

Auditors' report to the Mandatory Provident Fund Schemes Authority ("the MPFA") *(Established in Hong Kong under the Mandatory Provident Fund Schemes Ordinance)*

We have audited the financial statements on pages 74 to 81 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 2001 and of its deficit 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, 14 June 2001

Income and Expenditure Account *(for the year ended 31 March 2001)*

	<i>Note</i>	2001 (HK\$)	2000 (HK\$)
Income			
Fee income	3(e)	23,452,210	11,916,070
Interest income	3(e)	291,364,370	293,030,336
Dividend income	3(e)	5,949,500	–
Unrealised (losses)/gains on investments		(78,012,508)	75,476,314
		242,753,572	380,422,720
Other income		166,909	298,119
		242,920,481	380,720,839
Expenditure			
Staff and related expenses		165,508,867	70,774,597
Public education and publicity expenses		53,937,066	7,844,724
Depreciation	7	12,715,467	4,722,924
Premises expenses		23,804,226	14,584,632
Other operating expenses		26,049,921	11,362,753
		282,015,547	109,289,630
(Deficit)/surplus for the year	6, 11	(39,095,066)	271,431,209
Surplus brought forward		284,772,395	13,341,186
Surplus carried forward		245,677,329	284,772,395

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

The notes on pages 77 to 81 form part of these financial statements.

Balance Sheet *(at 31 March 2001)*

	Note	2001 (HK\$)	2000 (HK\$)
Non-current assets			
Fixed assets	7	53,424,266	24,369,995
Projects in progress	8	403,198	3,193,942
Investments	9	1,218,637,492	296,650,000
		1,272,464,956	324,213,937
Current assets			
Debtors		1,012,200	860,400
Deposits and prepayments		9,133,868	6,414,965
Interest receivables		20,475,580	68,351,834
Deposit with banks maturing more than three months after the balance sheet date		1,357,000,000	–
Cash and cash equivalents	10	2,618,553,162	4,900,458,292
		4,006,174,810	4,976,085,491
Current liabilities			
Creditors and accrued charges		27,588,387	15,167,033
Fees received in advance		5,374,050	360,000
		32,962,437	15,527,033
Net current assets		3,973,212,373	4,960,558,458
Net assets		5,245,677,329	5,284,772,395
Representing:			
Capital grant	2	5,000,000,000	5,000,000,000
Income and expenditure account		245,677,329	284,772,395
		5,245,677,329	5,284,772,395

Approved by the Mandatory Provident Fund Schemes Authority on 14 June 2001 and signed on its behalf by

Rafael Hui
Managing Director

The notes on pages 77 to 81 form part of these financial statements.

Cash flow statement *(for the year ended 31 March 2001)*

	<i>Note</i>	2001 (HK\$)	2000 (HK\$)
Net cash outflow from operating activities	11	(231,963,531)	(80,485,693)
Returns on investments and servicing of finance			
Dividend income		5,949,500	–
Interest received		339,240,624	240,068,665
Net cash inflow from returns on investments and servicing of finance		345,190,124	240,068,665
Investing activities			
Increase in deposits with banks maturing more than three months after the balance sheet date		(1,357,000,000)	–
Payments for purchases of fixed assets		(38,131,723)	(30,621,892)
Payments for purchases of investments		(1,000,000,000)	(221,173,686)
Net cash outflow from investing activities		(2,395,131,723)	(251,795,578)
Net cash outflow before and after financing/ decrease in cash and cash equivalents		(2,281,905,130)	(92,212,606)
Cash and cash equivalents at beginning of the year		4,900,458,292	4,992,670,898
Cash and cash equivalents at 31 March	10	2,618,553,162	4,900,458,292

The notes on pages 77 to 81 form part of these financial statements.

Notes to the financial statements

1 BACKGROUND AND FUNCTIONS OF THE MANDATORY PROVIDENT FUND SCHEMES AUTHORITY ("THE 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 HK\$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 terms 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

(d) INVESTMENTS IN SECURITIES

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

- (i) Investments in securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income and expenditure account as they arise.
- (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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) RECOGNITION OF REVENUE

(i) Fee income

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

(ii) Interest income

Interest income from time deposits with the Hong Kong Monetary Authority and banks is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(iii) Dividend

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(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.

