

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## INCOME AND EXPENDITURE ACCOUNT

	Notes	2007	2006
Income			
Contributions	6	\$ 164,510,998	\$ –
Interest income from cash and balances with bank and the Exchange Fund		2,652,397	13,921
Interest income from available-for-sale securities		465,925	–
Exchange gains		179,157	–
Other income		90,000	–
		<b>\$ 167,898,477</b>	\$ 13,921
Expenditure			
Staff costs	7	\$ 4,209,933	\$ 3,701,595
Premises costs		1,039,968	–
Financial information services		11,160	6,000
Office supplies		202,778	641
Overseas travel		170,934	34,694
Transport and traveling		5,793	618
Hire of services		9,492,894	73,675
Communications		20,639	959
Printing and publicity		10,934,145	47,960
Other expenses		193,312	187,093
Depreciation and amortisation		569,665	30,868
		<b>\$ 26,851,221</b>	\$ 4,084,103
Surplus/(deficit) for the year		<b>\$ 141,047,256</b>	\$ (4,070,182)

The notes on page 50 to 68 form part of this statement of accounts.

# BALANCE SHEET

as at 31 March 2007  
(Expressed in Hong Kong dollars)

	Notes	2007	2006
<b>Non-current assets</b>			
Fixed assets	8	\$ 3,617,442	\$ 100,678
Intangible assets	9	9,767,400	93,000
		<b>\$ 13,384,842</b>	\$ 193,678
<b>Current assets</b>			
Other receivables	10	\$ 303,056	\$ 5,322,379
Available-for-sale securities	11	30,975,635	–
Cash and balances with bank and the Exchange Fund	13	329,667,874	523,306
		<b>\$ 360,946,565</b>	\$ 5,845,685
<b>Current liabilities</b>			
Contributions received in advance		\$ 228,701,515	\$ –
Other payables	12	9,714,208	571,123
Loan	13	–	10,600,000
		<b>\$ 238,415,723</b>	\$ 11,171,123
<b>Net current assets/(liabilities)</b>		<b>\$ 122,530,842</b>	\$ (5,325,438)
<b>Net assets/(liabilities)</b>		<b>\$ 135,915,684</b>	\$ (5,131,760)
<b>Represented by</b>			
Accumulated surplus/(deficit)		\$ 135,915,496	\$ (5,131,760)
Investment revaluation reserve		188	–
		<b>\$ 135,915,684</b>	\$ (5,131,760)

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 11 July 2007.

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

The notes on page 50 to 68 form part of this statement of accounts.

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## STATEMENT OF CHANGES IN NET ASSETS

	2007	2006
Fund balance as at 1 April	\$ (5,131,760)	\$ (1,061,578)
Surplus/(deficit) for the year	141,047,256	(4,070,182)
Change in fair value of available-for-sale securities	188	–
Fund balance as at 31 March	\$ 135,915,684	\$ (5,131,760)

# CASH FLOW STATEMENT

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

	2007	2006
Operating activities		
Surplus/(deficit) for the year	<b>\$ 141,047,256</b>	\$ (4,070,182)
Interest income	<b>(3,118,322)</b>	(13,921)
Exchange gains	<b>(179,157)</b>	–
Depreciation and amortisation	<b>569,665</b>	30,868
Cash inflow/(outflow) from operating surplus/(deficit) before changes in operating assets and liabilities	<b>\$ 138,319,442</b>	\$ (4,053,235)
Changes in operating assets and liabilities		
Increase in other receivables	<b>(239,855)</b>	(3,012,661)
Increase in contributions received in advance	<b>228,701,515</b>	–
Increase in other payables	<b>9,143,085</b>	299,842
(Decrease)/increase in loan	<b>(10,600,000)</b>	6,900,000
Net cash inflow from operating activities	<b>\$ 365,324,187</b>	\$ 133,946
Investing activities		
Addition of intangible assets	<b>\$ (4,716,800)</b>	\$ (93,000)
Addition of fixed assets	<b>(3,752,829)</b>	(64,500)
Interest received	<b>2,620,375</b>	13,921
Purchase of available-for-sale securities	<b>(30,330,365)</b>	–
Net cash outflow from investing activities	<b>\$ (36,179,619)</b>	\$ (143,579)

	2007	2006
Net increase/(decrease) in cash and cash equivalents	<b>\$ 329,144,568</b>	\$ (9,633)
Cash and cash equivalents at 1 April	<b>523,306</b>	532,939
Cash and cash equivalents at 31 March	<b>\$ 329,667,874</b>	\$ 523,306
Analysis of balance of cash and cash equivalents		
Cash and bank balances	<b>\$ 329,667,874</b>	\$ 523,306

## 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 since the Scheme commenced operation on 25 September 2006. 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

*Standards, amendments and interpretations effective in accounting periods beginning on or after 1 January 2006 but not relevant to the Fund's operations*

- HKAS 19 (Amendment), Employee Benefits
- HKAS 21 (Amendment), Net Investment in a Foreign Operation
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HKAS 39 (Amendment), The Fair Value Option
- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts
- HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards
- HKFRS 6 Exploration for and Evaluation of Mineral Resources
- HK(IFRIC) – INT 4, Determining whether an Arrangement contains a Lease
- HK(IFRIC) – INT 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- HK(IFRIC) – INT 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- HK(IFRIC) – INT 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies

*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*

- HKFRS 7, Financial Instruments: Disclosures (effective for annual accounting periods beginning on or after 1 January 2007)
- Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual accounting periods beginning on or after 1 January 2007)
- HK(IFRIC) – INT 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
- HK(IFRIC) – INT 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)
- HK(IFRIC) – INT 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

## 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.

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

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.

