

SECURITIES AND FUTURES ORDINANCE (Chapter 571)

Pursuant to Section 88(4) of the Securities and Futures Ordinance, the audited financial statements of the Investor Compensation Company Limited for the financial year ended 31 March 2016 are set out on pages 14040 to 14052.

Teresa KO *Chairman of
Investor Compensation Company Limited*

INVESTOR COMPENSATION COMPANY LIMITED
DIRECTORS' REPORT

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2016.

Principal place of business

Investor Compensation Company Limited (the company) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 21st Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Principal activities

The Securities and Futures Ordinance provides for the establishment of the Investor Compensation Fund (the Fund). The Securities and Futures Commission has recognised the company to facilitate the administration and management of the Fund.

Financial statements

The financial performance for the year ended 31 March 2016 and the company's financial position as at that date are set out in the audited financial statements presented on pages 14043 to 14052.

Share capital

Details of share capital of the company are set out in note 9 to the financial statements. There were no movements during the year.

Directors

The directors during the financial year were:—

1. Ms. Teresa KO (*Chairman*)
2. Mr. Andrew WAN
3. Mr. LUI Kei Kwong
4. Ms. Thrity Homi MUKADAM
5. Mr. ANG Cheung Yick

Directors' interests in transactions, arrangements or contracts

Except for a contract of employment with Mr. Ang Cheung Yick, no transaction, arrangement or contract of significance to which the company, or any of its holding company or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

23 May 2016

On behalf of the Board
Teresa KO

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
INVESTOR COMPENSATION COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Investor Compensation Company Limited (the company) set out on pages 14043 to 14052, which comprise the statement of financial position as at 31 March 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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 financial statements give a true and fair view of the financial position of the company as at 31 March 2016 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

23 May 2016

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

INVESTOR COMPENSATION COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016

(Expressed in Hong Kong dollars)

	Note	<i>For the year ended 31 March 2016</i> \$	<i>For the year ended 31 March 2015</i> \$
Income			
Recoveries from the Investor Compensation Fund	2(c)	5,398,144	5,323,057
Expenses			
Premises			
rent	10	1,002,000	1,002,000
others		4,621	4,408
Staff costs	4	3,637,188	3,462,631
Other expenses	5	747,768	845,552
Depreciation	6	6,567	8,466
		5,398,144	5,323,057
Result for the year before taxation		-	-
Taxation	3	-	-
Total comprehensive income for the year		-	-

The notes on pages 14047 to 14052 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016

(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2016</i> \$	<i>2015</i> \$
Non-current assets			
Fixed assets	6	5,178	11,745
Current assets			
Cash and cash equivalents		3,187,450	62,808
Prepayments and deposits	7	91,904	187,549
		<u>3,279,354</u>	<u>250,357</u>
Current liabilities			
Accrued charges and other payables	8	3,211,187	105,587
Amount due to the Investor Compensation Fund	8	73,344	156,514
		<u>3,284,531</u>	<u>262,101</u>
Net current liabilities		<u>(5,177)</u>	<u>(11,744)</u>
Total assets less current liabilities		<u>1</u>	<u>1</u>
Net assets		<u>1</u>	<u>1</u>
Capital and reserves			
Share capital	9	<u>1</u>	<u>1</u>

Approved and authorised for issue by the board of directors on 23 May 2016 and signed on its behalf by

Lui Kei Kwong

Ang Cheung Yick

The notes on pages 14047 to 14052 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

(Expressed in Hong Kong dollars)

	<u>Share Capital</u> \$	<u>Retained Profits</u> \$	<u>Total</u> \$
Total equity at 1 April 2015	1	-	1
Total comprehensive income for the year	-	-	-
Total equity at 31 March 2016	<u>1</u>	<u>-</u>	<u>1</u>
Total equity at 1 April 2014	1	-	1
Total comprehensive income for the year	-	-	-
Total equity at 31 March 2015	<u>1</u>	<u>-</u>	<u>1</u>

The notes on pages 14047 to 14052 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2016
(Expressed in Hong Kong dollars)

	<i>For the year ended</i> <u>31 March 2016</u>	<i>For the year ended</i> <u>31 March 2015</u>
	\$	\$
Cash flows from operating activities		
Result for the year	-	-
Depreciation	6,567	8,466
Decrease/(increase) in prepayments and deposits	95,645	(53,541)
Decrease in amount due to the Investor Compensation Fund	(83,170)	(147,037)
Increase in accrued charges and other payables	<u>3,105,600</u>	<u>20,697</u>
Net cash generated from/(used in) operating activities	<u>3,124,642</u>	<u>(171,415)</u>
Cash flows from investing activities		
Fixed assets purchased	<u>-</u>	<u>(14,700)</u>
Net cash used in investing activities	<u>-</u>	<u>(14,700)</u>
Net increase/(decrease) in cash and cash equivalents	3,124,642	(186,115)
Cash and cash equivalents at the beginning of the year	<u>62,808</u>	<u>248,923</u>
Cash and cash equivalents at the end of the year	<u>3,187,450</u>	<u>62,808</u>
Analysis of the balance of cash and cash equivalents:		
	<u><i>At 31 March 2016</i></u>	<u><i>At 31 March 2015</i></u>
	\$	\$
Cash at bank and on hand	<u>3,187,450</u>	<u>62,808</u>

