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MPFA

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 67 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF THE MPFA AND THE AUDITORS

The 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.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 6P(2) of the Mandatory Provident Fund Schemes 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 2005 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
2 July 2005

MPFA

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2005

	Notes	**2005 HK$**	2004 HK$
INCOME			
Fee income		**9,470,850**	9,964,300
Interest income on bank deposits		**7,439,889**	34,659,933
Net investment income	3	**155,349,468**	175,695,997
		172,260,207	220,320,230
Other income		**2,221**	18,593
		172,262,428	220,338,823
EXPENDITURE			
Staff costs		**131,713,334**	132,872,251
Depreciation		**10,244,702**	18,763,283
Premises expenses		**20,661,628**	25,842,218
Public education and publicity expenses		**3,878,615**	3,796,625
Investment expenses		**10,936,463**	1,955,603
Other operating expenses		**21,434,435**	18,329,560
		198,869,177	201,559,540
(DEFICIT) SURPLUS FOR THE YEAR	5	**(26,606,749)**	18,779,283

MPFA

BALANCE SHEET

At 31 March 2005

	Notes	**2005 HK$**	2004 HK$
ASSETS			
Property and equipment	6	**9,765,272**	16,051,651
Projects in progress	7	**507,826**	853,229
Investments in securities	8	**4,748,579,197**	2,957,760,442
Unrealized gain on foreign exchange forward contracts	9	**3,606,596**	–
Unsettled investment receivables		**11,787,355**	–
Debtors, deposits and prepayments		**32,230,394**	13,500,243
Interest receivables		**26,117,280**	28,340,457
Bank deposits		**252,140,000**	2,212,508,061
Bank balances and cash		**512,007,176**	22,795,247
		5,596,741,096	5,251,809,330
LIABILITIES			
Unsettled investment payables		**345,701,152**	–
Creditors and accrued charges		**38,976,017**	12,800,804
Fees received in advance		**4,277,550**	4,615,400
		388,954,719	17,416,204
NET ASSETS		**5,207,786,377**	5,234,393,126
CAPITAL AND RESERVE			
Capital grant	10	**5,000,000,000**	5,000,000,000
Income and expenditure account		**207,786,377**	234,393,126
		5,207,786,377	5,234,393,126

The financial statements on pages 67 to 75 were approved and authorized for issue by the Mandatory Provident Fund Schemes Authority on 2 July 2005 and are signed on its behalf by:

Diana Chan
Managing Director

MPFA

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2005

	Capital Grant HK$	Income and Expenditure Account HK$	Total HK$
At 1 April 2003	5,000,000,000	215,613,843	5,215,613,843
Surplus for the year	–	18,779,283	18,779,283
At 31 March 2004 and at 1 April 2004	5,000,000,000	234,393,126	5,234,393,126
Deficit for the year	–	(26,606,749)	(26,606,749)
At 31 March 2005	5,000,000,000	207,786,377	5,207,786,377

