

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU
(Limited by guarantee)

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER 2006

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

REPORT OF THE COUNCIL MEMBERS

The Council Members have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2006.

Principal activities

The Bureau administers a fund, namely the Employees Compensation Insurer Insolvency Scheme to assume responsibility for the liabilities of insurers engaging in employees' compensation business that become insolvent on or after 1st April 2004.

Financial statements

The results of the Bureau for the year ended 31st December 2006 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 4 to 13.

Retained surplus

Movements in retained surplus during the year are set out in the statement of changes in equity on page 6.

Council Members

The Council Members during the financial year and up to the date of this report are:

Ms Agnes Choi Heung Kwan	
Mr Allan Kin Nam Yu	
Mr Kok Ho Wong	
Mr Patrick Wan Chi Tak	(resigned on 2 May 2006 and re-appointed on 22 May 2006)
Mr Andrew Wong K.C.	(appointed on 22 May 2006)
Mr Cheng Kwok Ping	
Mr William Richards	(resigned on 31 October 2006)
Mr Christopher George Townsend	(appointed on 13 July 2006)
Mr Stephen Wong Man Fai	(resigned on 22 May 2006)
Mr Grahame Stuart Brown	(resigned on 22 May 2006)
Mr Philip Michael Bulgin	(appointed on 23 March 2007)

Messrs. Kok Ho Wong, Cheng Kwok Ping and Allan Kin Nam Yu are to retire at the forthcoming annual general meeting in accordance with article 35(3) of the Bureau's Articles of Association and, being eligible, offer themselves for re-election.

Council Members (Continued)

Mr Christopher George Townsend and Mr Philip Michael Bulgin, having been appointed to fill a casual vacancy during the year, retire at the forthcoming annual general meeting in accordance with article 35(2) of the Bureau's Articles of Association and, being eligible, offers themselves for re-election, if they so wishes.

All other remaining Council Members continue in office.

Council member's interests in contracts

No contract of significance to which the Bureau was a party and in which a Council Member of the Bureau had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Bureau a party to any arrangements to enable the Council Members of the Bureau to acquire benefits by means of the acquisition of shares in or debentures of any body corporate.

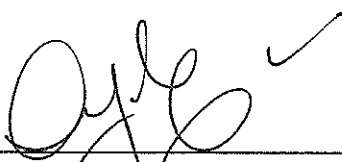
Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bureau were entered into or existed during the year.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire, and being eligible, offer themselves for re-appointment.

By order of the Council



Chairman
Hong Kong, 13 MAR 2007

**AUDITORS' REPORT TO THE MEMBERS OF
EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**

(Incorporated in Hong Kong and limited by guarantee)

We have audited the financial statements set out on pages 4 to 13 which comprise the balance sheet as at 31 December 2006, and the income statement, 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.

Council members' responsibility for the financial statements

The council members of the Bureau are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 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.

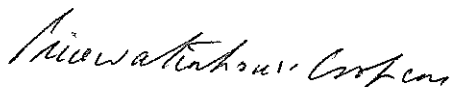
We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements 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 judgment, 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 council members, 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 Bureau as at 31 December 2006 and of the Bureau's surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 MAR 2007

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006

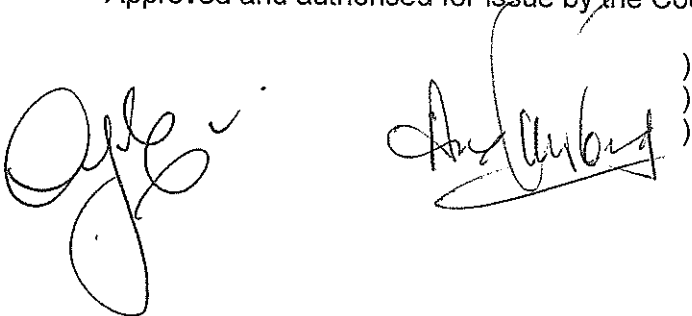
	2006 HK\$	2005 HK\$
Revenue		
Members' contributions	58,994,952	63,198,336
	<u>-----</u>	<u>-----</u>
Other incomes		
Net realised gains/(losses) on financial assets	2,546,447	(11,916)
Net fair value gains on assets at fair value through profit or loss	12,499,812	6,327,097
Dividends and other investment income	1,008,817	651,965
Deposit interest income	84,993	28,128
	<u>-----</u>	<u>-----</u>
	16,140,069	6,995,274
	<u>-----</u>	<u>-----</u>
Total revenue and other incomes	75,135,021	70,193,610
	<u>-----</u>	<u>-----</u>
Less: Expenses		
Investment management fees	459,032	492,630
Investment custody fees	96,705	8,487
Accountancy, taxation and secretarial fees	435,500	362,000
Professional fees	239,855	289,625
Insurance	196,954	252,022
Audit fees	80,000	32,500
Others	19,769	21,088
	<u>-----</u>	<u>-----</u>
	1,527,815	1,458,352
	<u>-----</u>	<u>-----</u>
Surplus for the year	73,607,206	68,735,258
	<u>-----</u>	<u>-----</u>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

