

## INDEPENDENT AUDITOR'S 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 Deposit Protection Scheme Ordinance (the "Ordinance") set out on pages 42 to 62, which comprises the balance sheet as at 31 March 2008, and the income and expenditure account, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### THE BOARD'S RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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. The Board is responsible for the preparation and the true and fair presentation of the statement of accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of statement of accounts that is 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 the statement of accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 19 of the 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 statement of accounts is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the statement of accounts, 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 statement of accounts 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the statement of accounts.

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

## **OPINION**

In our opinion, the statement of accounts gives a true and fair view of the state of affairs of the Fund as at 31 March 2008 and of the surplus and cash flows of the Fund for the year then ended in accordance with Hong Kong Financial Reporting Standards and has been properly prepared in accordance with the Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 25 June 2008

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

	Notes	2008	2007
Income			
Contributions		\$ 310,950,193	\$ 164,510,998
Interest income from cash and balances with bank and the Exchange Fund		5,852,386	2,652,397
Interest income from available-for-sale securities		8,683,701	465,925
Exchange gains		282,198	179,157
Other income		60,000	90,000
		\$ 325,828,478	\$ 167,898,477
Expenditure			
Staff costs	6	\$ 5,473,024	\$ 4,209,933
Premises costs		2,336,172	1,039,968
Depreciation and amortisation		2,962,048	569,665
Financial information services		12,276	11,160
Office supplies		96,076	202,778
Overseas travel		32,054	170,934
Transport and travelling		4,003	5,793
Hire of services		22,495,039	9,492,894
Communications		65,961	20,639
Printing and publicity		15,485,853	10,934,145
Other expenses		1,012,385	193,312
		\$ 49,974,891	\$ 26,851,221
Surplus for the year		\$ 275,853,587	\$ 141,047,256

The note on page 46 to 62 form part of this statement of accounts.

# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND BALANCE SHEET

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as at 31 March 2008 (Expressed in Hong Kong dollars)

	Notes	2008	2007
<b>Non-current assets</b>			
Fixed assets	7	\$ 3,663,231	\$ 3,617,442
Intangible assets	8	10,450,302	9,767,400
		\$ 14,113,533	\$ 13,384,842
<b>Current assets</b>			
Other receivables	9	\$ 820,025	\$ 303,056
Available-for-sale securities	10	312,805,015	30,975,635
Cash and balances with bank and the Exchange Fund	12	347,581,496	329,667,874
		\$ 661,206,536	\$ 360,946,565
<b>Current liabilities</b>			
Contributions received in advance		\$ 245,729,293	\$ 228,701,515
Other payables	11	17,541,419	9,714,208
		\$ 263,270,712	\$ 238,415,723
<b>Net current assets</b>		<b>\$ 397,935,824</b>	<b>\$ 122,530,842</b>
<b>Net assets</b>		<b>\$ 412,049,357</b>	<b>\$ 135,915,684</b>
<b>Represented by</b>			
Accumulated surplus		\$ 411,769,083	\$ 135,915,496
Investment revaluation reserve		280,274	188
		<b>\$ 412,049,357</b>	<b>\$ 135,915,684</b>

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 25 June 2008.

**Professor Andrew Chan Chi-fai**, SBS, JP  
*Chairman*

The note on page 46 to 62 form part of this statement of accounts.

**STATEMENT OF ACCOUNTS OF  
THE DEPOSIT PROTECTION SCHEME FUND  
STATEMENT OF CHANGES IN NET ASSETS**

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

	2008	2007
Fund balance as at 1 April	\$ 135,915,684	\$ (5,131,760)
Surplus for the year	275,853,587	141,047,256
Change in fair value of available-for-sale securities	280,086	188
Fund balance as at 31 March	\$ 412,049,357	\$ 135,915,684

# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND CASH FLOW STATEMENT

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for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