MPFA

CASH FLOW STATEMENT

For the year ended 31 March 2005

	2005 HK$	2004 HK$
OPERATING ACTIVITIES		
(Deficit) surplus for the year	**(26,606,749)**	18,779,283
Adjustments for:		
Amortization of premium on held-to-maturity securities	**459,751**	2,349,626
Depreciation for property and equipment	**10,244,702**	18,763,283
Loss (gain) on disposals of property and equipment	**650**	(58,414)
Interest income on bank deposits	**(7,439,889)**	(34,659,933)
Interest income on investments in securities	**(116,784,188)**	(94,205,703)
Dividends from investments in securities	**(19,604,509)**	(7,359,500)
Net gain on investments in securities	**(36,912,362)**	(76,480,420)
Net realized loss on foreign exchange forward contracts	**21,098,436**	–
Net unrealized gain on foreign exchange forward contracts	**(3,606,596)**	–
Operating cashflows before movements in working capital	**(179,150,754)**	(172,871,778)
(Increase) decrease in debtors, deposits and prepayments	**(18,730,151)**	5,169,375
Increase (decrease) in creditors and accrued charges	**26,164,628**	(5,065,548)
Decrease in fees received in advance	**(337,850)**	(170,250)
NET CASH USED IN OPERATING ACTIVITIES	**(172,054,127)**	(172,938,201)
INVESTING ACTIVITIES		
Dividends received	**15,577,346**	7,359,500
Interest received	**126,447,254**	144,383,966
(Payment for) proceeds from disposals of property and equipment	**(650)**	89,115
Proceeds from disposals of investments in securities	**9,820,635,497**	1,867,639,986
Payment of property and equipment	**(3,602,335)**	(9,141,705)
Payment for purchase of investments in securities	**(11,237,060,681)**	(2,131,519,356)
Decrease in bank deposits	**1,960,368,061**	308,391,939
Settlement of foreign exchange forward contracts	**(21,098,436)**	–
Decrease in bank balances held for investment purposes	**(489,334,484)**	(12,757,500)
NET CASH FROM INVESTING ACTIVITIES	**171,931,572**	174,445,945
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(122,555)**	1,507,744
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	**3,043,704**	1,535,960
CASH AND CASH EQUIVALENTS CARRIED FORWARD	**2,921,149**	3,043,704
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**512,007,176**	22,795,247
Less : Bank balances held for investment purposes	**(509,086,027)**	(19,751,543)
	2,921,149	3,043,704

MPFA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investment in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Revenue recognition
Fee income consists of application fees and annual fees arising from the Occupational Retirement Schemes Ordinance schemes and Mandatory Provident Fund schemes and is accounted for on an accrual basis.

Interest income on bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Interest income on investments in securities is recognized on a time basis, by reference to the principal outstanding and at the coupon rate applicable.

Dividend income from investments in securities is recognized when the shareholders' rights to receive payment have been established.

Realized gains and losses on investments in securities are recognized when a sales contract is entered into.

Operating leases
Rentals under operating leases are charged to the income and expenditure account on a straight-line basis over the relevant lease term.

Retirement benefit costs
Contributions to Mandatory Provident Fund schemes are charged as expenses on an accrual basis.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method, as follows:

Leasehold improvements	Over the remaining terms of the leases or 4 years, whichever is shorter
Computer equipment and software	3 - 4 years
Office equipment and furniture	4 years
Motor vehicles	4 years

The gain or loss arising from disposals or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income and expenditure account.

MPFA
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
For the year ended 31 March 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Projects in progress
Property and equipment in the course of development are carried out at cost less any identified impairment loss. The cost of completed projects in progress are transferred to the appropriate category of property and equipment. No depreciation will be charged on items under this category.

Impairment
At each balance sheet date, the MPFA reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

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

Investments in securities
Investments in securities are recognized on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the MPFA has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts. The annual amortization of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognized in each period represents a consistent yield on the investment.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealized gains and losses included in the income and expenditure account.

Foreign exchange forward contracts
Foreign exchange forward contracts are initially recorded at cost, if any, and are remeasured at subsequent reporting dates at fair value. Fair values are obtained from quoted market prices and equivalent instruments as appropriate. Realized and unrealized gains and losses are recognized in the income and expenditure account.

MPFA
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
For the year ended 31 March 2005

3. NET INVESTMENT INCOME

	2005 HK$	2004 HK$
Interest income on investments in securities	**116,784,188**	94,205,703
Amortization of premium on held-to-maturity securities	**(459,751)**	(2,349,626)
	116,324,437	91,856,077
Dividends from investments in securities	**19,604,509**	7,359,500
Net gain on investments in securities	**36,912,362**	76,480,420
Net realized loss on foreign exchange forward contracts	**(21,098,436)**	–
Net unrealized gain on foreign exchange forward contracts	**3,606,596**	–
	155,349,468	175,695,997

4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the MPFA is exempt from Hong Kong Profits Tax under section 88 of the Inland Revenue Ordinance.

