3	—	—
<i>Result for the year after taxation</i>		—	—

INVESTOR COMPENSATION COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2006

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 pages 8237 to 8241 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
BALANCE SHEET
AS AT 31 MARCH 2006

(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>For the year ended 31 March 2006</i> \$	<i>For the year ended 31 March 2005</i> \$
<i>Non-current assets</i>			
Fixed assets	7	66,635	245,189
<i>Current assets</i>			
Cash and cash equivalents		1,364,154	747,503
Prepayments and deposits	8	339,448	335,942
		<u>1,703,602</u>	<u>1,083,445</u>
<i>Current liabilities</i>			
Other payables	9	—	159,440
Accrued charges	9	44,300	42,820
Amount due to Investor Compensation Fund	9	1,725,936	1,110,855
		<u>1,770,236</u>	<u>1,313,115</u>
<i>Net current liabilities</i>		<u>(66,634)</u>	<u>(229,670)</u>
<i>Total assets less current liabilities</i>		1	15,519
<i>Non-current liabilities</i>			
Deferred lease incentives	10	—	15,518
<i>Net assets</i>		<u>1</u>	<u>1</u>
<i>Capital and reserves</i>			
Share capital	11	<u>1</u>	<u>1</u>

Approved and authorised for issue by the board of directors on 21 April 2006 and signed on its behalf by

Anna Wu Hung Yuk

Martin Wheatley

Ang Cheung Yick

The notes on pages 8237 to 8241 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006
(Expressed in Hong Kong dollars)

	<i>For the year ended 31 March 2006</i> \$	<i>For the year ended 31 March 2005</i> \$
<i>Cash flows from operating activities</i>		
Result for the year	—	—
Depreciation	245,187	222,976
Increase in prepayments and deposits	(3,506)	(111,025)
Increase/(decrease) in amount due to Investor Compensation Fund	615,081	(666,917)
(Decrease)/increase in other payables and accrued charges	(157,960)	147,760
Decrease in deferred lease incentives	(15,518)	(37,236)
	<u>683,284</u>	<u>(444,442)</u>
<i>Net cash inflow/(outflow) from operating activities</i>		
	<u>683,284</u>	<u>(444,442)</u>
<i>Investing activities</i>		
Purchase of fixed assets	(66,633)	(28,677)
	<u>(66,633)</u>	<u>(28,677)</u>
Net increase/(decrease) in cash and cash equivalents	616,651	(473,119)
Cash and cash equivalents at the beginning of the year	747,503	1,220,622
	<u>1,364,154</u>	<u>747,503</u>
<i>Cash and cash equivalents at the end of the year</i>		
	<u>1,364,154</u>	<u>747,503</u>
<i>Analysis of the balance of cash and cash equivalents:</i>		
Cash at bank and in hand	1,364,154	747,503
	<u>1,364,154</u>	<u>747,503</u>

INVESTOR COMPENSATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

(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 recognized 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 ('IFRSs') promulgated by the International Accounting Standards Board ('IASB') 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 as the measurement basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognize revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(b) *Recognition of income*

We recognize income in the income and expenditure account provided it is probable that the economic benefits will flow to the Company and we can measure reliably the revenue and cost.

Recovery from the Fund

We recognize 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 recognize lease incentives received in the income and expenditure account as an integral part of the total lease expense.

(d) *Employee benefits*

We accrue salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, we state these amounts at their present values.

(e) *Fixed assets and depreciation*

We state fixed assets at cost less accumulated depreciation, which is calculated to write off their costs, less their estimated residual value, if any, over their anticipated useful lives on a straight-line basis, and impairment losses (see note 2j). 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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the company or of any entity that is a related party of the company.

(g) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, 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, having been within three months of maturity at acquisition.

(h) *Prepayments and deposits*

We initially recognize prepayments and deposits at fair value and thereafter state them at amortised cost less impairment losses for bad and doubtful debts.