	2008	2007
Operating activities		
Surplus for the year	\$ 275,853,587	\$ 141,047,256
Interest income	(14,536,087)	(3,118,322)
Exchange gains	(282,198)	(179,157)
Depreciation and amortisation	2,962,048	569,665
Cash inflow from operating surplus before changes in operating assets and liabilities	\$ 263,997,350	\$ 138,319,442
Changes in operating assets and liabilities		
Increase in other receivables	(516,969)	(239,855)
Increase in contributions received in advance	17,027,778	228,701,515
Increase in other payables	7,827,211	9,143,085
Decrease in loan from the HKMA	–	(10,600,000)
Net cash inflow from operating activities	\$ 288,335,370	\$ 365,324,187
Investing activities		
Increase in intangible assets	\$ (2,798,487)	\$ (4,716,800)
Purchase of fixed assets	(892,252)	(3,752,829)
Interest received	5,852,386	2,620,375
Purchase of available-for-sale securities	(412,554,233)	(30,330,365)
Redemption of available-for-sale securities	139,970,838	–
Net cash outflow from investing activities	\$ (270,421,748)	\$ (36,179,619)
Net increase in cash and cash equivalents	\$ 17,913,622	\$ 329,144,568
Cash and cash equivalents at 1 April	329,667,874	523,306
Cash and cash equivalents at 31 March	\$ 347,581,496	\$ 329,667,874
Analysis of balance of cash and cash equivalents		
Cash and balances with bank and the Exchange Fund	\$ 347,581,496	\$ 329,667,874

# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

## 1 PURPOSE AND ACTIVITIES

The Deposit Protection Scheme Fund (the "Fund") is established under the Deposit Protection Scheme Ordinance (the "Ordinance") for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks that 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 Fund mainly consists of contributions collected from Scheme members and returns on investments of the Fund. Expenditure incurred in the establishment and maintenance of the Scheme, as well as the management and administration of the Fund are paid from the Fund.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The statement of accounts has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs" which is a collective term including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The statement of accounts has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities.

The preparation of statement of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the statement of accounts, are disclosed in Note 4.

The HKICPA has issued a number of new/revised HKFRSs, which are effective for the Fund's accounting periods beginning on or after 1 April 2007. The Fund adopted "HKFRS 7, Financial Instruments: Disclosures" which introduces certain new disclosures relating to the statement of accounts and is relevant to its operations.

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

*Standards, amendments and interpretations effective in 2007 but not relevant to the Fund's operations*

The following standards, amendments and interpretations are mandatory for the Fund's accounting periods beginning on or after 1 April 2007 but either did not result in substantial changes to the Fund's accounting policies or are not relevant to the Fund's operations.

- HKAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures;
- HK(IFRIC) – INT 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies;
- HK(IFRIC) – INT 8, Scope of HKFRS 2;
- HK(IFRIC) – INT 9, Reassessment of Embedded Derivatives;
- HK(IFRIC) – INT 10, Interim Financial Reporting and Impairment; and
- HK(IFRIC) – INT 11, HKFRS 2 Group and Treasury Share Transactions

*Standards, amendments and interpretations that are not yet effective and have either not been early adopted by the Fund or not relevant to the Fund*

The Fund has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued but not yet effective for the Fund's accounting periods beginning on 1 April 2007:

- HKFRS 8, Operating Segment;
- HK(IFRIC) – INT 12, Service Concession Arrangements;
- HK(IFRIC) – INT 13, Customer Loyalty Programmes;
- HK(IFRIC) – INT 14, HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction;
- HKAS 1 (Revised), Presentation of Financial Statements;
- HKAS 23 (Revised), Borrowing Costs; and
- HKAS 27 (Revised), Consolidated and Separate Financial Statements

The Board is in the process of assessing the impact of these amendments, new standards and interpretations and so far no significant impact is expected.

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) 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.

Contributions and exemption fees are collected from Scheme members as specified in Schedule 4 to the Ordinance. They are accounted for on an accrual basis.

Contributions are calculated based on the amount of relevant deposits and the respective supervisory rating of each non-exempted bank applicable at a specified date. Contributions are collected annually in advance for each calendar year.