The notes on pages 14047 to 14052 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

(Expressed in Hong Kong dollars)

1. *Status and principal activities*

The Securities and Futures Ordinance provides for the establishment of the Investor Compensation Fund (the Fund). The Securities and Futures Commission (the SFC) has recognised the Investor Compensation Company Limited (the company) to facilitate the administration and management of the Fund.

2. *Significant accounting policies*

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes 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), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 2 (k) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 14).

(b) *Basis of preparation of the financial statements*

We have prepared these financial statements using the historical cost as the measurement basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) *Recognition of income*

We recognise income in the statement of profit or loss and other comprehensive income provided it is probable that the economic benefits will flow to the company and we can measure reliably the revenue and cost.

The company's income is reimbursement from the Fund for expenditure incurred. We recognise recoveries from the Fund on an accrual basis.

(d) *Employee benefits*

We accrue salaries, annual bonuses, paid annual leave and contributions to defined contribution plans in the year in which the associated services are rendered by employees.

(e) *Fixed assets and depreciation*

We state fixed assets at cost less accumulated depreciation, which is calculated to write off their costs, less their estimated residual value, if any, over their anticipated useful lives on a straight-line basis, and impairment losses (see note 2 (j)). We use the following useful lives:—

■ Furniture and fixtures	5 years
■ Office equipment	5 years
■ Personal computers and software	3 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) *Related parties*

For the purposes of these financial statements, we consider that the following are related parties of the company:—

(a) A person, or a close member of that person's family, is related to the company if that person:—

- (i) has control or joint control over the company;
- (ii) has significant influence over the company; or
- (iii) is a member of the key management personnel of the company or the company's parent.

(b) An entity is related to the company if any of the following conditions applies:—

- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the company or to the company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(g) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand.

(h) *Prepayments and deposits*

We initially recognise prepayments and deposits at fair value and thereafter state these at amortised cost less impairment losses for bad and doubtful debts unless the effect of discounting would be immaterial, in which case we state them at cost.

We measure impairment losses for bad and doubtful debts as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

Prepayments and deposits and other receivables are loans and receivables in accordance with the determination in HKAS 39, *Financial Instruments: Recognition and Measurement*.

(i) *Accrued charges and other payables*

We initially recognise accrued charges and other payables at fair value and thereafter state these at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

Other payables and accrued charges are financial liabilities measured at amortised cost in accordance with the determination in HKAS 39, unless the effect of discounting would be immaterial, in which case they are stated at cost

(j) *Impairment*

We review the carrying amounts of the company's assets at the end of each accounting period to determine whether there is any indication of impairment. If any such indication exists, we estimate the asset's recoverable amount. We recognise in the statement of profit or loss and other comprehensive income an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses for receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(k) *Changes in accounting policies*

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the company. Of these, none of the developments are relevant to the company's financial statements.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. *Taxation*

- (a) No provision for Hong Kong profits tax has been made as the company did not have any taxable profit.
- (b) There is no deferred tax asset or liability.

4. *Staff costs and directors' emoluments*

	2016 \$	2015 \$
Salaries and other benefits	3,376,114	3,217,475
Contributions to defined contribution plan	261,074	245,156
	<u>3,637,188</u>	<u>3,462,631</u>

Directors' emoluments disclosed pursuant to section 383 (1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:—

	2016 \$	2015 \$
Directors' fee	-	-
Salaries, allowances and benefits in kind	1,432,080	1,350,960
Discretionary pay	307,900	290,460
Retirement benefits	143,208	135,096
	<u>1,883,188</u>	<u>1,776,516</u>

5. *Other expenses*

	2016 \$	2015 \$
Auditor's remuneration	113,025	107,700
Market communications and public relations	33,498	32,400
Information technology expenses	117,915	117,545
Accountancy service fee	150,000	150,000
Professional insurances	116,610	118,632
Professional fees	45,391	31,035
Claims processing costs	15,985	110,596
Miscellaneous expenses	<u>155,344</u>	<u>177,644</u>
	<u>747,768</u>	<u>845,552</u>