(h) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash at bank and in hand and also include short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were either within three months of maturity when acquired or maturing within three months of the balance sheet date.

4 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.

5 DIRECTORS' EMOLUMENTS

Directors' emoluments are as follows:

	2001 (HK\$)	2000 (HK\$)
Fees	–	–
Other emoluments	15,608,238	10,426,314

6 (DEFICIT)/SURPLUS FOR THE YEAR

(Deficit)/surplus for the year is arrived at after charging:

	2001 (HK\$)	2000 (HK\$)
Operating lease charges – property rental	16,375,005	10,530,909
Auditors' remuneration	125,600	83,500
Depreciation	12,715,467	4,722,924
Staff costs (including retirement benefit costs of \$10,667,777; 2000: \$2,804,657)	142,017,906	65,207,042

7 FIXED ASSETS

	Leasehold improvements (HK\$)	Computer equipment and software (HK\$)	Office equipment and furniture (HK\$)	Motor vehicles (HK\$)	Total (HK\$)
Cost					
At 1 April 2000	11,812,020	12,576,972	3,341,026	1,362,901	29,092,919
Additions	11,440,079	25,939,560	4,414,591	–	41,794,230
Disposals	–	–	(32,393)	–	(32,393)
At 31 March 2001	23,252,099	38,516,532	7,723,224	1,362,901	70,854,756
Accumulated depreciation					
At 1 April 2000	2,015,545	2,109,176	539,764	58,439	4,722,924
Charge for the year	5,048,226	5,965,976	1,360,540	340,725	12,715,467
Disposals	–	–	(7,901)	–	(7,901)
At 31 March 2001	7,063,771	8,075,152	1,892,403	399,164	17,430,490
Net book value					
At 31 March 2001	16,188,328	30,441,380	5,830,821	963,737	53,424,266
At 31 March 2000	9,796,475	10,467,796	2,801,262	1,304,462	24,369,995

8 PROJECTS IN PROGRESS

Projects in progress consist of capital project expenditures not yet substantially completed at 31 March 2001 as follows:

	2001 (HK\$)	2000 (HK\$)
IT systems	403,198	960,305
Office fitting out projects	–	2,233,637
	403,198	3,193,942

9 INVESTMENTS

	2001 (HK\$)	2000 (HK\$)
Equity securities		
Market value of listed investments in Hong Kong	219,300,000	296,650,000
Bonds portfolio		
Market value of investments in Hong Kong		
– Listed investments	302,942,327	–
– Unlisted investments	696,395,165	–
	1,218,637,492	296,650,000

10 CASH AND CASH EQUIVALENTS

	2001 (HK\$)	2000 (HK\$)
Deposit with the Hong Kong Monetary Authority	–	4,490,383,502
Deposits with banks maturing within three months of the balance sheet date	2,613,000,000	403,500,000
Cash at bank and in hand	5,553,162	6,574,790
	2,618,553,162	4,900,458,292

11 RECONCILIATION OF (DEFICIT)/SURPLUS FOR THE YEAR FROM OPERATING ACTIVITIES

Reconciliation of (deficit)/surplus of income over expenditure to net cash outflow from operating activities:

	2001 (HK\$)	2000 (HK\$)
(Deficit)/surplus for the year	(39,095,066)	271,431,209
Depreciation	12,715,467	4,722,924
Loss on disposal of fixed assets	24,492	–
Interest income	(291,364,370)	(293,030,336)
Dividend income	(5,949,500)	–
Unrealised losses/(gains) on investments	78,012,508	(75,476,314)
Increase in deposits and prepayments	(2,718,903)	(553,528)
Increase in debtors	(151,800)	(860,400)
Increase in creditors and accrued charges	11,549,591	12,920,752
Increase in fees received in advance	5,014,050	360,000
Net cash outflow from operating activities	(231,963,531)	(80,485,693)

12 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.

13 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2001 not provided for in the financial statements were as follows:

	2001 (HK\$)	2000 (HK\$)
Contracted for	16,260,281	35,783,578
Authorised but not contracted for	3,278,474	2,754,069
	19,538,755	38,537,647

14 OPERATING LEASE COMMITMENTS

At 31 March 2001 the MPFA had commitments under operating leases in respect of its premises to make payments in the next year as follows:

	2001 (HK\$)	2000 (HK\$)
Lease expiring after 1 year but within 5 years	17,929,112	13,738,290

15 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. 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.