### (d) Contributions receivable and other receivables

Contributions receivable and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) 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.

### (f) 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 disposal of the securities. They are initially recognised at fair value plus transaction costs and subsequently held at fair value.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Financial assets (Continued)

Unrealised gains and losses arising from changes in the fair value are recognised directly in reserve, until the available-for-sale securities is 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.

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.

### (g) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) 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.

### (i) 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 profit or loss, the impairment loss is reversed through the income and expenditure account.

### (j) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) 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 acquisition 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.

### (l) Other payables

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

### (m) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) 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.

### (o) 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.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) 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.

### (q) 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.

### 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.

## 3 RISK MANAGEMENT (Continued)

### (b) Investment management and control

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. 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.

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 purposes.

### (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 which may affect the fair value or cash flows of a financial instrument. Market risk to the Fund is mainly comprised of interest rate risk and foreign currency risk.

#### (i) Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in market interest rates. Since the tenor 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.

### 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 counterparty 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 risk, 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 of the Fund are reported regularly to the Investment Committee based on its delegated authority from the Board.

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

The fair value of 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.

## 3 RISK MANAGEMENT (Continued)

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

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.

## 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 CONTRIBUTIONS

The Fund began collection of contributions from 25 September 2006. 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 calculated and collected annually and received in advance for each calendar year.

## 7 STAFF COSTS

	2007	2006
Salaries	\$ 3,620,007	\$ 3,219,884
Gratuity	313,440	313,440
Payment In lieu of leave	115,621	63,321
Other employee benefits	160,865	104,950
	<b>\$ 4,209,933</b>	<b>\$ 3,701,595</b>

# NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## 8 FIXED ASSETS

	Office equipment, furniture and fixtures	Computer hardware/ software	Total
<b>Cost</b>			
As at 1 April 2006	\$ 34,800	\$ 100,690	\$ 135,490
Additions	802,169	2,950,660	3,752,829
As at 31 March 2007	\$ 836,969	\$3,051,350	\$3,888,319
<b>Accumulated depreciation</b>			
As at 1 April 2006	\$ 6,380	\$ 28,432	\$ 34,812
Charge for the year	76,501	159,564	236,065
As at 31 March 2007	\$ 82,881	\$ 187,996	\$ 270,877
<b>Net book value</b>			
As at 31 March 2007	\$ 754,088	\$2,863,354	\$3,617,442
As at 31 March 2006	\$ 28,420	\$ 72,258	\$ 100,678

## 9 INTANGIBLE ASSETS

	<b>Development costs of Payout System</b>
<b>Cost</b>	
As at 1 April 2006	\$ 93,000
Additions	10,008,000
As at 31 March 2007	\$ 10,101,000
<b>Accumulated amortisation</b>	
As at 1 April 2006	\$ –
Charge for the year	333,600
As at 31 March 2007	\$ 333,600
<b>Net book value</b>	
As at 31 March 2007	\$ 9,767,400
As at 31 March 2006	\$ 93,000

## 10 OTHER RECEIVABLES

	2007	2006
Deposit paid (Note)	\$ –	\$ 5,291,200
Prepayment	250,693	31,179
Interest receivables	32,022	–
Others	20,341	–
	<b>\$ 303,056</b>	<b>\$ 5,322,379</b>

Note – The deposit paid in respect of the development costs for the Payout System of HK\$5,291,200 was recognised and classified as intangible assets as at 31 March 2007.

# NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2007  
(Expressed in Hong Kong dollars)

## 11 AVAILABLE-FOR-SALE SECURITIES

	2007	2006
Debt securities:		
– Unlisted US Treasury Bill	<b>\$ 30,975,635</b>	\$ –

## 12 OTHER PAYABLES

	2007	2006
Hire of services	<b>\$ 7,276,684</b>	\$ 30,000
Staff expenses	<b>418,954</b>	470,858
Others	<b>2,018,570</b>	70,265
	<b>\$ 9,714,208</b>	\$ 571,123

### 13 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.

The related party transactions with the HKMA are as follows:

		2007	2006
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	<b>\$ 329,238,768</b>	\$ –
Loan	(b)	–	10,600,000
Interest income from balances with the Exchange Fund	(a)	<b>\$ 2,593,189</b>	\$ –
Operating expenses reimbursed to the HKMA including hire of services and other premises costs	(c)	<b>\$ 6,961,240</b>	–

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$329,238,768 (2006: Nil) and earned interest amounting to HK\$2,593,189 (2006: Nil) at a rate which makes reference to the market interest rates.

## 13 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (b) 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 under the facility is \$30,000,000, of which HK\$9,100,000 (2006: HK\$6,900,000) was drawn during the year. The facility was fully repaid during the year. The HKMA also 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.
- (c) Certain operating expenses are reimbursed to the HKMA based on the provisions set out in the Ordinance.

## 14 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 11 July 2007.