We measure impairment losses for bad and doubtful debts as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

(i) *Other payables and accrued charges*

We initially recognize other payables and accrued charges at fair value and thereafter state them at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(j) *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 recognize 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*

	2006 \$	2005 \$
Salaries, wages and other benefits	1,516,676	1,778,479
Contributions to defined contribution plan	27,968	38,000
	<u>1,544,644</u>	<u>1,816,479</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*

	2006 \$	2005 \$
Auditors' remuneration		
—Audit services	43,000	41,000
—Other services	22,500	22,000
Market communications and public relations	49,305	195,975
Information technology expenses	252,800	292,851
Professional insurances	338,426	266,521
Miscellaneous expenses	162,690	248,330
	<u>868,721</u>	<u>1,066,677</u>

7. *Fixed assets*

	<i>Leasehold Improve- ments</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 2005	285,296	31,636	295,966	68,684	681,582
Additions	—	—	66,633	—	66,633
At 31 March 2006	<u>285,296</u>	<u>31,636</u>	<u>362,599</u>	<u>68,684</u>	<u>748,215</u>
<i>Depreciation</i>					
At 1 April 2005	190,198	12,654	195,860	37,681	436,393
Charge for the year	95,098	6,327	120,867	22,895	245,187
At 31 March 2006	<u>285,296</u>	<u>18,981</u>	<u>316,727</u>	<u>60,576</u>	<u>681,580</u>
Net book value At 31 March 2006	<u>—</u>	<u>12,655</u>	<u>45,872</u>	<u>8,108</u>	<u>66,635</u>
<i>Cost</i>					
At 1 April 2004	285,296	31,636	291,614	44,359	652,905
Additions	—	—	4,352	24,325	28,677
At 31 March 2005	<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
At 31 March 2005	<u>190,198</u>	<u>12,654</u>	<u>195,860</u>	<u>37,681</u>	<u>436,393</u>
Net book value At 31 March 2005	<u>95,098</u>	<u>18,982</u>	<u>100,106</u>	<u>31,003</u>	<u>245,189</u>

8. *Prepayments and deposits*

All the prepayments and deposits are expected to be recovered within one year.

9. *Other payables and accrued charges*

All other payables and accrued charges (including amounts due to related parties) are expected to be settled within one year.

10. *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 recognize these benefits as an integral part of the lease expense. We will recognize the deferred lease incentives in our income and expenditure account on a straight line basis over the lease period from 2004 to 2006.

11. *Share capital*

	2006 \$	2005 \$
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.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

12. *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 2006, the minimum amount we are committed to pay in rent for our offices up to 31 August 2006 is as follows:

	2006 \$	2005 \$
Payable next year	86,888	297,900
Payable in two to five years	<u>—</u>	<u>86,888</u>
	<u>86,888</u>	<u>384,788</u>

During the year ended 31 March 2006, \$260,661(2005: \$260,664) was recognized as an expense in the income and expenditure account in respect of operating lease.

13. *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, amounted to \$18,285(2005: \$9,240) 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.

Other than these transactions and transactions and balances disclosed else where in these financial statements, the Company entered into no other material related party transactions. Remuneration for key management personnel, including amounts paid to the company's directors are as disclosed in note 5, for the year ended 31 March 2006 was not considered material.

14. *Financial Instruments*

Exposure to credit, interest rate and exchange rate risks arises in the normal course of the company's business.

There is no credit risk exposure as all expenses incurred are reimbursed by the Fund.

The company has no interest bearing assets or liabilities.

The company is not exposed to any foreign exchange risk as all transactions and balances are denominated in HKD.

15. *Parent and ultimate controlling party*

As at 31 March 2006, the directors consider the parent and ultimate controlling party of the company to be the Securities and Futures Commission, which is incorporated in Hong Kong and produces financial statements available for public use.

16. *Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2006*

Up to the date of issue of these financial statement, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the company's operations and financial statements:—

IFRS 7, Financial instruments: disclosures

*Effective for
accounting periods
beginning on or after*

1 January 2007

Amendments to IAS 1, Presentation of financial statements: capital disclosures

1 January 2007

In addition, the Hong Kong Companies(Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the company's financial statements for the period beginning 1 April 2006.

We are in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has been concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.