

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU
(Limited by guarantee)

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2018

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 31 December 2018.

Principal activities and business review

A fair review of the Bureau's business

The Bureau has a limited scope as a specific public service dictated by its Articles of Association in administering 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 1 April 2004, as set out in Legal status, Note 1 on page 11 to the Financial Statements which forms part of this Business Review and as also detailed in the Bureau's website at www.eciib.com.hk.

There were no significant developments in the business of the Bureau during the year other than an agreement with the Motor Insurers' Bureau of Hong Kong ("MIB"). The Bureau remains in good financial health as summarized by the below key financial information.

	2018	2017
Members' contributions	HK\$123.3 million	HK\$120.5 million
Net assets	HK\$1,884.4 million	HK\$1,816.3 million
Claims paid	Nil	Nil
Claims liabilities	Nil	Nil
Number of outstanding claims	Nil	Nil

The Bureau has complied with all relevant laws and regulations for its business throughout the year.

The Bureau reviews its key external service providers including Secretary, Investment managers, Consultant and Custodian and Auditors on a regular basis and its relationship with them remained strong throughout the year.

The Bureau has in place an agreement with Member, Chevalier Insurance Company Limited for provision of a standby facility for assistance with the administration of claims which thankfully was not activated during the year.

The Council works closely with and is supported by sister organisation, MIB via an at cost service agreement effective from 1 January 2018 as both Bureaus consider there is common ground and mutual benefits to be gained from closer liaison and being able to speak with one voice on matters of mutual future impact.

A description of the principal risks and uncertainties facing the Bureau

A detailed discussion on the main risks of the Bureau is set out in Management of insurance and financial risk, Note 3 on pages 17 to 19 to the Financial Statements which forms part of this Business Review.

Particulars of important events affecting the Bureau that have occurred since the end of the financial year

The Council is not aware of any important events affecting the business of the Bureau that have occurred since the end of the financial year.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

REPORT OF THE COUNCIL MEMBERS (CONTINUED)

An indication of likely future developments in the Bureau's business

The Council continues to monitor with interest developments in respect of the Insurance Authority ("the IA") and the Policyholders' Protection Scheme which are not expected to have a material impact on the Bureau. Liaison continues with the IA.

Financial statements

The results of the Bureau for the year ended 31 December 2018 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 7 to 21.

Retained surplus

Movements in retained surplus during the year are set out in the statement of changes in equity on page 9.

Council Members

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

Ms Agnes Choi Heung Kwan	(resigned on 1 January 2018)
Mr Andrew Wong K.C.	
Mr Ronnie Ng Wing Fat	
Mr Nicholas John Helms	(resigned on 7 June 2018)
Mr James Chan Chi Yin	(resigned on 1 January 2018)
Mr Pui Leung Chan	
Mr Jimmy Poon Wing Fai	
Mr Harry Wong Kwok Tim	
Ms Hui Jun Liu	(resigned on 31 May 2018)
Mr Kam Kwai Hui	
Ms Chi Shun Wong	
Mr Zhaonan Chen	(appointed on 19 January 2018)
Ms Fok Lai Chu	(appointed on 14 June 2018)

Ms Fok Lai Chu having been appointed to fill a casual vacancy during the year, retired at the forthcoming annual general meeting in accordance with article 35(2) of the Bureau's Articles of Association and, being eligible, offers herself for re-election.

Messrs. Harry Wong Kwok Tim, Kam Kwai Hui and Chi Shun Wong 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.

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.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

REPORT OF THE COUNCIL MEMBERS (CONTINUED)

Council Member's interests in contracts (continued)

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

A handwritten signature in black ink, appearing to be 'Ronnie Ng Wing Fat', written in a cursive style.

Ronnie Ng Wing Fat
Chairman

Hong Kong, 10 April 2019

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**
(Incorporated in Hong Kong and limited by guarantee)

Opinion

What we have audited

The financial statements of Employees Compensation Insurer Insolvency Bureau ("the Bureau") set out on pages 7 to 21, which comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bureau as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bureau in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The Council Members are responsible for the other information. The other information comprises the information included in the report of the Council Members, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU (CONTINUED)**
(Incorporated in Hong Kong and limited by guarantee)

Other Information (continued)

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Council Members and Those Charged with Governance for the Financial Statements

The Council Members are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Council Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council Members are responsible for assessing the Bureau's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council Members either intend to liquidate the Bureau or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bureau's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU (CONTINUED)**
(Incorporated in Hong Kong and limited by guarantee)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit 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 Bureau's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council Members.
- Conclude on the appropriateness of the Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bureau's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bureau to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 April 2019

