

Auditors' Report to the Hong Kong Deposit Protection Board

We have audited the statement of accounts of the Deposit Protection Scheme Fund ("the Fund") established under Section 14 of the Hong Kong Deposit Protection Scheme Ordinance ("the Ordinance") set out on pages 11 to 16 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF THE BOARD AND AUDITORS

The Ordinance requires the Hong Kong Deposit Protection Board ("the Board") to keep and maintain proper accounts and records of all transactions of the Fund and cause to be prepared a statement of accounts in respect of each financial year. The Board does so on the basis that this statement of accounts gives a true and fair view. In preparing the statement of accounts which gives a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the statement of accounts prepared by the Board and to report our opinion to the Board, as a body, in accordance with section 19 of the Ordinance. 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 statement of accounts. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the statement of accounts and of whether the accounting policies are appropriate to the Fund's circumstances, have been 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 statement of accounts is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statement of accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the statement of accounts gives a true and fair view of the state of affairs of the Fund at 31 March 2005 and of the deficit of the Fund for the period then ended, and has been properly prepared in accordance with the Ordinance.

KPMG

Certified Public Accountants

Hong Kong

20 June 2005

Income and Expenditure Account

for the Period from 1 July 2004 to 31 March 2005

(Expressed in Hong Kong dollars)

| | Period from 1 July 2004 to 31 March 2005 |
|--|---|
| Income | \$ – |
| <hr style="border-top: 1px dashed #000;"/> | |
| Expenditure | |
| Staff costs | \$ 833,736 |
| Office equipment and stationery | 1,216 |
| Transport and travelling | 1,296 |
| Hire of services | 102,880 |
| Communication | 11,000 |
| Printing and publicity | 53,200 |
| Publications | 14,242 |
| Recruitment expenses | 36,631 |
| Other expenses | 3,433 |
| Depreciation | 3,944 |
| Total expenditure | \$ 1,061,578 |
| Deficit for the period | \$ (1,061,578) |

The notes on pages 13 to 16 form part of this statement of accounts.

Balance Sheet

at 31 March 2005

(Expressed in Hong Kong dollars)

| | Note | 2005 |
|--------------------------------|------|-----------------------|
| Non-current assets | | |
| Fixed assets | 4 | \$ 67,046 |
| Current assets | | |
| Prepayments | 5 | \$ 2,309,718 |
| Cash | | 532,939 |
| | | \$ 2,842,657 |
| Current liabilities | | |
| Accrued expenses | 6 | \$ 271,281 |
| Loan | 7 | 3,700,000 |
| | | \$ (3,971,281) |
| Net current liabilities | | \$ (1,128,624) |
| NET LIABILITIES | | \$ (1,061,578) |
| Representing: | | |
| FUND | | |
| Accumulated deficit | | \$ (1,061,578) |

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 20 June 2005.

Professor Andrew Chan Chi-fai

Chairman

The notes on pages 13 to 16 form part of this statement of accounts.

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

1 PURPOSE AND ACTIVITIES

The Deposit Protection Scheme Fund (“the Fund”) is established under the Hong Kong Deposit Protection Scheme Ordinance (“the Ordinance”) for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks which are members of the Deposit Protection Scheme (“the Scheme”). The Hong Kong Deposit Protection Board (“the Board”) manages the Fund in accordance with the provisions of the Ordinance.

The Scheme will be funded by contributions levied on member banks. During the period, the Board has commenced the establishment of the Scheme. However as the Scheme was not fully operational during the period, no contributions were levied and the Fund was not required to provide deposit protection. The expenditure incurred during the period was financed by an interest free credit facility from the Hong Kong Monetary Authority (“HKMA”) which will be repaid from contributions once the Scheme is fully operational.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

This statement of accounts has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the statement of accounts is historical cost.

(c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation, which is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

| | Years |
|---|-------|
| Computer hardware, software and development costs: | |
| – System development costs | 5 |
| – Servers (hardware and software) | 5 |
| – Others, e.g. personal computers, printers and accessories | 3 |
| Office furniture, equipment and fittings | 5 |

Only items costing HK\$10,000 or more are capitalised. Gains or losses arising from the disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income and expenditure account in the month of disposal.

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

(d) Revenue recognition

Revenue is recognised in the income and expenditure account when it is probable that economic benefits will flow to the Fund and the revenue can be measured reliably.

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

(e) Translation of foreign currencies

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transactions dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date. Exchange gains and losses are dealt with in the income and expenditure account.

(f) Operating leases

Where the Fund has the use of assets under operating leases, payments made under the leases are charged to the income and expenditure account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(g) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Fund has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(h) Employee benefits

Obligations for contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income and expenditure account as incurred.

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

(i) Related parties

For the purpose of this statement of accounts, we consider that the following are related parties of the Fund:

- (i) parties that the Fund has the ability, directly or indirectly, to control or significantly influence in making financial and operating decisions;
- (ii) parties that have the ability, directly or indirectly, to control or significantly influence the Fund in making financial and operating decisions; and
- (iii) parties that are subject to common control or common significant influence.

Related parties may be individuals or corporate entities.

3 EXPENSES

All expenses are recognised in the income and expenditure account on an accruals basis.

4 FIXED ASSETS

Desktop computer

| | 2005 |
|----------------------------------|-----------|
| Cost: | |
| Addition | \$ 70,990 |
| At 31 March 2005 | \$ 70,990 |
| Accumulated depreciation: | |
| Charge for the period | \$ 3,944 |
| At 31 March 2005 | \$ 3,944 |
| Net book value: | |
| At 31 March 2005 | \$ 67,046 |

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

5 PREPAYMENTS

| | 2005 |
|-------------------------|---------------------|
| Deposit – Payout system | \$ 2,295,000 |
| Others | 14,718 |
| | \$ 2,309,718 |

6 ACCRUALS

| | 2005 |
|------------------|-------------------|
| Hire of services | \$ 102,500 |
| Staff expenses | 101,535 |
| Others | 67,246 |
| | \$ 271,281 |

7 LOAN - RELATED PARTY

The Deputy Chief Executive (Banking) of the Hong Kong Monetary Authority (“HKMA”) is an ex officio member of the Board which manages the Fund. The HKMA has also seconded the Executive Director (Banking Development) and a Division Head to assist the Board to establish the Scheme including the administration of the Fund. They are designated as the Chief Executive Officer and Deputy Chief Executive Officer (Operations) of the Board respectively. During the period, the HKMA provided a committed, interest-free credit facility to the Board for the purpose of meeting establishment and initial operating cost of the Board. The maximum amount which may be drawn down under the facility is \$30,000,000, of which HK\$3,700,000 was drawn down during the period.

8 TAXATION

No provision for Hong Kong Profits Tax has been made as the Board is exempt from Hong Kong Profits Tax pursuant to section 10 of the Ordinance.

9 RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting period beginning on or after 1 January 2005.

The Board has not early adopted these new HKFRSs in the statement of accounts for the period ended 31 March 2005. The Board has commenced an assessment of the impact of these new HKFRSs.