6. *Fixed assets*

	Office equipment \$	Personal computers and software \$	Furniture and fixtures \$	Total \$
Cost				
At 1 April 2015	56,470	224,596	14,860	295,926
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2016	<u>56,470</u>	<u>224,596</u>	<u>14,860</u>	<u>295,926</u>
Accumulated depreciation				
At 1 April 2015	56,470	212,851	14,860	284,181
Charge for the year	<u>-</u>	<u>6,567</u>	<u>-</u>	<u>6,567</u>
At 31 March 2016	<u>56,470</u>	<u>219,418</u>	<u>14,860</u>	<u>290,748</u>
Net book value				
At 31 March 2016	<u>-</u>	<u>5,178</u>	<u>-</u>	<u>5,178</u>
Cost				
At 1 April 2014	56,470	209,896	14,860	281,226
Additions	<u>-</u>	<u>14,700</u>	<u>-</u>	<u>14,700</u>
At 31 March 2015	<u>56,470</u>	<u>224,596</u>	<u>14,860</u>	<u>295,926</u>
Accumulated depreciation				
At 1 April 2014	56,470	204,385	14,860	275,715
Charge for the year	<u>-</u>	<u>8,466</u>	<u>-</u>	<u>8,466</u>
At 31 March 2015	<u>56,470</u>	<u>212,851</u>	<u>14,860</u>	<u>284,181</u>
Net book value				
At 31 March 2015	<u>-</u>	<u>11,745</u>	<u>-</u>	<u>11,745</u>

7. *Prepayments and deposits*

All the prepayments and deposits are expected to be recovered within one year.

8. *Accrued charges and other payables/Amount due to the Investor Compensation Fund*

All accrued charges and other payables (including amounts due to related parties) are expected to be settled within one year.

The following table details the remaining contractual maturities of the company's current liabilities at the end of the financial year, which are based on contractual undiscounted cash flows and the earliest date the company can be required to pay:—

2016				
	Carrying amount \$	Within 3 months or on demand \$	More than 3 months but less than 1 year \$	Indefinite \$
Accrued charges and other payables	3,211,187	3,211,187	-	-
Amount due to the Investor				
Compensation Fund	73,344	-	-	73,344
	<u>3,284,531</u>	<u>3,211,187</u>	<u>-</u>	<u>73,344</u>
2015				
	Carrying amount \$	Within 3 months or on demand \$	More than 3 months but less than 1 year \$	Indefinite \$
Accrued charges and other payables	105,587	105,587	-	-
Amount due to the Investor				
Compensation Fund	156,514	-	-	156,514
	<u>262,101</u>	<u>105,587</u>	<u>-</u>	<u>156,514</u>

9. *Share capital*

	2016 \$	2015 \$
Ordinary shares, issued and fully paid:		
2 ordinary shares	<u>0.20</u>	<u>0.20</u>

In the statement of financial position, share capital is rounded up to \$1.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

The company has no formal capital management policies and processes in place as its business scope is determined by the applicable regulation governing the ultimate controlling party. As the company is part of a larger group, the company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The company defines "capital" as including all components of equity. The company was not subject to externally imposed capital requirements in either the current or prior year.

10. *Commitment for the use of office premises*

According to the licence agreement with the SFC, the company's total future minimum non-cancellable lease payments for the six-month early termination notice period are as follows—

	2016 \$	2015 \$
Within one year	<u>501,000</u>	<u>501,000</u>

During the year ended 31 March 2016, \$1,002,000 (2015: \$1,002,000) was recognised as premises expense paid to the SFC in the statement of profit or loss and other comprehensive income.

11. *Related party transactions*

There are related party relationships with the SFC, the ultimate holding entity, and the Fund. During the year the company paid \$150,000 (2015: \$150,000) accountancy service fee, \$38,880 (2015: \$38,880) human resources administration fees and \$30,000 (2015: \$30,000) website hosting and maintenance fees to the SFC. Further, certain expenses amounting to \$33,498 (2015: \$32,475) were paid by the SFC on behalf of the company during the year. The company has reimbursed the SFC for these expenses as it has received the corresponding reimbursement from the Fund. Directors' emoluments are disclosed in note 4.

Other than these transactions and balances disclosed elsewhere in these financial statements, the company entered into no other material related party transactions.

12. *Financial instruments*

Exposure to credit and liquidity risks arises in the normal course of the company's business. The company is not exposed to any foreign exchange risk as all transactions and balances are denominated in HKD. The company has no interest bearing assets or liabilities. The company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated and the management policies remain unchanged from prior year.

The company's credit risk is primarily attributable to cash at bank. Management's policy is that cash balances are placed only with licensed banks in Hong Kong with high credit-ratings assigned by international credit-rating agencies. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. In this regard, the company's credit risk is limited.

The company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2016 and 2015.

13. *Parent and ultimate controlling party*

As at 31 March 2016, the parent and ultimate controlling party of the company is the SFC, which is a statutory body in Hong Kong and produces financial statements available for public use.

14. *Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2016*

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKAS 1, <i>Presentation of financial statements</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.