



Financial Statements

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

Auditors' report to the Mandatory Provident Fund Schemes Authority ("MPFA")

(Established in Hong Kong under the Mandatory Provident Fund Schemes Ordinance)

We have audited the financial statements on pages 62 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of the MPFA and the auditors

The Hong Kong Mandatory Provident Fund Schemes Ordinance ("the Ordinance") requires the MPFA to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the MPFA in the preparation of the financial statements, and of whether the accounting policies are appropriate to the MPFA's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the MPFA's affairs as at 31 March 2000 and of its surplus and cash flows for the year then ended, and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong.

KPMG

Certified Public Accountants

Hong Kong, 13 July 2000

Income and Expenditure Account for the year ended 31 March 2000

(Expressed in Hong Kong dollars)

	Note	Year ended 31 March 2000 \$	Period from 24 July 1998 to 31 March 1999 \$
Income			
Fee income	3(e)	11,916,070	–
Interest income	3(e)	293,030,336	15,407,782
Unrealised gains on listed investments		75,476,314	–
		380,422,720	15,407,782
Other income		298,119	–
		380,720,839	15,407,782
Expenditure			
Staff and related expenses		70,774,597	1,529,859
Depreciation		4,722,924	–
Premises expenses		14,584,632	325,500
Other operating expenses		19,207,477	211,237
		109,289,630	2,066,596
Surplus for the year	6	271,431,209	13,341,186
Surplus brought forward		13,341,186	–
Surplus carried forward		284,772,395	13,341,186

No separate statement of recognised gains and losses has been prepared as the surplus for the year as shown above would be the only component of this statement.

The notes on pages 65 to 69 form part of these financial statements.

Balance Sheet at 31 March 2000

(Expressed in Hong Kong dollars)

	Note	2000 \$	1999 \$
Non-current assets			
Fixed assets	7	24,369,995	–
Projects in progress		3,193,942	–
Investments	8	296,650,000	–
		324,213,937	–
Current assets			
Deposits and prepayments		6,414,965	5,861,437
Interest receivables		68,351,834	15,390,163
Debtors		860,400	–
Cash at bank and in hand		4,900,458,292	4,992,670,898
		4,976,085,491	5,013,922,498
Current liabilities			
Creditors and accrued charges		15,167,033	581,312
Deferred income		360,000	–
		15,527,033	581,312
Net current assets		4,960,558,458	5,013,341,186
Net assets		5,284,772,395	5,013,341,186
Representing:			
Capital grant	2	5,000,000,000	5,000,000,000
Income and expenditure account		284,772,395	13,341,186
		5,284,772,395	5,013,341,186

Approved by the Mandatory Provident Fund Schemes Authority on 13 July 2000 and signed on its behalf by

Managing Director

The notes on pages 65 to 69 form part of these financial statements.

Cash flow statement for the year ended 31 March 2000

(Expressed in Hong Kong dollars)

	Note	Year ended 31 March 2000 \$	Period from 24 July 1998 to 31 March 1999 \$
Net cash outflow from operating activities	9	(80,485,693)	(7,346,721)
Returns on investments and servicing of finance			
Interest received		240,068,665	17,619
Net cash inflow from returns on investments and servicing of finance		240,068,665	17,619
Investing activities			
Payment for project in progress		(3,193,942)	–
Payment for purchase of fixed assets		(27,427,950)	–
Payment for purchase of investments		(221,173,686)	–
Net cash outflow from investing activities		(251,795,578)	–
Net cash outflow before financing		(92,212,606)	(7,329,102)
Financing			
Capital grant from the Government of the Hong Kong Special Administrative Region		–	5,000,000,000
(Decrease)/increase in cash and cash equivalents		(92,212,606)	4,992,670,898
Cash and cash equivalents at beginning of the year/period		4,992,670,898	–
Cash and cash equivalents at 31 March		4,900,458,292	4,992,670,898
Analysis of the balances of cash and cash equivalents			
Deposits with the Hong Kong Monetary Authority		4,490,383,502	4,500,000,000
Deposits with banks		403,500,000	491,000,000
Cash at bank and in hand		6,574,790	1,670,898
		4,900,458,292	4,992,670,898

The notes on pages 65 to 69 form part of these financial statements.

Notes to the financial statements

*(Expressed in Hong Kong dollars)***1 Background and functions of the Mandatory Provident Fund Schemes Authority (“MPFA”)**

The MPFA was established under section 6 of the Hong Kong Mandatory Provident Fund Schemes Ordinance (“the Ordinance”) which came into effect on 24 July 1998. The functions of the MPFA are stated under section 6E of the Ordinance.

2 Capital grant

On 3 April 1998 the Finance Committee of the Legislative Council of the Hong Kong Special Administrative Region approved a capital grant of \$5 billion as initial funding to cover the establishment and operating costs of the MPFA.