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 HK\$	2017 HK\$
Revenue			
Members' contributions		123,330,781	120,521,256
		<u>123,330,781</u>	<u>120,521,256</u>
Other income			
Net realised and unrealised (loss)/gains on financial assets		(53,331,830)	165,511,259
Other investment income		5,724,262	5,229,484
Interest income on deposits		1,103	60
Other sundry income	6	-	9,788
		<u>(47,606,465)</u>	<u>170,750,591</u>
Total revenue and other income		<u>75,724,316</u>	<u>291,271,847</u>
Less: Expenses			
Investment management fees		3,800,789	3,472,377
Investment custody fees		1,118,111	1,013,138
Accountancy, taxation and secretarial fees		908,500	848,500
Legal and professional fees		498,300	770,595
Insurance		216,386	170,300
Audit fees		154,000	124,978
Administration fees		760,000	-
Others		85,871	57,708
Total expenses		<u>7,541,957</u>	<u>6,457,596</u>
Surplus for the year		68,182,359	284,814,251
Other comprehensive surplus		-	-
Total comprehensive surplus for the year		<u>68,182,359</u>	<u>284,814,251</u>

The notes on pages 11 to 21 are an integral part of these financial statements.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 HK\$	2017 HK\$
ASSETS			
Current assets			
Financial assets at fair value through profit or loss	8	1,859,817,534	1,791,643,838
Contributions and other receivables	9	24,803,741	24,453,425
Bank balances and cash	10	563,367	764,478
Total assets		<u>1,885,184,642</u>	<u>1,816,861,741</u>
EQUITY			
Retained surplus		<u>1,884,432,568</u>	<u>1,816,250,209</u>
LIABILITIES			
Current liabilities			
Accrued expenses		<u>752,074</u>	<u>611,532</u>
Total liabilities		<u>752,074</u>	<u>611,532</u>
Total equity and liabilities		<u>1,885,184,642</u>	<u>1,816,861,741</u>

Approved and authorised for issue by the Council Members on 10 April 2019.



Council Members

The notes on pages 11 to 21 are an integral part of these financial statements.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

Total retained surplus:	HK\$
Balance at 1 January 2017	1,531,435,958
Total comprehensive surplus for the year	284,814,251
Balance at 31 December 2017 and 1 January 2018	1,816,250,209
Total comprehensive surplus for the year	68,182,359
Balance at 31 December 2018	1,884,432,568

The notes on pages 11 to 21 are an integral part of these financial statements.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 HK\$	2017 HK\$
Operating activities			
Total comprehensive surplus for the year		68,182,359	284,814,251
Adjustments for:			
- Investment expenses		4,918,900	4,485,515
- Interest income on deposits		(1,103)	(60)
- Other investment income		(5,724,262)	(5,229,484)
- Net realised and unrealised loss/(gains) on financial assets		53,331,830	(165,511,259)
Operating surplus before changes in working capital		120,707,724	118,558,963
(Increase)/decrease in contributions and other receivables		(350,316)	2,050,266
Increase in accrued expenses		140,542	165,751
Net cash inflow from operating activities		120,497,950	120,774,980
Investing activities			
Purchases of financial assets (net)		(126,424,244)	(125,794,521)
Dividend and other investment income received		5,724,262	5,229,484
Interest received on deposits		1,103	60
Net cash outflow from investing activities		(120,698,879)	(120,564,977)
Net (decrease)/increase in cash and cash equivalents		(200,929)	210,003
Cash and cash equivalents at 1 January		765,354	555,351
Cash and cash equivalents at 31 December	10	564,425	765,354

The notes on pages 11 to 21 are an integral part of these financial statements.

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 18 February 2003. The address of its registered office is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Under the provision of the Bureau's Articles 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 Articles 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 are required to become members of the Bureau.

The Bureau was set up by the insurance industry to give effect to an agreement entered into on 21 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 employee compensation business that become insolvent on or after 1 April 2004.

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.

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies

- (i) New standards, amendments to standards and interpretations adopted by the Bureau

The Bureau has adopted the requirements of HKFRS 9 'Financial Instruments' from 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

Classification and measurement of debt assets is under HKFRS 9 driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest ("SPPI"). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss impairment model.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and did not have any impact on the opening balance sheet or retained earnings as at the date of initial application. The Bureau's Financial assets at fair value through profit or loss continue to be classified as fair value through profit or loss and other financial assets which are held to collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

The new accounting policies are set out in note 2(d and e) below.

