

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

Reports and Financial Statements  
For the year ended 31 December 2005

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

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005

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EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

(A company limited by guarantee)

REPORT OF THE COUNCIL MEMBERS

The Council Members submit their annual report together with the audited financial statements for the year ended 31 December 2005.

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 2005 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 Wong Kok Ho	
Ms Choi Heung Kwan, Agnes	
Mr Cheng Kwok Ping	
Mr Wong Man Fai, Stephen	
Mr Grahame Stuart Brown	
Mr Yu Kin Nam	(appointed on 1 June 2005)
Mr Wan Chi Tak	(appointed on 1 June 2005)
Mr William Richards	(appointed on 22 September 2005)
Mr Chan Kin Por	(resigned on 1 June 2005)
Mr Peter Erich Schelling	(resigned on 1 June 2005)
Ms Cheung Man Lo	(resigned on 20 February 2006)

In accordance with Article 35(3) of the Bureau's Articles of Association, Messrs. Choi Heung Kwan, Agnes, Wong Man Fai, Stephen and Grahame Stuart Brown shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election if they so wish.

Messrs. Yu Kin Nam, Wan Chi Tak and William Richards, having been appointed to fill casual vacancies 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, offer themselves for re-election.

All other remaining Council Members continue in office.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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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.

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



CHAIRMAN

28 March 2006

## AUDITORS' REPORT

TO THE MEMBERS OF  
EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU (THE "BUREAU")  
(A company limited by guarantee)

We have audited the financial statements on pages 4 to 14 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.

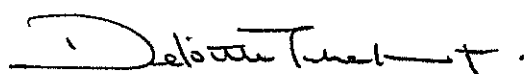
### **Basis of opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 2005 and of its surplus and cash flows for the year ended 31 December 2005 and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
28 March 2006

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

INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2005

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	<u>NOTE</u>	<u>2005</u> HK\$	<u>2004</u> HK\$
Income			
Members' contributions	4	63,198,336	56,739,002
Interest income	4	28,128	920
Interest and other income from investments	4	651,965	148,934
Net realised and unrealised holding gains on investments		<u>6,315,181</u>	<u>2,719,801</u>
		<u>70,193,610</u>	<u>59,608,657</u>
Expenditure			
Accountancy, taxation and secretarial fees		362,000	405,500
Audit fees		32,500	28,000
General expenses		21,088	17,382
Insurance		252,022	381,282
Investment custody fees		8,487	17,501
Investment management fees		492,630	196,825
Professional fees		<u>289,625</u>	<u>280,420</u>
		<u>1,458,352</u>	<u>1,326,910</u>
Surplus for the year		<u><u>68,735,258</u></u>	<u><u>58,281,747</u></u>

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

BALANCE SHEET  
AT 31 DECEMBER 2005

	<u>NOTES</u>	<u>2005</u> HK\$	<u>2004</u> HK\$
Current assets			
Cash at bank	6	274,119	345,119
Contribution receivable and prepayment	7	10,469,465	9,558,021
Investments	8	154,911,644	87,004,024
		<u>165,655,228</u>	<u>96,907,164</u>
Current liabilities			
Accrued expenses		309,108	296,302
Net current assets		<u>165,346,120</u>	<u>96,610,862</u>
Represented by:			
Surplus		<u>165,346,120</u>	<u>96,610,862</u>

The financial statements on pages 4 to 14 were approved and authorised for issue by Council Members of the Bureau on 28 March 2006 and were signed on its behalf by:

  
\_\_\_\_\_  
COUNCIL MEMBER

  
\_\_\_\_\_  
COUNCIL MEMBER

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

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2005

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	2005 <u>Surplus</u> HK\$	2004 <u>Surplus</u> HK\$
At beginning of year	96,610,862	38,329,115
Surplus for the year	<u>68,735,258</u>	<u>58,281,747</u>
At end of year	<u><u>165,346,120</u></u>	<u><u>96,610,862</u></u>

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EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

(A company limited by guarantee)

CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2005

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	<u>2005</u> HK\$	<u>2004</u> HK\$
OPERATING ACTIVITIES		
Surplus for the year	68,735,258	58,281,747
Adjustments for:		
Investment expenses	501,117	214,326
Interest income	(28,128)	(920)
Interest and other income from investments	(651,965)	(148,934)
Net realised and unrealised holding gains on investments	(6,315,181)	(2,719,801)
Operating cash flows before movements in working capital	62,241,101	55,626,418
(Increase) decrease in contribution receivable and prepayment	(911,444)	3,740,502
Increase in accrued expenses	12,806	13,385
NET CASH FROM OPERATING ACTIVITIES	<u>61,342,463</u>	<u>59,380,305</u>
INVESTING ACTIVITIES		
Net sales and purchases of investments	(61,047,223)	(84,183,992)
Interest received	28,128	920
NET CASH USED IN INVESTING ACTIVITIES	<u>(61,019,095)</u>	<u>(84,183,072)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	323,368	(24,802,767)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>510,742</u>	<u>25,313,509</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (NOTE 6)	<u><u>834,110</u></u>	<u><u>510,742</u></u>

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## EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

(A company limited by guarantee)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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#### 1. LEGAL STATUS

The Bureau is a company limited by guarantee which was incorporated under the Hong Kong Companies Ordinance on 18 February 2003. The registered office of the Bureau 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 \$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. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Bureau has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs resulted in the following change:

##### Classification and measurement of financial assets

By 31 December 2004, the Bureau classified and measured its investments in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments are classified as "trading securities". "Trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the income and expenditure account for the year in which gains or losses arise. From 1 January 2005 onwards, the Bureau has classified and measured its investments in accordance with HKAS 39. Under HKAS 39, the investments of the Bureau are classified as "financial assets at fair value through profit or loss". "Financial assets at fair value through profit or loss" are carried at fair value, with changes in fair values recognised in the income and expenditure account.