16 COMPARATIVE FIGURES

Comparative figures have been reclassified to conform with the current year's presentation.

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 83 to 87 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 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 2001 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, 14 June 2001

Income and Expenditure Account *(for the year ended 31 March 2001)*

	<i>Note</i>	2001 (HK\$)	2000 (HK\$)
Income			
Interest income	2(b)	39,672,385	36,026,894
Levy fee	2(b)	3,690,656	–
		43,363,041	36,026,894
Expenditure			
Auditors' remuneration	7	37,000	–
Bank charges	7	6,750	–
		43,750	–
Surplus for the year	6	43,319,291	36,026,894
Surplus brought forward		37,872,757	1,845,863
Surplus carried forward		81,192,048	37,872,757

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

The notes on pages 86 and 87 form part of these financial statements.

Balance Sheet *(at 31 March 2001)*

	<i>Note</i>	2001 (HK\$)	2000 (HK\$)
Current assets			
Levy fee receivable		3,690,656	–
Interest receivable		11,770,024	9,407,606
Deposit with banks maturing more than three months after the balance sheet date		160,760,000	–
Cash and cash equivalents	4	505,015,118	628,465,151
		681,235,798	637,872,757
Current liabilities			
Creditors and accrued charges		43,750	–
		681,192,048	637,872,757
Net assets			
Representing:			
Compensation fund			
Compensation Fund Seed Money	5	600,000,000	600,000,000
Income and expenditure account		81,192,048	37,872,757
		681,192,048	637,872,757

Approved by the Mandatory Provident Fund Schemes Authority on 14 June 2001 and signed on its behalf by

Rafael Hui
Managing Director

The notes on pages 86 and 87 form part of these financial statements.

Cash flow statement *(for the year ended 31 March 2001)*

	Note	2001 (HK\$)	2000 (HK\$)
Net cash position	6	–	–
Returns on investments and servicing of finance			
Interest received		37,309,967	28,465,151
Investing activities			
Increase in deposit with banks maturing more than three months after the balance sheet date		(160,760,000)	–
Net cash outflow from investing activities		(160,760,000)	–
Net cash (outflow)/inflow before and after financing		(123,450,033)	28,465,151
(Decrease)/increase in cash and cash equivalents		(123,450,033)	28,465,151
Cash and cash equivalents at beginning of the year		628,465,151	600,000,000
Cash and cash equivalents at 31 March	4	505,015,118	628,465,151

The notes on pages 86 and 87 form part of these financial statements.

Notes to the financial statements

1 PURPOSE AND CLAIM FOR PAYMENT

The 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 Hong Kong 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

(i) Levy fee

Levy fee consists of fees charged to the approved trustees of registered Mandatory Provident Fund Schemes. Levy fee is accounted for on an accrual basis.

(ii) Interest income

Interest income from time deposits with Hong Kong Monetary Authority and banks is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(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.

(d) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash at bank and in hand and also include short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are either within three months of maturity when acquired or maturing within three months of the balance sheet date.

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 CASH AND CASH EQUIVALENTS

	2001 (HK\$)	2000 (HK\$)
Deposit with the Hong Kong Monetary Authority	–	628,465,151
Deposits with banks maturing within three months of the balance sheet date	505,000,000	–
Cash at bank and in hand	15,118	–
	505,015,118	628,465,151

5 MONEY CONSTITUTING THE FUND

On 12 March 1999, an amount of HK\$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 FOR THE YEAR FROM OPERATING ACTIVITIES

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

	2001 (HK\$)	2000 (HK\$)
Surplus for the year	43,319,291	36,026,894
Interest income	(39,672,385)	(36,026,894)
Increase in levy fee receivable	(3,690,656)	–
Increase in creditors and accrued charges	43,750	–
Net cash position	–	–

7 EXPENDITURE OF THE FUND

Auditors' remuneration and bank charges incurred during the year was borne by the Fund, and MPFA has not charged any administration fee to the Fund during the year. All expenditure incurred including audit fee of HK\$15,000 for the year ended 31 March 2000 was borne by the MPFA.