Classification and measurement

On 1 January 2018, the Bureau classifies its investments based on both the Bureau's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The financial assets at fair value through profit or loss are managed and performance is evaluated on a fair value basis. The Bureau is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies (continued)

Consequently, all investments continues to measured at fair value through profit or loss. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Impairment of financial assets

The Bureau's financial assets within Contributions and other receivables, cash and bank balance are carried at amortised cost and are subject to HKFRS 9's new expected credit loss model.

The Bureau was required to revise its impairment methodology under HKFRS 9. Due to the nature of these financial assets, applying the expected credit risk model did not result in the recognition of a loss allowance on 1 January 2018 (previous loss allowance was nil) and no further increase in the allowance by the year ended on 31 December 2018.

No other standards, amendments and interpretations which are effective for the year beginning on 1 January 2018 are material to the Bureau.

- (ii) New standards, amendments to standards and interpretations not yet adopted by the Bureau

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Bureau.

HKFRS 17, 'Insurance Contracts' will replace the current HKFRS 4 'Insurance Contracts'. HKFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. Additionally, HKFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. The standard is effective for accounting periods beginning on or after 1 January 2021. Early adoption is permitted. The Bureau is yet to assess the impact of HKFRS 17.

There are no other HKFRSs, amendments to HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Bureau. The Bureau is yet to assess the impact of these.

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) Other investment income and interest income on deposits

Other investment income is recognised when the right to receive rebate of investment management expense from the investment manager. Interest income from bank deposits and debt securities is accrued on a time-apportioned basis on the principal outstanding and at the rates applicable.

(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 financial reporting 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

Classification

From 1 January 2018, the Bureau classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The Bureau classifies its investments based on both the Bureau's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The financial assets at fair value through profit or loss are managed and performance is evaluated on a fair value basis. The Bureau is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. Consequently, all investments are measured at fair value through profit or loss.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(d) Financial assets (continued)

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date – the date on which the Bureau commits to purchase or sell the asset. Financial assets are derecognized when the right to receive cash flows from the financial assets have expired or have been transferred and the Bureau has transferred substantially all risks and rewards of ownership.

Measurement

At initial recognition, the Bureau measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit and loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. 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 statement of comprehensive income within net realised and unrealised (loss)/gains on financial assets in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income when the Bureau's right to receive payments is established.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Contribution and other receivables mainly consists of members' contribution receivables. They are generally due for settlement within one month and therefore are all classified as current.

Members' contribution receivables are recognised initially at the amount of consideration that is unconditional. The Bureau holds the Members' contribution receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Impairment

From 1 January 2018, for Members' contribution receivables, the Bureau applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(d) Financial assets (continued)

Fair value

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

Accounting policies applied until 31 December 2017

The Bureau has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Bureau's previous accounting policy.

Until 31 December 2017 financial assets at fair value through profit or loss were classified in this category if they were acquired principally for trading. Assets in this category were classified as current assets.

Regular way purchases and sales of investments were 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 were initially recognized at fair value and transaction costs were expensed in the statement of comprehensive income. Financial assets were derecognized when the right to receive cash flows from the investments had expired or had been transferred and the Bureau had transferred substantially all risks and rewards of ownership.

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

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

(e) Translation of foreign currencies

The financial statements are presented in Hong Kong 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 statement of comprehensive income.

(f) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

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 2018 comprises funds which holds bonds of approximately HK\$1,338 million (2017: HK\$1,279 million). Interest rate movements can have a material impact on the carrying values of these bond funds.

By investing in the bond funds managed by the investment managers, the Bureau manages its interest rate risk by allowing the investment managers to use certain derivatives to hedge the interest rate risk exposure associated with underlying debt securities of the bond funds where appropriate. The Bureau did not have any derivative transactions in 2018 and 2017.

(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. This includes indirect credit risk with respect to investments in funds that holds bonds of HK\$1,338 million (2017: HK\$1,279 million). The Bureau is also exposed to counterparty credit risk on Bank balances and cash and Contributions and other receivables.

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 investing in government bonds issued by the United States, Japan, the Republic of Germany, the United Kingdom, Canada, the Republic of France, the Republic of Italy, the Kingdom of Spain and the Netherlands.

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)

(b) Credit risk (continued)

Investments in bond securities should have a minimum rating of B- as measured by Standard & Poor's or equivalent. The total allocation to BB rated bonds and below as measured by Standard & Poor's or equivalent of the Portfolio cannot exceed 10% of the overall portfolio. 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 above does not apply to Mortgage-Backed Securities.