3 Significant accounting policies

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Ordinance. A summary of the significant accounting policies adopted by the MPFA is set out below:

(a) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost, modified by marking to market of certain investment in securities as explained in the accounting policies set out below.

(b) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the net book value of the asset and are recognised in the income and expenditure account on the date of retirement or disposal.

(c) Depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight line basis as follows:

Leasehold improvements	over the remaining term of the leases or four years whichever is shorter
Computer equipment and software	3 – 4 years
Office equipment and furniture	4 years
Motor vehicles	4 years

3 Significant accounting policies (continued)

(d) Other investments in securities

The MPFA's policies for investments in securities are as follows:

- (i) Other investments in securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income and expenditure account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (ii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income and expenditure account as they arise.

(e) Recognition of revenue

- (i) Fee income

Fee income consists of application fees and annual fees. Application fees and annual fees arising from the Occupational Retirement Schemes Ordinance ("ORSO") and Mandatory Provident Fund schemes are accounted for on an accrual basis.

- (ii) Interest income

Interest income derived from time deposits with the Hong Kong Monetary Authority and banks is accrued on a time-apportioned basis.

(f) Operating lease

Rental payable under operating leases is accounted for on a straight line basis over the periods of the respective leases.

(g) Related parties

For the purposes of these financial statements, parties are considered to be related to the MPFA if the MPFA has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the MPFA and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

4 Taxation

The MPFA has been granted tax exemption under section 88 of the Hong Kong Inland Revenue Ordinance and accordingly no provision has been made for taxation in these financial statements.

5 Directors' emoluments

Directors' emoluments are as follows:

	Year ended 31 March 2000	Period from 24 July 1998 to 31 March 1999
	\$	\$
Fees	–	–
Other emoluments	10,426,314	–

6 Surplus for the year

Surplus for the year is arrived at after charging:

	Year ended 31 March 2000	Period from 24 July 1998 to 31 March 1999
	\$	\$
Operating lease charges – property rental	10,530,909	288,852
Auditors' remuneration	83,500	22,000
Depreciation	4,722,924	–
Staff costs (including retirement benefit costs of \$2,804,657)	65,207,042	1,464,772

7 Fixed assets

	Leasehold improvements \$	Computer equipment and software \$	Office equipment and furniture \$	Motor vehicles \$	Total \$
Cost					
At 1 April 1999	–	–	–	–	–
Additions	11,812,020	12,576,972	3,341,026	1,362,901	29,092,919
At 31 March 2000	11,812,020	12,576,972	3,341,026	1,362,901	29,092,919
Accumulated depreciation					
At 1 April 1999	–	–	–	–	–
Charge for the year	2,015,545	2,109,176	539,764	58,439	4,722,924
At 31 March 2000	2,015,545	2,109,176	539,764	58,439	4,722,924
Net book value					
At 31 March 2000	9,796,475	10,467,796	2,801,262	1,304,462	24,369,995
At 31 March 1999	–	–	–	–	–

8 Investments

	2000 \$	1999 \$
Equity securities		
Market value of listed investments in Hong Kong	296,650,000	–

9 Reconciliation of surplus from operating activities

Reconciliation of surplus of income over expenditure to net cash outflow from operating activities:

	2000 \$	1999 \$
Surplus for the year	271,431,209	13,341,186
Depreciation	4,722,924	–
Interest income	(293,030,336)	(15,407,782)
Investment income	(75,476,314)	–
Increase in deposits and prepayments	(553,528)	(5,861,437)
Increase in debtors	(860,400)	–
Increase in creditors and accrued charges	12,920,752	581,312
Increase in deferred income	360,000	–
Net cash outflow from operating activities	(80,485,693)	(7,346,721)

10 Loans to directors and executives

There were no loans to directors or executives during the year and no loans outstanding at the balance sheet date.

11 Capital commitments

Capital commitments outstanding at 31 March 2000 not provided for in the financial statements were as follows:

	2000 \$	1999 \$
Contracted for	35,783,578	–
Authorised but not contracted for	2,754,069	–
	38,537,647	–

12 Operating lease commitments

At 31 March 2000 the MPFA had commitments under an operating lease in respect of its premises to make payments in the next year as follows:

	2000	1999
	\$	\$
Lease expiring after 1 year but within 5 years	13,738,290	6,732,660

13 Mandatory provident fund schemes compensation fund

Section 17 of the Ordinance requires the MPFA to establish a compensation fund and the MPFA may appoint an administrator for the compensation fund or where there is no such administrator, the MPFA must administer the compensation fund. During the year, the MPFA administered the compensation fund and bore all expenditure for the administration of the fund. Such expenditure is reflected in these financial statements. The Mandatory Provident Fund Schemes (General) Regulation requires the compensation fund to be maintained in separate bank accounts and separate financial statements are to be prepared in respect of the fund.

14 Comparative figures

The presentation in the financial statements has been changed due to the adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements".

