

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 2007 are set out on pages 9022 to 9032.

KWOK Hing Wai, Kenneth, *Chairman*
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 2007.

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 510, 5/F, Chater House, 8 Connaught Road, 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 recognised the company to facilitate the administration and management of the Fund.

3. *Financial statements*

The financial results for the year ended 31 March 2007 and the state of the company's affairs as at that date are set out in the audited financial statements presented on pages 9025 to 9032.

4. *Directors*

The directors during the financial year were:—

- | | |
|---|---|
| 1. Mr. KWOK Hing Wai, Kenneth (<i>Chairman</i>) | [Appointed on 16 January 2007] |
| 2. Mr. LUI Kei Kwong | |
| 3. Mr. ANG Cheung Yick | [Appointed on 1 April 2006] |
| 4. Mr. Paul KENNEDY | [Appointed on 17 October 2006] |
| 5. Ms. Thrity Homi MUKADAM | [Appointed on 19 September 2006] |
| 6. Mr. Peter AU-YANG Cheong Yan | [Appointed on 1 April 2006]
[Resigned on 26 May 2006] |
| 7. Mr. FONG Ching | [Appointed on 8 August 2006]
[Resigned on 16 January 2007] |
| 8. Mr. Martin WHEATLEY | [Resigned on 19 September 2006] |
| 9. Ms. WU Hung Yuk, Anna | [Resigned on 7 August 2006] |

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
Mr. KWOK Hing Wai, Kenneth
24 April 2007

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
INVESTOR COMPENSATION COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Investor Compensation Company Limited (the 'company') set out on pages 9025 to 9032 which comprise the balance sheet as at 31 March 2007 and the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
24 April 2007

INVESTOR COMPENSATION COMPANY LIMITED
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2007

(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>For the year ended 31 March 2007</i>	<i>For the year ended 31 March 2006</i>
		\$	\$
<i>Income</i>			
Recoveries from the Investor Compensation Fund	2b	3,893,127	3,263,152
<i>Expenses</i>			
Consultancy and management fees		170,000	220,000
Premises			
rent	10	303,208	260,661
management fees and others		83,284	123,939
Staff costs	4	2,009,820	1,544,644
Claim processing fees		372,200	—
Other expenses	5	905,574	868,721
Depreciation	6	49,041	245,187
		<u>3,893,127</u>	<u>3,263,152</u>
<i>Result for the year before taxation</i>			
		—	—
Taxation	3	—	—
<i>Result for the year after taxation</i>			
		<u>—</u>	<u>—</u>

INVESTOR COMPENSATION COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2007

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 9028 to 9032 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
BALANCE SHEET
AS AT 31 MARCH 2007

(Expressed in Hong Kong dollars)

	<i>Note</i>	2007 \$	2006 \$
<i>Non-current assets</i>			
Fixed assets	6	50,458	66,635
<i>Current assets</i>			
Cash and cash equivalents		712,375	1,364,154
Prepayments and deposits	7	161,288	339,448
		873,663	1,703,602
<i>Current liabilities</i>			
Accrued charges and other payables	8	61,432	44,300
Amount due to Investor Compensation Fund	8	862,688	1,725,936
		924,120	1,770,236
<i>Net current liabilities</i>		(50,457)	(66,634)
<i>Total assets less current liabilities</i>		1	1
<i>Net assets</i>		1	1
<i>Capital and reserves</i>			
Share capital	9	1	1

Approved and authorised for issue by the board of directors on 24 April 2007 and signed on its behalf by

Lui Kei Kwong

Ang Cheung Yick

The notes on page 9028 to 9032 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007
(Expressed in Hong Kong dollars)

	<i>For the year ended 31 March 2007</i>	<i>For the year ended 31 March 2006</i>
	\$	\$
<i>Cash flows from operating activities</i>		
Result for the year	—	—
Loss on disposal of fixed assets	311	—
Depreciation	49,041	245,187
Decrease/(increase) in prepayments and deposits	178,160	(3,506)
(Decrease)/increase in amount due to Investor Compensation Fund	(863,248)	615,081
Increase/(decrease) in accrued charges and other payables	17,132	(157,960)
Decrease in deferred lease incentives	—	(15,518)
	<hr/>	<hr/>
<i>Net cash (outflow)/inflow from operating activities</i>	<u>(618,604)</u>	<u>683,284</u>
<i>Investing activities</i>		
Purchase of fixed assets	(33,175)	(66,633)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(651,779)	616,651
Cash and cash equivalents at the beginning of the year	1,364,154	747,503
	<hr/>	<hr/>
<i>Cash and cash equivalents at the end of the year</i>	<u>712,375</u>	<u>1,364,154</u>
<i>Analysis of the balance of cash and cash equivalents:</i>		
Cash at bank and in hand	<u>712,375</u>	<u>1,364,154</u>

INVESTOR COMPENSATION COMPANY LIMITED
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 ('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 recognise 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 recognise 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.

