

Investor Compensation Scheme
Report and financial statements
For the period 3 January to 31 December 2003

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Statement of responsibilities of the Management Committee

The Management Committee consists of the Chairman and the Committee Members, who are to ensure that:

- a. proper accounting records are kept of all transactions entered into by the Scheme and of its assets and liabilities
- b. adequate controls and procedures are in place for safeguarding the assets of the Scheme and the prevention and detection of fraud and other irregularities.

The Investor Compensation Scheme Regulations, LN368 of 2003 requires that financial statements are prepared for each financial year. In preparing those financial statements which give a true and fair view of its state of affairs as at the end of the financial year and of its surplus or deficit for that year, the Management Committee:

- adopts the going concern basis unless it is considered inappropriate;
- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- accounts for income and charges relating to the accounting period on the accruals basis;
- values separately the components of asset and liability items; and
- reports comparative figures corresponding to those of the preceding accounting period.

Report of the auditors to the Committee

We have audited the financial statements on pages 3 to 11. These financial statements are the responsibility of the Management Committee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management Committee, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Scheme as at 31 December 2003 of its deficit, changes in equity and cash flows for the period then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the Investor Compensation Scheme Regulations, LN368 of 2003.



**Austin R. Demajo
f/Grant Thornton**

Certified Public Accountants and Auditors

Ta' Xbiex
Malta

26 April 2004

Income and expenditure account

	Note	Lm
Income	4	1,635
Administrative expenses		2,265
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Deficit for the period	5	(630)
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Balance sheet at 31 December

	Note	Lm
Non-current assets		
Financial assets	7	98,858

Current assets		
Debtors	8	4,455
Cash at bank and in hand		46,900

Creditors : amounts falling due within one year	9	51,355 740


Net current assets		50,615

Net assets		149,473

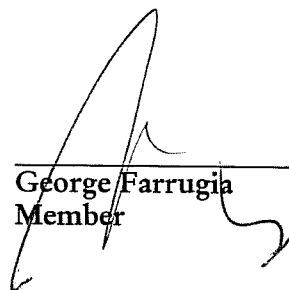
Capital and reserves		
Contributions fund		56,250
Deferred contributions fund		93,860
Investment revaluation reserve		(7)
Income and expenditure account		(630)

		149,473

The financial statements on pages 3 to 11 were approved by the Management Committee on 26 April 2004 and were signed on their behalf by:



Dr. Anton Felice
Chairman



George Farrugia
Member

Statement of changes in net assets/equity

	Contributions fund Lm	Deferred contributions fund Lm	Investment revaluation reserve Lm	Income and expenditure account Lm	Total Lm
Contributions during the period	150,110	-	-	-	150,110
Deferred contributions	(93,860)	93,860	-	-	-
Deficit for the period	-	-	-	(630)	(630)
Fair value adjustment	-	-	(7)	-	(7)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	56,250	93,860	(7)	(630)	149,473
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Note -

The 'Deferred contributions fund' represents the funds transferred from the Malta Stock Exchange Compensation Fund (net of the allocation for 2003) to the Scheme in terms of Regulation 36 of the Legal Notice. Whereas these funds have been absorbed as an integral part of the Scheme by virtue of the Third Schedule under Regulation 36, these funds shall be accounted for over the moratorium period which is established in paragraph 3 of the Third Schedule of the Regulations.

Cash flow statement

	Note	Lm
Operating activities		
Cash used in operations	11(a)	(1,491)

Investing activities		
Payments to acquire financial assets		(98,834)

Financing activities		
Contributions received		147,225

Cash and cash equivalents		46,900
Cash and cash equivalents at beginning of period	11(b)	-

Cash and cash equivalents at end of period	11(b)	46,900

Notes to the financial statements

1 General

The Scheme was established by LN6 of 2003 as superseded by LN368 of the same year.

2 Presentation of financial statements

The financial statements have been prepared in accordance with International Accounting Standards (IAS).

These financial statements are presented in Maltese Liri (Lm).

3 Summary of significant accounting policies

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets. The principal accounting policies are set out below.