MANDATORY PROVIDENT FUND SCHEMES COMPENSATION FUND

Auditors' report to the Administrator of the Mandatory Provident Fund Schemes Compensation Fund

We have audited the financial statements of the Mandatory Provident Fund Schemes Compensation Fund ("the Fund") established under section 17 of the Hong Kong Mandatory Provident Fund Schemes Ordinance ("the Ordinance") on pages 71 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of the administrator and auditors

The Ordinance requires the administrator to keep proper accounting records of the Fund and to prepare an income and expenditure account and a balance sheet ("the financial statements") of the Fund in respect of each financial year. The administrator prepares the financial statements in order to give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and accounting estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to the administrator.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the administrator in the preparation of the financial statements and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2000 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong.

KPMG

Certified Public Accountants
Hong Kong, 13 July 2000

Income and Expenditure Account for the year ended 31 March 2000

(Expressed in Hong Kong dollars)

	Note	Year ended 31 March 2000 \$	Period from 12 March 1999 to 31 March 1999 \$
Income			
Interest income	2(b)	36,026,894	1,845,863
Surplus for the year		36,026,894	1,845,863
Surplus brought forward		1,845,863	–
Surplus carried forward		37,872,757	1,845,863

No separate statement of recognised gains and losses has been prepared as the surplus for the year as shown above would be the only component of this statement.

The notes on pages 74 and 75 form part of these financial statements.

Balance Sheet at 31 March 2000

(Expressed in Hong Kong dollars)

	Note	2000 \$	1999 \$
Current assets			
Deposit	4	628,465,151	600,000,000
Interest receivable		9,407,606	1,845,863
Net assets		637,872,757	601,845,863
Representing:			
Compensation fund			
Compensation Fund Seed Money	5	600,000,000	600,000,000
Income and expenditure account		37,872,757	1,845,863
		637,872,757	601,845,863

Approved by the Mandatory Provident Fund Schemes Authority on 13 July 2000 and signed on its behalf by

Managing Director

The notes on pages 74 and 75 form part of these financial statements.

Cash flow statement for the year ended 31 March 2000

(Expressed in Hong Kong dollars)

	Note	Year ended 31 March 2000 \$	Period from 12 March 1999 to 31 March 1999 \$
Net cash inflow from operating activities	6	–	–
Returns on investments and servicing of finance			
Interest received		28,465,151	–
Net cash inflow before financing		28,465,151	–
Financing			
Compensation Fund Seed Money from the Government of the Hong Kong Special Administrative Region		–	600,000,000
Increase in cash and cash equivalents		28,465,151	600,000,000
Cash and cash equivalents at beginning of the year/period		600,000,000	–
Cash and cash equivalents at 31 March		628,465,151	600,000,000
Analysis of the balances of cash and cash equivalents			
Deposit with the Hong Kong Monetary Authority		628,465,151	600,000,000

The notes on pages 74 and 75 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 Purpose and claim for payment

The Hong Kong Mandatory Provident Fund Schemes Compensation Fund (“the Fund”) is established for the purpose of compensating members of registered Mandatory Provident Fund schemes and other persons who have beneficial interests in those schemes for losses of accrued benefits that are attributable to misfeasance or illegal conduct committed by the approved trustees of those schemes or by other persons concerned with the administration of those schemes.

Application for compensation from the Fund has to be made to a court of law in accordance with Mandatory Provident Fund Schemes Ordinance (“the Ordinance”). The administrator shall then make the compensation fund payment pursuant to the decisions of the court. During the year, the Mandatory Provident Fund Schemes Authority (“the MPFA”) was the administrator of the Fund.

2 Significant accounting policies

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Ordinance. A summary of the significant accounting policies is set out below:

(a) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost.

(b) Recognition of income

Interest income derived from a time deposit with the Hong Kong Monetary Authority is accrued on a time-apportioned basis.

(c) Related parties

For the purposes of these financial statements, parties are considered to be related to the Fund if the Fund has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3 Taxation

The MPFA is exempt from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance and accordingly no provision has been made for taxation in these financial statements. The MPFA obtained confirmation from the Inland Revenue Department that the tax exemption also applied to the Fund.

4 Deposit

	2000	1999
	\$	\$
Deposit with the Hong Kong Monetary Authority	628,465,151	600,000,000

5 Money constituting the Fund

On 12 March 1999, an amount of \$600 million was injected from the Government of the Hong Kong Special Administrative Region, as the seed money of the Fund.

6 Reconciliation of surplus of income over expenditure to net cash inflow from operating activities:

	Year ended 31 March 2000	Period from 12 March 1999 to 31 March 1999
	\$	\$
Surplus for the year/period	36,026,894	1,845,863
Interest income	(36,026,894)	(1,845,863)
Net cash inflow from operating activities	–	–

7 Expenditure of the Fund

All expenditure incurred, including audit fee of \$15,000 (1999: \$Nil) for the administration of the Fund during the year was borne by the MPFA.