As of 31 December 2018, indirect credit risks of the Bureau's funds that holds bonds were diversified across various countries and sectors with higher exposure to higher graded countries such as the United States, European Monetary Union (EUM) and Germany. The percentage contributions of duration by these issuers accounted for 79% of the portfolio. Elsewhere, the Bureau's exposure was the highest to Japan and Canada, which respectively accounted for 8% and 4% of the portfolio.

The Bureau measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss. The Bureau considers the probability of default to be close to zero as the counterparties of Bank balances and cash and Contributions and other receivables have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on expected credit losses as any such impairment would be wholly insignificant to the Bureau

The Bureau has no significant concentrations of credit risk.

(c) Price risk

The Bureau is directly exposed to price risk related to funds and indirectly to the equity securities that the funds invest in. A 10% increase in the market values of the funds would result in a gain of approximately HK\$186 million in 2018 (2017: HK\$179 million).

(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 31 December 2018, 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).

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

3 Management of Insurance and financial risk (continued)

3.1.2 Fair value estimation

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and unit trusts.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables present the Bureau's assets that are measured at fair value.

As at 31 December 2018:

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 8)	1,859,817,534	-	-	1,859,817,534
Total assets	1,859,817,534	-	-	1,859,817,534

As at 31 December 2017:

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 8)	1,791,643,838	-	-	1,791,643,838
Total assets	1,791,643,838	-	-	1,791,643,838

3.2 Insurance risk and capital risk management

Capital comprises all components of equity as shown in the statement of financial position. The principal insurance and capital 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.

4 Critical accounting estimates and judgements

Management of the Bureau is not aware of any significant areas where critical judgments are involved in applying the Bureau's accounting policies for the years ended 31 December 2018 and 2017.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

5 Remuneration of Council Members of the Bureau

In accordance with the Bureau's 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.

6 Other sundry income

The amount represents the first and final ordinary dividend of 12.11 percent declared on 17 November 2017 on the Bureau's claims against Anglo Starlite Insurance Company Limited (In Liquidation).

7 Taxation

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

8 Financial assets at fair value through profit or loss

	2018 HK\$	2017 HK\$
Mutual funds registered in Hong Kong containing		
- Listed bonds	395,400,813	394,578,913
- Listed equities	398,153,023	430,862,031
- Cash deposits	123,849,443	81,637,016
Bond funds registered outside Hong Kong		
- Listed bonds	942,413,197	884,565,002
Cash deposits with custodian (Note 10)	1,058	876
	<u>1,859,817,534</u>	<u>1,791,643,838</u>

The Bureau had investments in the following investment funds. These investment funds manage assets on behalf of third party investors. These funds are financed through the issue of units/shares to investors.

	2018 HK\$	Fair value 2017 HK\$
Investment Funds, at market value:		
Schroder Stable Growth Fund	455,997,975	455,214,238
Schroder Capital Stable Fund	461,405,304	451,863,722
PIMCO Global Bond Fund	942,413,197	884,565,002
	<u>1,859,816,476</u>	<u>1,791,642,962</u>

The above investments at 31 December 2018 were classified as financial assets at fair value through profit and loss.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

8 Financial assets at fair value through profit or loss (continued)

These investments include 15,573,701 units of Schroder Stable Growth Funds (2017: 14,319,416 units), 18,703,093 units of Schroder Capital Stable Fund (2017: 17,292,909 units) and 3,875,379 units of PIMCO Global Bond Fund (2017: 3,679,831 units)

The maximum exposure to loss is HK\$1,859,816,476 which represents the fair value of the investments in investment funds.

The size of the Schroder Stable Growth Funds during 2018 ranges from HK\$7,625 million to HK\$9,100 million, the size of the Schroder Capital Stable Funds ranges from HK\$5,229 million to HK\$5,688 million and the size of the PIMCO Global Bond Funds ranges from US\$10,524 million to US\$10,897 million. During the year, the Bureau did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

9 Contributions and other receivables

These are measured at amortised cost. The fair values of the receivables are estimated to be approximately equal to the carrying amounts of these balances.

There is no concentration of credit risk with respect to these receivables. There is no loss allowance recognised as at 31 December 2018 (2017: nil).

10 Cash and cash equivalents

	2018 HK\$	2017 HK\$
Bank balances and cash	563,367	764,478
Cash deposits with maturity less than three months	1,058	876
Cash and cash equivalents	<u>564,425</u>	<u>765,354</u>

These are measured at amortised cost.

11 Approval of financial statements

The financial statements were approved by the Council on 10 April 2019.