Income recognition

The Scheme's income consists of earnings on investments. Income is recognised on the accruals basis.

Impairment

At each balance sheet date the Scheme reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the Scheme's balance sheet when the Scheme has become a party to the contractual provisions of the instruments.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

Investments in securities

Investments in securities are recognised on a settlement date basis and are initially measured at cost.

At subsequent reporting dates, originated loans and receivables and held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Investments in available-for-sale securities are measured at subsequent reporting dates at fair value. For available-for-sale securities, unrealised gains and losses are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

In respect of available-for-sale investments, any difference between the initial measurement amount and the maturity amount (premium or discount) arising on financial assets that have a fixed maturity is amortised to the profit and loss account using the effective interest rate method over the period to maturity in accordance with the requirements of IAS 39. Fair value changes on available-for-sale assets are calculated as the differences between fair value and amortised cost of such instruments.

Debtors

Debtors are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Creditors

Creditors are stated at their nominal value.

4 Income

	Lm
Earnings on investments	1,604
Amortisation of discount	31
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	1,635
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Notes to the financial statements (continued)

5 Deficit for the period

	Lm
The deficit for the period is stated after charging:	
Committee Members' honoraria	1,833
Auditors' remuneration	177
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6 Taxation

The Investor Compensation Scheme is exempt from taxation under section 12(1)(c) of the Investment Services Act, Cap. 370.

7 Financial assets

	Lm
7.25% Malta Government Stocks 2006	8,000
7.35% Malta Government Stocks 2007	10,300
7.2% Malta Government Stocks 2008	11,000
6.25% Malta Government Stocks 2011	11,800
6.35% Malta Government Stocks 2013	11,800
6.6% Malta Government Stocks 2014	13,300
6.6% Malta Government Stocks 2019	12,800
Treasury Bill	19,858
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	98,858

Note -

The fair value of the above financial assets at 31 December 2003 amounted to Lm 109,404.

8 Debtors

	Lm
Amounts falling due within one year:	
Unpaid contributions	2,885
Prepayments and accrued income	1,570
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	4,455
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Notes to the financial statements (continued)

9 Creditors: amounts falling due within one year

	Lm
Accruals	740
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10 Financial instruments

Financial assets include securities, debtors and cash held at bank and in hand. Financial liabilities include creditors. At 31 December 2003, the Scheme had no unrecognised financial instruments.

Risk management policies

- (a) Credit risk on amounts receivable is limited through the systematic monitoring of outstanding balances and the presentation of debtors net of allowances for doubtful debts, where applicable. Cash is placed with reputable banks.
- (b) Liquidity risk is limited as the Scheme has sufficient funding resources and the ability to raise finance to meet its financial obligations as these arise.

Fair values

At 31 December 2003, the fair values of financial assets, other than securities, and liabilities of the Scheme were not materially different from their carrying amounts. The fair values of securities are shown by way of a note in note 7.

11 Notes to the cash flow statement

(a) Cash used in operations

	Lm
Deficit for the period	(630)
Adjustments for:	
Interest receivable	(1,570)
Amortisation of discount on Treasury Bills	(31)
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Operating deficit before working capital changes	(2,231)
Creditors	740
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	(1,491)
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Notes to the financial statements (continued)

11 Notes to the cash flow statement (continued)

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amount:

	Lm
Cash in hand and balances with banks	46,900
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12 Variable contributions

Regulation 16 of the Legal Notice enables the Management Committee to call up contributions from licence holders which are held in funds reserved for this purpose by the licence holder. At 31 December 2003, the total funds held by licence holders for this purpose amounted to Lm 9,832.

Funds in these reserves are required to be invested by the licence holders with a third party approved in writing by the Management Committee. Such third parties are required to hold the funds on pledge in favour of the Scheme.

Income and expenditure account (detailed)

	Lm
Income	
Earnings on investments	1,604
Amortisation of discount	31
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	1,635
	<hr/>
Administrative expenses	
Committee Members' honoraria	1,833
Management fees	250
Auditors' remuneration	177
Postage	5
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	2,265
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Deficit for the period	(630)
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