Income and Expenditure Account

for the year ended 31 March 2006

(Expressed in Hong Kong dollars)

	Year ended 31 March 2006	Period from 1 July 2004 to 31 March 2005
Income	**$ 13,921**	$ –
Total revenue	**$ 13,921**	$ –
Expenditure		
Staff costs	**$ 3,701,595**	$ 833,736
Financial information services	**6,000**	–
Office equipment and stationery	**641**	1,216
Overseas travel	**34,694**	–
Transport and travelling	**618**	1,296
Hire of services	**73,675**	102,880
Training expenses	**6,462**	–
Communication	**959**	11,000
Printing and publicity	**47,960**	53,200
Publications	**30,650**	14,242
Membership fee	**140,232**	–
Recruitment expenses	**5,699**	36,631
Other expenses	**4,050**	3,433
Depreciation	**30,868**	3,944
Total expenditure	**$ 4,084,103**	$ 1,061,578
Deficit for the year/period	**$ (4,070,182)**	$ (1,061,578)

The notes on pages 22 to 28 form part of this statement of accounts.

Balance Sheet

at 31 March 2006
(Expressed in Hong Kong dollars)

	Note	2006	2005
Non-current assets			
Fixed assets	3	**$ 193,678**	$ 67,046
Current assets			
Prepayments and deposit	4	**$ 5,322,379**	$ 2,309,718
Cash		**523,306**	532,939
		$ 5,845,685	$ 2,842,657
Current liabilities			
Accrued expenses	5	**$ 571,123**	$ 271,281
Loan	6	**10,600,000**	3,700,000
		$ 11,171,123	$ 3,971,281
Net current liabilities		**$ (5,325,438)**	$ (1,128,624)
NET LIABILITIES		**$ (5,131,760)**	$ (1,061,578)
Representing:			
FUND			
Accumulated deficit		**$ (5,131,760)**	$ (1,061,578)

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 17 July 2006.

Professor Andrew Chan Chi-fai, JP
Chairman

The notes on pages 22 to 28 form part of this statement of accounts.

Statement of Changes in Net Assets

at 31 March 2006

(Expressed in Hong Kong dollars)

	2006	2005
Fund balance as at 1 April	**$ (1,061,578)**	$ –
Deficit for the year/period	**(4,070,182)**	(1,061,578)
Fund balance as at 31 March	**$ (5,131,760)**	$ (1,061,578)

Cash Flow Statement

for the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	Year ended 31 March 2006	Period from 1 July 2004 to 31 March 2005
Operating activities		
Deficit for the year	**$ (4,070,182)**	$ (1,061,578)
Adjustments for:		
– Depreciation	**30,868**	3,944
– Interest income	**(13,921)**	–
Operating deficit before changes in working capital	**$ (4,053,235)**	$ (1,057,634)
Increase in prepayments and deposit	**(3,012,661)**	(2,309,718)
Increase in accrual expenses	**299,842**	271,281
Increase in loan	**6,900,000**	3,700,000
Net cash generated from operating activities	**$ 133,946**	$ 603,929
Investing activities		
Purchase of fixed assets	**$ (157,500)**	$ (70,990)
Interest received	**13,921**	–
Net cash used in investing activities	**$ (143,579)**	$ (70,990)
Net (decrease)/increase in cash and cash equivalents	**$ (9,633)**	$ 532,939
Opening cash and cash equivalents	**532,939**	–
Closing cash and cash equivalents	**$ 523,306**	$ 532,939

The notes on pages 22 to 28 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 year, the Board has continued the establishment of the Scheme. However as the Scheme was not fully operational during the year, no contributions were levied and the Fund was not required to provide deposit protection. The expenditure incurred during the year 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 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 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

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

(c) Fixed assets and depreciation (continued)

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.

(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 is recognised in the income and expenditure account, as it accrues using the effective interest rate method.

(e) Expenses

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

(f) Translation of foreign currencies

Foreign currency transactions during the year 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.

(g) 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.

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

(h) 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.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

  An impairment loss is recognised in the income and expenditure account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income and expenditure account in the year in which the reversals are recognised.

(j) 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.

(k) Related parties

(i) Definition of related parties (HKAS 24, *Related party disclosures*)

As a result of the adoption of HKAS 24, *Related party disclosures*, the definition of related parties as disclosed below has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Fund or of any entity that is a related party of the Fund. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

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

– parties that the Fund has the ability, directly or indirectly, to control or significantly influence in making financial and operating decisions;

– parties that have the ability, directly or indirectly, to control or significantly influence the Fund in making financial and operating decisions; and

– parties that are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel and/or their close family members) or corporate entities and include entities which are under the significant influence of related parties of the Fund where those parties are individuals or of any entity that is a related party of the group.

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

3 FIXED ASSETS

	Office equipment	Desktop computer	System development cost	Total
Cost:				
As at 1 April 2005	$ –	$ 70,990	$ –	$ 70,990
Additions	34,800	29,700	93,000	157,500
As at 31 March 2006	$ 34,800	$ 100,690	$ 93,000	$ 228,490
Accumulated depreciation:				
As at 1 April 2005	$ –	$ 3,944	$ –	$ 3,944
Charge for the year	6,380	24,488	–	30,868
As at 31 March 2006	$ 6,380	$ 28,432	$ –	$ 34,812
Net book value:				
As at 31 March 2006	$ 28,420	$ 72,258	$ 93,000	$ 193,678
As at 31 March 2005	$ –	$ 67,046	$ –	$ 67,046

4 PREPAYMENTS AND DEPOSIT

	2006	2005
Deposit – Payout system	**$ 5,291,200**	$ 2,295,000
Others	**31,179**	14,718
	$ 5,322,379	$ 2,309,718

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

5 ACCRUALS

	2006	2005
Hire of services	**$ 30,000**	$ 102,500
Staff expenses	**470,858**	101,535
Others	**70,265**	67,246
	$ 571,123	$ 271,281

6 LOAN – RELATED PARTY

The Deputy Chief Executive (Banking) of the 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 year, the HKMA provided a committed, interest-free credit facility to the Board for the purpose of meeting the establishment and initial operating costs of the Board. The maximum amount which may be drawn down under the facility is $30,000,000, of which HK$6,900,000 (2005: HK$3,700,000) was drawn down during the year.

7 FINANCIAL INSTRUMENTS

During this initial period of its operations, the Fund's financial instruments consist primarily of cash at bank and the interest-free loan from the HKMA. Consequently the Fund is not exposed to significant credit or interest rate risk. Fund's financial instruments are carried at amounts not materially different from their fair values.

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.

Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

9 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 MARCH 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are applicable to the Fund but not yet effective for the accounting year ended 31 March 2006 and which have not been adopted in these financial statements.

The Board is in the process of making an assessment of what the impact of these amendments, and new standards and new interpretations are expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Fund's results of operations and financial position.