On 1 January 2005, the Bureau classified and measured its investments in accordance with the transitional provisions of HKAS 39. The adoption of HKAS 39 has no effect on how the results for the current accounting year are prepared and presented.

## EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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### 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The Bureau has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Bureau has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the results of operations and financial positions.

HKAS 1 (Amendment)	Capital disclosure <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>
HK(IFRIC) - INT 8	Scope of HKFRS 2 <sup>5</sup>
HK - INT 4	Leases - determination of the length of lease term in respect of Hong Kong land leases <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>6</sup> Effective for annual periods beginning on or after 4 May 2006.

## EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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### 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value and in accordance with the HKFRSs issued by the HKICPA. 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.

(iii) Interest and other income from investments

Interest income from investments 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.

#### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Bureau becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income and expenditure account.

#### **Financial assets**

The Bureau's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income and expenditure account in the period in which they arise.

Investments in New-Alliance Institutional Global Fund SPC are valued based on the independently audited net asset values of the investee funds. For those investee funds which are not publicly traded and independently audited financial statements are not yet available, the Bureau's management bases its valuation on the estimated net asset value as calculated by each respective fund's administrator and reported to the Bureau. It is possible that the investee funds' results may subsequently be adjusted when such results are subjected to audit, and the adjustments may be material.

## EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

#### Financial instruments - continued

##### **Financial assets** - continued

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables comprising contribution receivable are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income and expenditure account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Translation of foreign currencies

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

In preparing the financial statements of the Bureau, transactions in currencies other than the functional currency of the Bureau (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income and expenditure account in the year in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income and expenditure account for the year.

### 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Financial risk management

The Bureau is exposed to financial risk through its investments. In particular, the key financial risk is that the proceeds from its investments are not sufficient to fund the obligations arising from claims as a result of an unanticipated insolvency of its member. The most important components of this financial risk are interest rate risk, credit risk and currency risk.

##### Interest rate risk

The Bureau held bond investments during the year. Interest rate movements can have a material impact on the carrying value of these bond investments.

## EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

(A company limited by guarantee)

### 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

#### 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. Key areas where the Bureau is exposed to credit risk is counterparty risk with respect to investments in bond.

The Bureau manages the level of credit risk it accepts by implementing a set of investment guidelines.

No more than 5% of the fund balance 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, except the security meets the following two requirements. Firstly, no more than 10% of the fund balance should be invested in the obligations of a single issuer except for sovereign or supranational borrowers with an AAA rating by Standard & Poor's or equivalent. Secondly, there shall be no restrictions on the obligations of the United States (and their agencies), 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.

Investment in a fixed income instrument (debt/bond) should have a minimum rating of BBB- as measured by Standard & Poor's or equivalent. Short term investments should be rated at least A1 as measured by Standard & Poor's or P1 as measured by Moody's. The overall credit rating must be maintained at higher than A+ as measured by Standard & Poors or equivalent at all times. In the event that the rating is different for different rating agencies for the same issuer, the lowest rating should be used.

The total allocation to BBB (BBB+, BBB, BBB-) rated bonds as measured by Standard & Poor's or equivalent of the portfolio cannot exceed two times the benchmark weighting. For corporate bonds; the maximum holding for any single issuer with a credit rating of AA (AA+, AA, AA-) as measured by Standard & Poor's or equivalent should be restricted to 3% of the fund; the maximum holding for any single issuer with a credit rating of A (A+, A, A-) as measured by Standard & Poor's or equivalent should be restricted to 2% of the fund, and the maximum holding for any single issuer with a credit rating of BBB (BBB+, BBB, BBB-) as measured by Standard & Poor's or equivalent should be restricted to 1% of the fund. In the case of Hong Kong dollar bond market, the minimum credit rating limited of A- extends to the issuer of the bond if the bond issue is unrated but fully guaranteed by the issuer or ultimately owned by the parent company of the issuer.

The Bureau has no significant concentration of credit risk.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Currency risk

The Bureau's exposures to foreign exchange risk arise primarily from purchased investments that are denominated in currencies other than Hong Kong dollars. Any risks arising from currency associated with international investments will be fully hedged back into Hong Kong dollars.

The table below showing the Bureau's exposure to foreign currency exchange rate risk at 31 December 2005.

US Dollars Exposure

	HK\$
Investments:	
Bond	122,429,925
Equity	24,027,401
	<u>146,457,326</u>

6. CASH AND CASH EQUIVALENTS

	<u>2005</u>	<u>2004</u>
	HK\$	HK\$
Analysis of cash and cash equivalents:		
Fixed deposits and cash at banks	274,119	345,119
Investments - cash deposits (Note 8)	559,991	165,623
	<u>834,110</u>	<u>510,742</u>

7. CONTRIBUTION RECEIVABLE

The Council Members of the Bureau considered that the carrying amount of contribution receivable approximates their fair value.

8. INVESTMENTS

	Financial assets held for trading	Trading securities
	<u>2005</u>	<u>2004</u>
	HK\$	HK\$
Securities:		
Bond - unlisted outside Hong Kong	122,429,925	73,427,719
Equity - unlisted outside Hong Kong	31,921,728	13,410,682
Cash deposits (Note 6)	559,991	165,623
	<u>154,911,644</u>	<u>87,004,024</u>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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9. 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.

10. TAXATION

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

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