

**EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**  
**(Limited by guarantee)**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED**

**31ST DECEMBER 2007**

## **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 2007.

#### **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 2007 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 5 to 14.

#### **Retained surplus**

Movements in retained surplus during the year are set out in the statement of changes in equity on page 7.

#### **Council Members**

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

Ms Agnes Choi Heung Kwan	
Mr Andrew Wong K.C.	
Mr Kok Ho Wong	
Mr Kwok Ping Cheng	
Mr Allan Kin Nam Yu	
Mr Philip Michael Bulgin	(appointed on 23 March 2007)
Mr Ross Matthews	(appointed on 31 March 2007 and resigned on 1 August 2007)
Mr Andrew Chow Yiu Ming	(appointed on 26 June 2007)
Mr Michael Richard Raines	(appointed on 25 September 2007)
Mr Raymond Wong Tuen	(appointed on 4 February 2008)
Mr Christopher George Townsend	(resigned on 31 March 2007)
Mr Patrick Wan Chi Tak	(resigned on 11 December 2007)

Messrs. Andrew Wong K.C. and Philip Michael Bulgin and Ms Agnes Choi Heung Kwan 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)**

Messrs Andrew Chow Yiu Ming, Michael Richard Raines and Raymond Wong Tuen, 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, offers themselves for re-election, if they so wish.

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



Allan Kin Nam Yu  
Chairman

Hong Kong, **▲ 3 APR 2008**

**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 5 to 14 which comprise the balance sheet as at 31 December 2007, 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.

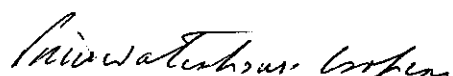
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

**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 2007 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, ~ **3 APR 2008**

**EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**

**INCOME STATEMENT  
FOR THE YEAR ENDED 31ST DECEMBER 2007**

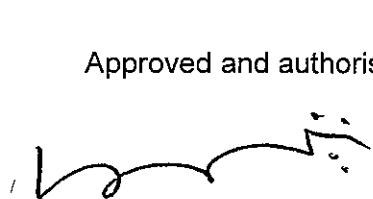
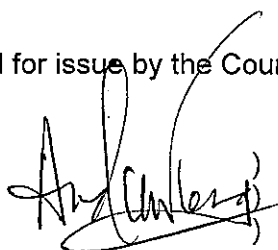
	2007 HK\$	2006 HK\$
Revenue		
Members' contributions	57,214,920	58,994,952
	<u>-----</u>	<u>-----</u>
Other income		
Net realised (losses) / gains on financial assets	(18,436)	2,546,447
Unrealised gains on financial assets	20,443,297	12,499,812
Dividends and other investment income	823,140	1,008,817
Deposit interest income	82,048	84,993
Others	255	-
	<u>-----</u>	<u>-----</u>
	21,330,304	16,140,069
	<u>-----</u>	<u>-----</u>
Total revenue and other income	78,545,224	75,135,021
	<u>-----</u>	<u>-----</u>
Less: Expenses		
Investment management fees	546,071	459,032
Investment custody fees	164,284	96,705
Accountancy, taxation and secretarial fees	416,000	435,500
Legal and professional fees	230,000	239,855
Insurance	136,200	196,954
Audit fees	88,000	80,000
Others	14,552	19,769
	<u>-----</u>	<u>-----</u>
	1,595,107	1,527,815
	<u>-----</u>	<u>-----</u>
Surplus for the year	76,950,117	73,607,206
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**EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**

**BALANCE SHEET  
AS AT 31ST DECEMBER 2007**

	Note	2007 HK\$	2006 HK\$
<b>ASSETS</b>			
<b>Current assets</b>			
Financial assets at fair value through profit or loss	6	303,916,041	226,686,440
Contributions and other receivables	7	11,954,366	12,152,592
Bank balances and cash	8	299,348	369,944
<b>Total assets</b>		<u>316,169,755</u>	<u>239,208,976</u>
<b>EQUITY</b>			
Retained surplus		<u>315,903,443</u>	<u>238,953,326</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accrued expenses		<u>266,312</u>	<u>255,650</u>
<b>Total liabilities</b>		<u>266,312</u>	<u>255,650</u>
<b>Total equity and liabilities</b>		<u>316,169,755</u>	<u>239,208,976</u>

Approved and authorised for issue by the Council Members on **3 APR 2008**

Council Members

**EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST DECEMBER 2007**

Total retained surplus:	HK\$
Balance at 1st January 2006	165,346,120
Surplus for the year	<u>73,607,206</u>
Balance at 31st December 2006 and 1st January 2007	238,953,326
Surplus for the year	<u>76,950,117</u>
Balance at 31st December 2007	<u><u>315,903,443</u></u>



**EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31ST DECEMBER 2007**

	Note	2007 HK\$	2006 HK\$
Operating activities			
Surplus for the year		76,950,117	73,607,206
Adjustments for:			
- Investment expenses		710,355	555,737
- Interest income on deposits		(82,048)	(84,993)
- Dividend and interest income		(823,140)	(1,008,817)
- Net realised and unrealised gains on financial assets		(20,424,860)	(15,046,259)
Operating surplus before changes in working capital		56,330,424	58,022,874
Decrease / (increase) in contributions and other receivables		198,226	(1,683,127)
Increase / (decrease) in accrued expenses		10,662	(53,458)
Net cash inflow from operating activities		56,539,312	56,286,289
Investing activities			
Proceeds from disposal of financial assets		-	167,996,630
Purchases of financial assets		(48,221,268)	(207,251,322)
Dividend and interest received		823,140	1,008,817
Interest received on deposits		82,048	84,993
Net cash outflow from investing activities		(47,316,080)	(38,160,882)
Net increase in cash and cash equivalents		9,223,232	18,125,407
Cash and cash equivalents at 1st January		18,959,517	834,110
Cash and cash equivalents at 31st December	8	28,182,749	18,959,517

# 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 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 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.

#### (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)

##### (a) Basis of preparation (continued)

###### (a) Standards, amendment and interpretations effective in 2007

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Bureau's financial instruments.

###### (b) Standards, amendments and interpretations effective in 2007 but not relevant for the Bureau's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Bureau's operations:

- HK(IFRIC) - Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies';
- HK(IFRIC) - Int 8, 'Scope of HKFRS 2';
- HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'; and
- HK(IFRIC) - Int 10, 'Interim financial reporting and impairment'.

###### (c) Interpretations to existing standards that are not yet effective and not relevant for the Bureau's operations

The following interpretations to existing standards have been published and are mandatory for the Bureau's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Bureau's operations:

- HK(IFRIC) - Int 11, 'HKFRS 2 – Group and treasury share transactions';
- HK(IFRIC) - Int 12, 'Service concession arrangements' (effective from 1 January 2008);
- HK(IFRIC) - Int 13, 'Customer loyalty programmes' (effective from 1 July 2008);
- HK(IFRIC) - Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008);
- HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009); and
- HKFRS 8, 'Operating segments' (effective from 1 January 2009).

## 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.

##### (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. No claims have been made to the Bureau to date.

##### (d) Financial assets

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.

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.

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 when the Bureau's right to receive payments is established.

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

## **EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **2 Principal accounting policies (Continued)**

##### **(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.

#### **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 2007 comprises listed bond funds of approximately HK\$232 million (2006: HK\$174 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.

As the Bureau's investments are fully hedged, it does not have exposure to interest rate risk and no sensitivity analysis is performed.

##### **(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 bond funds of HK\$232 million.

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 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 & Pooers or equivalent at all times.

The Bureau has no significant concentrations of credit risk.

###### (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. A 10% increase in the market values of the equity securities would result in a gain of approximately HK\$30 million in 2007.

###### (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 2007, 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 prices used for financial assets held by the Bureau are the current bid price.

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

#### 3.2 Insurance risk and capital risk management

Capital comprises all components of equity as shown in the balance sheet. 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.

The Bureau manages the above risks by reviewing the percentage rate of the contributions not less than annually. During the year, an independent actuarial review based on data up to 30 June 2007 concluded that the levy rate of 2% is adequate.

#### 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.

**EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU**

**NOTES TO THE FINANCIAL STATEMENTS**

**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**

	2007 HK\$	2006 HK\$
<b>Fair value through profit or loss:</b>		
Mutual funds registered in Hong Kong		
- Listed bonds	78,253,415	62,306,387
- Listed equities	43,773,941	33,849,695
- Cash deposits with maturity less than three months (Note 8)	27,883,401	18,589,573
Bond funds registered outside Hong Kong		
- Listed bonds	154,005,284	111,940,785
	<u>303,916,041</u>	<u>226,686,440</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.

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

**8 Cash and cash equivalents**

	2007 HK\$	2006 HK\$
Bank balances and cash	299,348	369,944
Cash deposits with maturity less than three months (Note 6)	27,883,401	18,589,573
Cash and cash equivalents	<u>28,182,749</u>	<u>18,959,517</u>

**9 Approval of financial statements**

The financial statements were approved by the Council on **3 APR 2008**