Recoveries from the Investor Compensation Fund

The company's income is reimbursement from the Fund of expenditure incurred. We recognise recoveries from the Fund on an accrual basis.

(c) *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.

(d) *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 2i). 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.

(e) *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.

(f) *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.

(g) *Prepayments and deposits*

We initially recognise prepayments and deposits at fair value and thereafter state these 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.

(h) *Accrued charges and other payables*

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

(i) *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 deferred taxation liability not provided for.

4. *Staff costs and directors' emoluments*

	2007 \$	2006 \$
Salaries, wages and other benefits	1,979,376	1,516,676
Contributions to defined contribution plan	30,444	27,968
	<u>2,009,820</u>	<u>1,544,644</u>

Directors' emoluments included in the above comprised:—

	2007 \$	2006 \$
Salaries and other emoluments	1,053,900	—
Retirement benefits	12,000	—
	<u>1,065,900</u>	<u>—</u>

5. *Other expenses*

	2007 \$	2006 \$
Auditors' remuneration		
—Audit services	46,500	43,000
—Other services	24,300	22,500
Market communications and public relations	37,049	49,305
Information technology expenses	216,666	252,800
Professional insurances	303,639	338,426
Professional fees	77,515	11,650
Miscellaneous expenses	199,905	151,040
	<u>905,574</u>	<u>868,721</u>

6. *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 2006	285,296	31,636	362,599	68,684	748,215
Additions	—	—	—	33,175	33,175
Disposals	(30,172)	(980)	(8,093)	(12,783)	(52,028)
At 31 March 2007	<u>255,124</u>	<u>30,656</u>	<u>354,506</u>	<u>89,076</u>	<u>729,362</u>
<i>Depreciation</i>					
At 1 April 2006	285,296	18,981	316,727	60,576	681,580
Charge for the year	—	6,213	23,662	19,166	49,041
Disposals	(30,172)	(669)	(8,093)	(12,783)	(51,717)
At 31 March 2007	<u>255,124</u>	<u>24,525</u>	<u>332,296</u>	<u>66,959</u>	<u>678,904</u>
<i>Net book value</i>					
At 31 March 2007	<u>—</u>	<u>6,131</u>	<u>22,210</u>	<u>22,117</u>	<u>50,458</u>
<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>Leasehold Improve- ments</i> \$	<i>Office equipment</i> \$	<i>Personal computers and software</i> \$	<i>Furniture and fixtures</i> \$	<i>Total</i> \$
<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>
<i>Net book value</i>					
At 31 March 2006	<u>—</u>	<u>12,655</u>	<u>45,872</u>	<u>8,108</u>	<u>66,635</u>

7. *Prepayments and deposits*

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

8. *Accrued charges and other payables*

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

9. *Share capital*

	2007	2006
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.

10. *Commitment for the use of office premises*

The company had entered into an operating lease with a third party for office premises for 3 years which ended on 31 August 2006. We have entered into a licence agreement with the SFC for the use of office premises since 14 August 2006.

	2007 \$	2006 \$
Within one year	<u>156,000</u>	<u>86,888</u>

During the year ended 31 March 2007, \$303,208 (2006: 260,661) was recognised as premises expense in the income and expenditure account. Out of this amount, \$195,000 (2006: Nil) was paid to the SFC in respect of the licence fee.

11. *Related party transactions*

We have related party relationships with the SFC, the ultimate holding entity, and the Fund. During the year, certain expenses, amounted to \$22,040 (2006: \$18,285) 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. Remuneration for key management personnel, including amounts paid to the company's directors is disclosed in note 4.

Other than these transactions and transactions and balances disclosed elsewhere in these financial statements, the company entered into no other material related party transactions.

12. *Financial instruments*

Exposure to credit and liquidity risks arises in the normal course of the company's business. The company is not exposed to any foreign exchange risk as all transactions and balances are denominated in HKD. The company has no interest bearing assets or liabilities.

The company's credit risk is primarily attributable to cash at bank. Management's policy is that cash balances are placed only with licensed banks in Hong Kong. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2007 and 2006.

13. *Parent and ultimate controlling party*

As at 31 March 2007, the parent and ultimate controlling party of the company is the SFC, which is a statutory body in Hong Kong and produces financial statements available for public use.

14. *Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2007*

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2007 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:—

*Effective for accounting
periods beginning on or
after*

IFRS 7, Financial instruments: disclosures

1 January 2007

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

1 January 2007

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