

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 2017 are set out on pages 17858 to 17871.

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 2017.

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 21/F, 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 2017 and the company's financial position as at that date are set out in the audited financial statements presented on pages 17861 to 17871.

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. LUI Kei Kwong
3. Mr. Andrew WAN
4. Ms. Thrity Homi MUKADAM
5. Mr. ANG Cheung Yick

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the company is currently in force and was in force throughout this year.

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.

16 May 2017

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)

Opinion

We have audited the financial statements of Investor Compensation Company Limited (the company) set out on pages 17861 to 17871, which comprise the statement of financial position as at 31 March 2017, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 March 2017 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:—

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

16 May 2017

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 2017

(Expressed in Hong Kong dollars)

	Note	<i>For the year ended 31 March 2017</i>	<i>For the year ended 31 March 2016</i>
		\$	\$
Income			
Recoveries from the Investor Compensation Fund	2(c)	5,574,397	5,398,144
Expenses			
Premises			
rent	10	1,002,000	1,002,000
others		4,818	4,621
Staff costs	4	3,815,890	3,637,188
Other expenses	5	746,511	747,768
Depreciation	6	5,178	6,567
		5,574,397	5,398,144
Result for the year before taxation		-	-
Taxation	3	-	-
Total comprehensive income for the year		-	-

The notes on pages 17865 to 17871 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$	2016 \$
Non-current assets			
Fixed assets	6	-	5,178
Current assets			
Cash and cash equivalents		38,760	3,187,450
Prepayments and deposits	7	<u>131,952</u>	<u>91,904</u>
		<u>170,712</u>	<u>3,279,354</u>
Current liabilities			
Accrued charges and other payables	8	95,790	3,211,187
Amount due to the Investor Compensation Fund	8	<u>74,921</u>	<u>73,344</u>
		<u>170,711</u>	<u>3,284,531</u>
Net current assets / (liabilities)		<u>1</u>	<u>(5,177)</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 16 May 2017 and signed on its behalf by

Lui Kei Kwong

Ang Cheung Yick

The notes on pages 17865 to 17871 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Share Capital \$	Retained Profits \$	Total \$
Total equity at 1 April 2016	1	-	1
Total comprehensive income for the year	-	-	-
Total equity at 31 March 2017	1	-	1
Total equity at 1 April 2015	1	-	1
Total comprehensive income for the year	-	-	-
Total equity at 31 March 2016	1	-	1

The notes on pages 17865 to 17871 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
 CASH FLOW STATEMENT
 FOR THE YEAR ENDED 31 MARCH 2017
 (Expressed in Hong Kong dollars)

	<i>For the year ended</i> 31 March 2017	<i>For the year ended</i> 31 March 2016
	\$	\$
Cash flows from operating activities		
Result for the year	-	-
Depreciation	5,178	6,567
(Increase) / decrease in prepayments and deposits	(40,048)	95,645
Increase / (decrease) in amount due to the Investor Compensation Fund	1,577	(83,170)
(Decrease) / increase in accrued charges and other payables	<u>(3,115,397)</u>	<u>3,105,600</u>
Net cash (used in) / generated from operating activities	<u>(3,148,690)</u>	<u>3,124,642</u>
Net (decrease) / increase in cash and cash equivalents	(3,148,690)	3,124,642
Cash and cash equivalents at the beginning of the year	<u>3,187,450</u>	<u>62,808</u>
Cash and cash equivalents at the end of the year	<u><u>38,760</u></u>	<u><u>3,187,450</u></u>
Analysis of the balance of cash and cash equivalents:		
	<i>At 31 March 2017</i>	<i>At 31 March 2016</i>
	\$	\$
Cash at bank and on hand	<u><u>38,760</u></u>	<u><u>3,187,450</u></u>

The notes on pages 17865 to 17871 form part of these financial statements.

INVESTOR COMPENSATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

(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. Significant accounting policies adopted by the company are 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:—

■ Furnitures 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. None of these developments have had a material effect on how the company's results and financial position for the current or prior periods have been prepared or presented.

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*

	2017	2016
	\$	\$
Salaries and other benefits	3,540,323	3,376,114
Contributions to defined contribution plan	275,567	261,074
	<u>3,815,890</u>	<u>3,637,188</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:—

	2017	2016
	\$	\$
Directors' fee	-	-
Salaries, allowances and benefits in kind	1,518,120	1,432,080
Discretionary bonuses	326,400	307,900
Retirement scheme contributions	151,812	143,208
	<u>1,996,332</u>	<u>1,883,188</u>

5. *Other expenses*

	2017	2016
	\$	\$
Auditor's remuneration	118,675	113,025
Market communications and public relations	35,007	33,498
Information technology expenses	119,852	117,915
Accountancy service fee	150,000	150,000
Professional insurances	111,780	116,610
Professional fees	46,378	45,391
Claims processing costs	1,434	15,985
Miscellaneous expenses	163,385	155,344
	<u>746,511</u>	<u>747,768</u>

6. *Fixed assets*

	<i>Office equipment</i>	<i>Personal computers and software</i>	<i>Furniture and fixtures</i>	<i>Total</i>
	\$	\$	\$	\$
Cost				
At 1 April 2016	56,470	224,596	14,860	295,926
Additions	-	-	-	-
At 31 March 2017	<u>56,470</u>	<u>224,596</u>	<u>14,860</u>	<u>295,926</u>
Accumulated depreciation				
At 1 April 2016	56,470	219,418	14,860	290,748
Charge for the year	-	5,178	-	5,178
At 31 March 2017	<u>56,470</u>	<u>224,596</u>	<u>14,860</u>	<u>295,926</u>
Net book value				
At 31 March 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cost				
At 1 April 2015	56,470	224,596	14,860	295,926
Additions	-	-	-	-
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	-	6,567	-	6,567
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>

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:—

	2017			
	Carrying amount \$	Within 3 months or on demand \$	More than 3 months but less than 1 year \$	Indefinite \$
Accrued charges and other payables	95,790	95,790	-	-
Amount due to the Investor Compensation Fund	<u>74,921</u>	<u>-</u>	<u>-</u>	<u>74,921</u>
	<u><u>170,711</u></u>	<u><u>95,790</u></u>	<u><u>-</u></u>	<u><u>74,921</u></u>
	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	<u>73,344</u>	<u>-</u>	<u>-</u>	<u>73,344</u>
	<u><u>3,284,531</u></u>	<u><u>3,211,187</u></u>	<u><u>-</u></u>	<u><u>73,344</u></u>

9. Share capital

	2017 \$	2016 \$
Ordinary shares, issued and fully paid:		
2 ordinary shares	<u><u>0.20</u></u>	<u><u>0.20</u></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:—

	2017 \$	2016 \$
Within one year	<u>501,000</u>	<u>501,000</u>

During the year ended 31 March 2017, \$1,002,000 (2016: \$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 (2016: \$150,000) accountancy service fee, \$38,880 (2016: \$38,880) human resources administration fees and \$30,000 (2016: \$30,000) website hosting and maintenance fees to the SFC. Further, certain expenses amounting to \$35,007 (2016: \$33,498) 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.

All members of key management personnel are directors of the company, and their remuneration is 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 2017 and 2016.

13. *Parent and ultimate controlling party*

As at 31 March 2017, 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 2017*

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

*Effective for
accounting periods
beginning on or after*

HKFRS 9, *Financial instruments*
HKFRS 16, *Leases*

1 January 2018
1 January 2019

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.