Interest income is recognised in the income and expenditure account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### (c) Expenses

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

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Fixed assets

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

	Years
Computer hardware/software costs:	
• Servers	5
• Others, e.g. personal computers, printers and accessories	3
Office furniture, equipment and fixtures	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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's net selling price and value in use.

### (e) Financial assets

The Fund classifies its investments in debt securities as available-for-sale securities. Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices.

Purchases and disposal of available-for-sale securities are recognised on trade-date – the date on which the Fund commits to purchase or dispose of the securities. They are initially recognised at fair value plus transaction costs and subsequently held at fair value.

Unrealised gains and losses arising from changes in the fair value are recognised directly in reserve, until the available-for-sale securities are derecognised or impaired at which time the cumulative gain or loss previously recognised in the reserve should be recognised in the income and expenditure account. However, interest calculated using the effective interest method is recognised in the income and expenditure account.

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial assets (Continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in the income and expenditure account; translation differences on non-monetary securities are recognised in reserve. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in reserve.

When the available-for-sale securities are disposed, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the reserve are treated as gains or losses on disposal.

#### (f) Fair value measurement principles

The fair value of quoted investments in active markets is based on current bid prices. If the market for a financial asset is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants.

#### (g) Intangible assets

Costs that are directly associated with the development of identifiable and unique systems controlled and used by the Fund, and that will probably generate economic benefit exceeding costs beyond one year, are recognised as intangible assets. Expenditure on development of the Payout System is capitalised if the systems are technically and commercially feasible. The expenditure capitalised includes the direct labour and costs of materials. Intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation of intangible assets with definite life is charged to the income and expenditure account on a straight-line basis over the assets' estimated useful life of 5 years.

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Impairment of financial assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income and expenditure account – is removed from reserve and recognised in the income and expenditure account. If, in a subsequent period, the fair value of a debt securities classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income and expenditure account, the impairment loss is reversed through the income and expenditure account.

### (i) Impairment of other assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation, but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (j) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of transaction including: cash at bank and on hand, demand deposits with banks, other financial institutions and the Monetary Authority ("MA") for the account of the Exchange Fund, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### (k) Other payables

Other payables are initially recognised at fair value and thereafter stated at amortised cost.

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) Translation of foreign currencies

##### (i) *Functional and presentation currency*

Items included in the statement of accounts are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The statement of accounts is presented in Hong Kong dollars, which is the Fund's functional and presentation currency.

##### (ii) *Transactions and balances*

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 and expenditure account.

#### (m) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income and expenditure account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

#### (n) Provisions and contingent liabilities

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events where it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Provisions and contingent liabilities (Continued)

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.

### (o) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are recognised when the absence occurs.

#### (ii) *Pension obligations*

The Fund offers a mandatory provident fund scheme, the assets of which are generally held in separate trustee – administered funds. These pension plans are generally funded by payments from employees and by the Fund. The Fund's contributions to the mandatory provident fund scheme are expensed as incurred.

### (p) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

### 3 RISK MANAGEMENT

#### (a) Governance

The Fund is established under 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 Scheme. Under Part 4 of the Ordinance, the Fund is to consist of:

- contributions and late payment fees collected from Scheme members;
- money recovered by the Board from, or out of the assets of, failed Scheme members;
- returns on investments;
- money borrowed by the Board for the purpose of performing its functions; and
- any other money lawfully paid into the Fund.

The Board established an Investment Committee and delegated its power to the Committee to place, or invest, money of the Fund that is not immediately required by the Board for the performance of its functions. In particular, the Investment Committee:

- makes recommendations on the investment policy and strategy in respect of the Fund;
- monitors the investment performance of the Fund and establishes proper risk management controls for the investment activities of the Board; and
- works on any other matters as determined from time to time by the Board.

Operating within the requirements under the Ordinance and policies endorsed by the Investment Committee, the Board's staff conducts the day-to-day investment management and risk management of the Fund.