BALANCE SHEET
AS AT 31ST DECEMBER 2006

	Note	2006 HK\$	2005 HK\$
ASSETS			
Current assets			
Financial assets at fair value through profit or loss	6	226,686,440	154,911,644
Contributions and other receivables	7	12,152,592	10,469,465
Cash at banks	8	369,944	274,119
Total assets		<u>239,208,976</u>	<u>165,655,228</u>
EQUITY			
Retained surplus		<u>238,953,326</u>	<u>165,346,120</u>
LIABILITIES			
Current liabilities			
Accrued expenses		<u>255,650</u>	<u>309,108</u>
Total liabilities		<u>255,650</u>	<u>309,108</u>
Total equity and liabilities		<u>239,208,976</u>	<u>165,655,228</u>

Approved and authorised for issue by the Council Members on 23 MAR 2007



Council Members

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2006

Total retained surplus:	HK\$
Balance at 1st January 2005	96,610,862
Surplus for the year	68,735,258
	<hr/>
Balance at 31st December 2005 and 1st January 2006	165,346,120
Surplus for the year	73,607,206
	<hr/>
Balance at 31st December 2006	<u>238,953,326</u>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006

	Note	2006 HK\$	2005 HK\$
Operating activities			
Surplus for the year		73,607,206	68,735,258
Adjustments for:			
- Investment expenses		555,737	501,117
- Deposit interest		(84,993)	(28,128)
- Dividend and interest income		(1,008,817)	(651,965)
- Net realised and fair value gains on financial assets and liabilities		(15,046,259)	(6,315,181)
Operating surplus before changes in working capital		58,022,874	62,241,101
Increase in contributions and other receivables (Decrease)/increase in accrued expenses		(1,683,127) (53,458)	(911,444) 12,806
Net cash inflow from operating activities		56,286,289	61,342,463
Investing activities			
Proceeds from disposal of financial assets		167,996,630	-
Purchases of financial assets		(207,251,322)	(61,699,188)
Dividend and interests received		1,008,817	651,954
Deposit interest received		84,993	28,128
Net cash outflow from investing activities		(38,160,882)	(61,019,095)
Net increase in cash and cash equivalents		18,125,407	323,368
Cash and cash equivalents at 1st January		834,110	510,742
Cash and cash equivalents at 31st December	8	18,959,517	834,110

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

1 Legal status

Employees Compensation Insurer Insolvency Bureau (the "Bureau") is a company limited by guarantee and was incorporated under the Hong Kong Companies Ordinance on 18th February 2003. The address of its registered office is Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong.

Under the provision of the Bureau's Memorandum of Association, every member shall, in the event of the Bureau being wound up, contribute such amount as may be required to meet the liabilities of the Bureau but not exceeding HK\$100 per member. The assets of the Bureau shall be applied solely towards the promotion of the objects of the Bureau as set out in the Bureau's Memorandum of Association and no part thereof shall be distributed to the members of the Bureau. All insurers authorised by law to carry on employees' compensation insurance business in Hong Kong must become members of the Bureau.

The Bureau was set up by the insurance industry to give effect to an agreement entered into on 21st February 2003 between the Government of the Hong Kong Special Administrative Region (the "Government") and the Bureau (the "Insolvency Fund Agreement").

In accordance with the Insolvency Fund Agreement, the Government and the Bureau have agreed to establish the Employees Compensation Insurer Insolvency Scheme to assume responsibility for the liabilities of insurers engaging in employees' compensation business that become insolvent on or after 1 April 2004. The liabilities in question were previously covered by the Employees Compensation Assistance Scheme ("ECAS") established under the Employees Compensation Assistance Ordinance (Cap. 365) and have been excised from the scope of ECAS from 1 April 2004 pursuant to the provisions of the Employees Compensation Assistance (Amendment) Ordinance 2002, enacted by the Legislative Council in June 2002.

2 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standard (HKFRS). They have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bureau's accounting policies.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (Continued)

(b) Revenue recognition

(i) Members' contributions

Members' contributions received and receivable are recognised based on gross employees' compensation insurance premiums received and receivable by members from their policyholders.

(ii) Dividends and interest income

Interest income from bank deposits and debt securities is accrued on a time-apportioned basis on the principal outstanding and at the rates applicable. Dividend income is recognised when the right to receive payment is established.

(iii) Gains/(losses) from changes in fair values of financial assets and liabilities and realised gains/(losses) on financial assets

These accounting policies are set out in note 2(d) to the financial statements.

(c) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Bureau defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. The Bureau believes that the facilities described in note 1 above meet the definition of insurance contracts.

Claims are charged to income as incurred based on the estimated liability for compensation owed to policyholders. They include claims settlement costs arising from events that have occurred up to the balance sheet date even if they have not yet been reported to the Bureau. The Bureau does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Bureau and statistical analyses for the claims incurred but not reported.