5. (DEFICIT) SURPLUS FOR THE YEAR

(Deficit) surplus for the year has been arrived at after charging (crediting):

	2005 HK$	2004 HK$
Staff costs		
Directors' emoluments:		
– fee	**–**	–
– contributions to the Mandatory Provident Fund schemes	**1,492,335**	1,532,700
– other emoluments	**15,033,791**	15,597,843
Salaries, variable pay and other benefits	**107,840,282**	108,652,904
Contributions to the Mandatory Provident Fund schemes	**7,346,926**	7,088,804
	131,713,334	132,872,251
Auditors' remuneration	**89,000**	83,000
Loss (gain) on disposals of property and equipment	**650**	(58,414)
Operating lease charges – property rentals	**13,600,139**	18,601,856

The emoluments for the five highest paid individuals include salary, variable pay, employer's MPF contributions, and medical and life insurance. Their emoluments fell within the following ranges:

	2005 Number of staff	2004 Number of staff
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	2
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	1
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**1**	–
	5	5

MPFA
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
For the year ended 31 March 2005

6. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$	Computer equipment and software HK$	Office equipment and furniture HK$	Motor vehicles HK$	Total HK$
COST					
At 1 April 2004	22,252,569	61,109,547	9,014,491	802,684	93,179,291
Additions	858,607	2,970,558	129,158	–	3,958,323
Disposals	–	–	(23,594)	–	(23,594)
At 31 March 2005	23,111,176	64,080,105	9,120,055	802,684	97,114,020
ACCUMULATED DEPRECIATION					
At 1 April 2004	22,252,569	46,736,090	7,336,297	802,684	77,127,640
Charge for the year	18,941	9,290,174	935,587	–	10,244,702
Eliminated on disposals	–	–	(23,594)	–	(23,594)
At 31 March 2005	22,271,510	56,026,264	8,248,290	802,684	87,348,748
NET BOOK VALUES					
At 31 March 2005	839,666	8,053,841	871,765	–	9,765,272
At 31 March 2004	–	14,373,457	1,678,194	–	16,051,651

7. PROJECTS IN PROGRESS

Projects in progress consist of capital project expenditure not completed at 31 March 2005 of HK$507,826 (2004: HK$ 853,229).

8. INVESTMENTS IN SECURITIES

	Held to maturity securities		Other investments		Total	
	2005 HK$	2004 HK$	**2005 HK$**	2004 HK$	**2005 HK$**	2004 HK$
Equity securities:						
Listed	–	–	**1,105,462,643**	231,555,000	**1,105,462,643**	231,555,000
Debt securities:						
Listed	–	81,338,191	**1,310,699,961**	1,680,928,817	**1,310,699,961**	1,762,267,008
Unlisted	–	406,793,691	**2,332,416,593**	557,144,743	**2,332,416,593**	963,938,434
	–	488,131,882	**3,643,116,554**	2,238,073,560	**3,643,116,554**	2,726,205,442
Total:						
Listed	–	81,338,191	**2,416,162,604**	1,912,483,817	**2,416,162,604**	1,993,822,008
Unlisted	–	406,793,691	**2,332,416,593**	557,144,743	**2,332,416,593**	963,938,434
	–	488,131,882	**4,748,579,197**	2,469,628,560	**4,748,579,197**	2,957,760,442
Market value of listed Securities	–	82,128,741	**2,416,162,604**	1,912,483,817	**2,416,162,604**	1,994,612,558

The MPFA adopted a new investment strategy of more diversified investments and intended not to hold the investments to maturity from 9 June 2004, resulting in reclassification of all held-to-maturity debt securities to other investments at fair value. This change in classification brought an unrealized gain of approximately HK$4.3 million to the income and expenditure account.

MPFA
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
For the year ended 31 March 2005

9. FOREIGN EXCHANGE FORWARD CONTRACTS

At the balance sheet date, the MPFA had entered the following notional amounts of foreign exchange forward contracts:

	2005 HK$	2004 HK$
Selling of Australian Dollar	**(10,853,449)**	–
Buying of Euro	**16,480,278**	–
Selling of Euro	**(162,835,885)**	–
Buying of Japanese Yen	**18,865,514**	–
Selling of Japanese Yen	**(100,188,509)**	–
Selling of Norwegian Kroner	**(3,336,078)**	–
Buying of Pounds Sterling	**6,509,368**	–
Selling of Pounds Sterling	**(172,387,254)**	–
Selling of Singapore Dollar	**(5,967,690)**	–
Selling of Swedish Krona	**(13,243,914)**	–
Selling of Swiss Franc	**(35,095,436)**	–
Buying of US Dollar	**508,015,821**	–
Selling of US Dollar	**(42,265,467)**	–

10. 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.

