

EMPLOYEES COMPENSATION INSURER
INSOLVENCY BUREAU

(A company limited by guarantee)

Report and Financial Statements
For the year ended 31 December, 2004

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU
(A company limited by guarantee)

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2004

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REPORT OF THE COUNCIL MEMBERS

The Council Members submit their annual report together with the audited financial statements for the year ended 31 December, 2004.

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 1 April, 2004.

RESULTS

The results of the Bureau for the year ended 31 December, 2004 are set out in the income and expenditure account on page 4.

COUNCIL MEMBERS

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

Mr Chan Kin Por	
Mr Wong Kok Ho	
Ms Cheung Man Lo	
Ms Choi Heung Kwan Agnes	
Mr Peter Erich Schelling	
Mr Cheng Kwok Ping	
Mr. Wong Man Fai, Stephen	(appointed on 15 June, 2004)
Mr. Grahame Stuart Brown	(appointed on 15 June, 2004)
Mr Ross Edward Matthews	(resigned on 2 June, 2004)
Mr Keith Bernard Land	(retired on 15 June, 2004)

In accordance with Article 35(3) of the Bureau's Articles of Association, Messrs. Wong Kok Ho, Peter Erich Schelling and Cheng Kwok Ping shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election if they so wish.

All other remaining Council Members continue in office.

COUNCIL MEMBERS' INTERESTS

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.


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AUDITORS

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Bureau will be proposed at the forthcoming annual general meeting.

By order of the Council

A handwritten signature in dark ink, appearing to be 'M. N.', is written over a horizontal line. A large, curved line extends from the end of the signature, looping upwards and to the right.

CHAIRMAN

21 March, 2005

AUDITORS' REPORT

TO THE MEMBERS OF EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU (THE "BUREAU")

We have audited the financial statements on pages 4 to 10 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of the Council Members and Auditors

The Companies Ordinance requires the Council Members 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.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.


Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bureau'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 Bureau as at 31 December, 2004 and of its surplus and cash flows of the Bureau for the year ended 31 December, 2004.



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March, 2005

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU
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INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER, 2004

		Year ended 31.12.2004 HK\$	18.2.2003 (date of incorporation) to 31.12.2003 HK\$
	<u>NOTE</u>		
Income			
Members' contributions	2	56,739,002	39,684,275
Interest income	2	920	18,958
Interest and other income from investments	2	148,934	-
Net realised and unrealised holding gains on investments		2,719,801	-
		<u>59,608,657</u>	<u>39,703,233</u>
Expenditure			
Accountancy, taxation and secretarial fees		405,500	506,800
Audit fees		28,000	25,000
General expenses		17,382	35,292
Insurance		381,282	61,870
Investment custody fees		17,501	-
Investment management fees		196,825	-
Pre-incorporation and formation expenses		-	627,156
Professional fees		280,420	118,000
		<u>1,326,910</u>	<u>1,374,118</u>
Surplus for the year/period		<u>58,281,747</u>	<u>38,329,115</u>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU
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BALANCE SHEET
AT 31 DECEMBER, 2004

	<u>NOTE</u>	<u>2004</u> <u>HK\$</u>	<u>2003</u> <u>HK\$</u>
Current assets			
Fixed deposits and cash at bank		345,119	25,313,509
Contribution receivable and prepayment		9,558,021	13,298,523
Investments	3	87,004,024	-
		<u>96,907,164</u>	<u>38,612,032</u>
Current liabilities			
Accrued expenses		296,302	282,917
Net current assets		<u>96,610,862</u>	<u>38,329,115</u>
Represented by:			
Surplus		<u>96,610,862</u>	<u>38,329,115</u>

The financial statements on pages 4 to 10 were approved and authorised for issue by Council Members of the Bureau on 21 March, 2005 and were signed on its behalf by:



COUNCIL MEMBER



COUNCIL MEMBER

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER, 2004

	2004 <u>Surplus</u> HK\$	2003 <u>Surplus</u> HK\$
At beginning of year /18 February, 2003 (date of incorporation)	38,329,115	-
Surplus for the year/period	<u>58,281,747</u>	<u>38,329,115</u>
At end of year/period	<u><u>96,610,862</u></u>	<u><u>38,329,115</u></u>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU
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CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER, 2004

	Year ended 31.12.2004 HK\$	18.2.2003 (date of incorporation) to 31.12.2003 HK\$
OPERATING ACTIVITIES		
Surplus for the year/period	58,281,747	38,329,115
Adjustments for:		
Investment expenses	214,326	-
Interest income	(920)	(18,958)
Interest and other income from investments	(148,934)	-
Net realised and unrealised holding gains on investments	(2,719,801)	-
Operating cash flows before movements in working capital	55,626,418	38,310,157
Decrease/(increase) in contribution receivable and prepayment	3,740,502	(13,298,523)
Increase in accrued expenses	13,385	282,917
NET CASH FROM OPERATING ACTIVITIES	59,380,305	25,294,551
INVESTING ACTIVITIES		
Net sales and purchases of investments	(84,183,992)	-
Interest received	920	18,958
NET CASH/(OUTFLOW) INFLOW FROM INVESTING ACTIVITIES	(84,183,072)	18,958
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(24,802,767)	25,313,509
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	25,313,509	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD (NOTE 3)	510,742	25,313,509

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2004

1. LEGAL STATUS

The Bureau is a company limited by guarantee which was incorporated under the Hong Kong Companies Ordinance on 18 February, 2003.

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 \$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 in or from Hong Kong direct employees' compensation insurance business must 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 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 of the laws of Hong Kong) 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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investment in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The principal accounting policies adopted are as follows:

Revenue recognition

(i) Members' contributions

Members' contributions received and receivable are recognised quarterly based on gross insurance premiums paid and payable to members during the year in respect of employees' compensation policies written at the rate of 2%.

(ii) Interest income

Interest income on bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

(iii) Interest and other income from investments

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

Investments

Investments of the Bureau, comprising cash balances and publicly traded securities, are managed by an independent investment manager. They are classified as being available for sale financial assets or liabilities and included in the financial statements as current assets and liabilities.

Securities comprising equity funds and money market funds are stated at fair value at the balance sheet date. Unrealised gains and losses on valuation are accounted for in the income and expenditure account.

Profits or losses on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the income and expenditure account.

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date.

Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction date. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the income and expenditure account.

3. CASH AND CASH EQUIVALENTS

	<u>2004</u> HK\$	<u>2003</u> HK\$
Analysis of cash and cash equivalents:		
Fixed deposits and cash at banks	345,119	25,313,509
Investments - cash deposits (Note 4)	165,623	-
	<u>510,742</u>	<u>25,313,509</u>

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4. INVESTMENTS

	<u>2004</u>	<u>2003</u>
	HK\$	HK\$
Equity securities		
Listed outside Hong Kong - at market value		
(cost: HK\$83,911,925; 2003: HK\$Nil)	86,838,401	-
Cash deposits (Note 3)	165,623	-
	<u>87,004,024</u>	<u>-</u>

5. REMUNERATION OF COUNCIL MEMBERS

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.

6. TAXATION

No provision for Hong Kong profits tax has been made as the Bureau has no estimated assessable profits for the year.

The Bureau is in the process of applying for an exemption under Section 87 of the Hong Kong Inland Revenue Ordinance from the payment of any tax chargeable under the Ordinance.