(d) Financial assets

The Bureau classifies its financial assets into the following categories: investments at fair value through profit or loss and contributions and other receivables.

(i) Investments at fair value through profit or loss

Investments at fair value through profit or loss are classified in this category if they are acquired principally for trading. Assets in this category are classified as current assets.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (Continued)

(d) Financial assets (Continued)

(ii) Contributions and other receivables

Contributions and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets.

Regular purchases and sales of investments are recognized on trade-date – the date on which the Bureau commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the Bureau has transferred substantially all risks and rewards of ownership. Contributions and other receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Bureau's right to receive payments is established.

The fair values of quoted investments are based on current bid prices.

(e) Translation of foreign currencies

The financial statements are presented in HK dollars, which is the Bureau's functional currency and presentation currency.

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 income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

3 Management of insurance and financial risk

3.1.1 Financial risk factors

The Bureau is exposed to financial risk through its financial assets. In particular, the key financial risk is from unanticipated volatility of return and other financial market driven events that can change the risk profile of the funds. The most important components of this financial risk are interest rate risk, credit risk, currency risk and price risk.

(a) Interest rate risk

The investment portfolio of the Bureau as at 31 December 2006 comprises bond funds of approximately HK\$174 million (2005: HK\$122 million). Interest rate movements can have a material impact on the carrying values of these bond funds.

The Bureau manages its interest rate risk by allowing the investment managers to use certain derivative transactions to hedge the interest rate risk.

(b) Credit risk

The Bureau has exposures to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The key area where the Bureau is exposed to credit risk is counterparty risk with respect to investments in investment funds.

The Bureau manages the level of credit risk it accepts by implementing a set of investment guidelines summarised as follows:

No more than 5% of the investment portfolio is held in any one security or with one single issuer, other than a fund or a security representing a collective investment of other securities. No more than 10% of the investment portfolio is invested in the obligations of a single issuer except for sovereign or supranational borrowers with an AAA rating by Standard & Poor's or equivalent. There are no restrictions on the obligations of the United States, the Government of Japan, the Republic of Germany, the United Kingdom, the Government of Canada, the Republic of France, the Republic of Italy, the Kingdom of Spain and the Netherlands.

Investments in bond securities have a minimum rating of BBB- as measured by Standard & Poor's or equivalent. Short term investments are maintained at a rating of A1 or above as measured by Standard & Poor's or P1 as measured by Moody's. The overall credit rating for the bond fund portfolios are maintained at A+ or above as measured by Standard & Poors or equivalent at all times.

The Bureau has no significant concentrations of credit risk.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

3 Management of insurance and financial risk (Continued)

3.1.1 Financial risk factors (Continued)

(c) Price risk

The Bureau is exposed to equity securities price risk. The Bureau manages its price risk by limiting its exposure to equity securities to 20% of the investment portfolio.

(d) Currency risk

The Bureau's exposures to foreign exchange risk arise primarily from purchased financial assets that are denominated in currencies other than Hong Kong dollars. As at 31st December 2006, the Bureau did not have significant exposures to foreign exchange risk, as all the financial assets held by the Bureau were either denominated in Hong Kong dollars or US dollars (against which Hong Kong dollars are pegged).

3.1.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets and financial liabilities held by the Bureau are the current bid price and current ask price respectively.

The Bureau does not hold any financial instruments with no quoted prices.

3.2 Insurance risk

The principal insurance risk that the Bureau faces is that the assets of the Bureau are not adequate to discharge its obligations under the terms of the fund agreement. This may arise if the actual claims exceed the carrying amount of the assets available.

The Bureau manages the above insurance risk by reviewing the percentage rate of the contributions not less than annually, as assisted by independent actuaries as needed.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

4 Remuneration of Council Members of the Bureau

In accordance with the Bureau's Memorandum and Articles of Association, the Council Members of the Bureau are not entitled to any remuneration or compensation for services rendered to the Bureau. Accordingly, none of the Council Members of the Bureau received or was due any remuneration during the year.

5 Taxation

The Bureau is exempt under Section 87 of the Hong Kong Inland Revenue Ordinance from payment of any tax chargeable under the Ordinance.

6 Financial assets

	2006 HK\$	2005 HK\$
Fair value through profit or loss:		
Mutual funds		
- Bonds	174,247,172	122,429,925
- Equities	33,849,695	31,921,728
Cash deposits	18,589,573	559,991
	<u>226,686,440</u>	<u>154,911,644</u>

7 Contributions and other receivables

The fair values of the receivables are estimated to be approximately equal to the carrying amounts of these balances.

This is no concentration of credit risk with respect to these receivables.

8 Cash and cash equivalents

	2006 HK\$	2005 HK\$
Cash at banks	369,944	274,119
Financial assets		
- cash deposits	18,589,573	559,991
Cash and cash equivalents	<u>18,959,517</u>	<u>834,110</u>

9 Approval of financial statements

The financial statements were approved by the Council on 23 MAR 2007