#### (b) Investment management and control

Under section 21 of the Ordinance, the Fund or any part of it may be invested in the following investment instruments:

- deposits with the MA for the account of the Exchange Fund;
- Exchange Fund Bills; and
- US Treasury Bills.

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

### 3 RISK MANAGEMENT (Continued)

#### (b) Investment management and control (Continued)

Investment activities of the Fund are conducted in accordance with the requirements set out in the Ordinance and the policies endorsed by the Investment Committee to ensure the investment objectives of capital preservation and maintaining sufficient liquidity are met.

The Board's Management Team is responsible for the day-to-day investment management of the Fund. Investment reports showing the latest market values, rate of return, maturity profile and types of financial instruments held are regularly submitted to the Investment Committee for control purpose.

#### (c) Financial risk management

##### *Market risk*

Market risk is the risk that changes in market variables such as interest rates, equity prices and exchange rates may affect the fair value or cash flows of a financial instrument. Market risk to the Fund mainly comprises interest rate risk and currency risk.

##### (i) Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in market interest rates. Since the tenors of the Exchange Fund Bills and US Treasury Bills held by the Fund do not exceed 12 months, any impact of interest rate fluctuations on the Fund are considered minimal.

##### (ii) Currency risk

Currency risk is the risk of loss arising from changes in foreign exchange rates. The investments held by the Fund are denominated either in Hong Kong dollars or US dollars. Because of the linked exchange rate with the US dollar, the exchange risk to the Fund is considered minimal.

As at 31 March 2008, if interest rates increased by 25 basis points with all other variables remaining stable, the increase in net assets of the Fund for the year would amount to approximately HK\$839,354 (2007: HK\$810,254), arising substantially from the increase in interest receivable from cash balances with bank and the Exchange Fund. Conversely, if interest rates decreased by 25 basis points, the effect would be a decrease in net assets of the Fund of the same amount.

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

### 3 RISK MANAGEMENT (Continued)

#### (c) Financial risk management (Continued)

##### *Liquidity risk*

Liquidity risk refers to the risk that the Fund may not have sufficient funds available to meet its liabilities as they fall due. In addition, the Fund may not be able to liquidate its financial assets at a price close to the fair value within a short period of time.

Given that the Fund can only make deposits with the MA for the account of the Exchange Fund or invest in the highly liquid Exchange Fund Bills and US Treasury Bills, the liquidity of the Fund is maintained at a high level at all times.

##### *Credit risk*

The Fund is exposed to credit risk as a borrower or a counterparty may not be able or willing to perform its contractual obligations in full when due. The credit risk of the Fund can be broken into (i) counterparty risk from placement activities; (ii) counterparty risk from investment transactions; (iii) issuer risk arising from debt securities holdings; and (iv) country risk.

Counterparty credit exposures arise mainly from the Fund's deposit placements with the MA for the account of the Exchange Fund and securities transactions with financial institutions. In this respect, the Fund will only conduct securities transactions with counterparties approved by the Investment Committee. Issuer risk arises from investments in debt securities. The types of investment securities of the Fund are limited to Exchange Fund Bills and US Treasury Bills, both with minimal default risk. In addition to the counterparty and issuer risks, the Fund is exposed to country risk, which is confined to the sovereign risk of Hong Kong and the US given the Fund's limited types of investments. The Fund's credit exposures are reported regularly to the Investment Committee based on its delegated authority from the Board.

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

### 3 RISK MANAGEMENT (Continued)

#### (c) Financial risk management (Continued)

##### *Fair value of financial assets and financial liabilities*

The fair value of the financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid price. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, with inputs based on market conditions existing at the balance sheet date.

The fair values of financial assets and liabilities not presented on the Fund's balance sheet at their fair value are estimated as follows:

(i) Bank balances and balances with the Exchange Fund

The fair values of bank balances and balances with the Exchange Fund are their carrying amounts.

(ii) Other receivables

The estimated fair value of other receivables, which are non-interest bearing balances, is their carrying value.

(iii) Other payables

The estimated fair value of other payables, which are non-interest bearing balances, is their carrying value.

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

### 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions made in the preparation of these accounts do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 5 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.

### 6 STAFF COSTS

	2008	2007
Salaries	\$ 4,549,274	\$ 3,620,007
Gratuity	414,055	313,440
Payment in lieu of leave	274,580	115,621
Other employee benefits	235,115	160,865
	\$ 5,473,024	\$ 4,209,933

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

**7 FIXED ASSETS**

	Office equipment, furniture and fixtures	Computer hardware/ software	Total
<b>Cost</b>			
As at 1 April 2007	\$ 836,969	\$ 3,051,350	\$ 3,888,319
Additions	171,005	721,247	892,252
As at 31 March 2008	\$ 1,007,974	\$ 3,772,597	\$ 4,780,571
<b>Accumulated depreciation</b>			
As at 1 April 2007	\$ 82,881	\$ 187,996	\$ 270,877
Charge for the year	185,262	661,201	846,463
As at 31 March 2008	\$ 268,143	\$ 849,197	\$ 1,117,340
<b>Net book value</b>			
As at 31 March 2008	\$ 739,831	\$ 2,923,400	\$ 3,663,231
As at 31 March 2007	\$ 754,088	\$ 2,863,354	\$ 3,617,442

STATEMENT OF ACCOUNTS OF  
THE DEPOSIT PROTECTION SCHEME FUND  
NOTES TO THE STATEMENT OF ACCOUNTS

## 8 INTANGIBLE ASSETS

	Development costs of Payout System
<b>Cost</b>	
As at 1 April 2007	\$ 10,101,000
Additions	2,798,487
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As at 31 March 2008	\$ 12,899,487
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<b>Accumulated amortisation</b>	
As at 1 April 2007	\$ 333,600
Charge for the year	2,115,585
<hr/>	
As at 31 March 2008	\$ 2,449,185
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<b>Net book value</b>	
As at 31 March 2008	\$ 10,450,302
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As at 31 March 2007	\$ 9,767,400
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## 9 OTHER RECEIVABLES

	2008	2007
Prepayment	\$ 779,133	\$ 250,693
Interest receivables	4,043	32,022
Contribution receivables	20,349	–
Others	16,500	20,341
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	\$ 820,025	\$ 303,056
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for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

**10 AVAILABLE-FOR-SALE SECURITIES**

	2008	2007
Debt securities:		
– Unlisted US Treasury Bills	\$ 312,805,015	\$ 30,975,635

**11 OTHER PAYABLES**

	2008	2007
Hire of services	\$ 14,896,238	\$ 7,276,684
Staff expenses	534,487	418,954
Others	2,110,694	2,018,570
	\$ 17,541,419	\$ 9,714,208

**12 MATERIAL RELATED PARTY TRANSACTIONS**

Pursuant to section 6 of the Ordinance, the Board shall perform its functions through the MA unless indicated otherwise by the Financial Secretary. The Hong Kong Monetary Authority (“HKMA”) has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources, and information technology.

## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2008 (Expressed in Hong Kong dollars)

### 12 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

The related party transactions with the HKMA are as follows:

	Note	2008	2007
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	\$ 343,215,625	\$ 329,238,768
Interest income from balances with the Exchange Fund	(a)	\$ 5,785,908	\$ 2,593,189
Operating expenses reimbursed to the HKMA	(b)	\$ 12,589,792	\$ 6,961,240

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$343,215,625 (2007: HK\$329,238,768) and earned interest amounting to HK\$5,785,908 (2007: HK\$2,593,189) at a rate which makes reference to the market interest rates.
- (b) Certain operating expenses are reimbursed to the HKMA on a cost recovery basis in accordance with the provision set out in the Ordinance.
- (c) During the year, the MA provided the Board a standby facility from the Exchange Fund for meeting the necessary liquidity required for payment of compensation in the event of a bank failure. The maximum amount which may be drawn under the facility is HK\$40,000,000,000 (2007: HK\$40,000,000,000) of which nil (2007: nil) was drawn during the year.

### 13 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 25 June 2008.