11. LOANS TO DIRECTORS AND EXECUTIVES

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

12. OPERATING LEASE COMMITMENTS

At the balance sheet date, the MPFA had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises (office properties and storage space) which fall due as follows:

	2005 HK$	2004 HK$
Within one year	**10,187,886**	10,187,886
In the second to sixth year inclusive	**63,305,322**	73,493,208
	73,493,208	83,681,094

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. MPFA was appointed as the administrator of the compensation fund until 31 March 2007. 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.

MPF SCHEMES COMPENSATION FUND

AUDITORS' REPORT TO THE ADMINISTRATOR OF THE MANDATORY PROVIDENT FUND SCHEMES COMPENSATION FUND ("THE FUND")

Established in Hong Kong under the Mandatory Provident Fund Schemes Ordinance

We have audited the financial statements on pages 77 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF THE ADMINISTRATOR AND AUDITORS

The Mandatory Provident Fund Schemes Ordinance ("the Ordinance") requires the administrator to keep proper accounting records of the Fund and to prepare financial statements of the Fund 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.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 184(3)(a) of the Mandatory Provident Fund Schemes 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 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 the Fund's affairs as at 31 March 2005 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
2 July 2005

MPF SCHEMES COMPENSATION FUND

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2005

	Notes	**2005 HK$**	2004 HK$
INCOME			
Levy fee		**37,366,309**	29,571,387
Interest income on bank deposits		**4,257,465**	6,810,762
Net investment income	3	**2,009,107**	12,172,117
		43,632,881	48,554,266
EXPENDITURE			
Auditors' remuneration		**43,000**	40,000
Investment expenses		**59,778**	63,608
Other operating expenses		**1,400**	3,020
		104,178	106,628
SURPLUS FOR THE YEAR		**43,528,703**	48,447,638

MPF SCHEMES COMPENSATION FUND
BALANCE SHEET

At 31 March 2005

	Notes	**2005 HK$**	2004 HK$
ASSETS			
Investments in securities	5	**206,312,804**	209,729,606
Levy fee receivables		**36,826,884**	28,386,936
Unsettled investment receivables		**39,966,398**	–
Interest receivables		**2,759,517**	2,783,467
Bank deposits		**607,360,000**	568,000,000
Bank balances		**119,572**	129,462
		893,345,175	809,029,471
LIABILITIES			
Creditors and accrued charges		**47,744**	57,062
Unsettled investment payables		**40,796,319**	–
		40,844,063	57,062
NET ASSETS		**852,501,112**	808,972,409
CAPITAL AND RESERVE			
Seed money	6	**600,000,000**	600,000,000
Income and expenditure account		**252,501,112**	208,972,409
		852,501,112	808,972,409

The financial statements on pages 77 to 82 were approved and authorized for issue by the Mandatory Provident Fund Schemes Authority on 2 July 2005 and signed on its behalf by:

Diana Chan
Managing Director

MPF SCHEMES COMPENSATION FUND

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2005

	Compensation Fund Seed Money HK$	Income and Expenditure Account HK$	Total HK$
At 1 April 2003	600,000,000	160,524,771	760,524,771
Surplus for the year	–	48,447,638	48,447,638
At 31 March 2004 and at 1 April 2004	600,000,000	208,972,409	808,972,409
Surplus for the year	–	43,528,703	43,528,703
At 31 March 2005	600,000,000	252,501,112	852,501,112

MPF SCHEMES COMPENSATION FUND

CASH FLOW STATEMENT

For the year ended 31 March 2005

	2005 HK$	2004 HK$
OPERATING ACTIVITIES		
Surplus for the year	**43,528,703**	48,447,638
Adjustments for:		
Interest income on bank deposits	**(4,257,465)**	(6,810,762)
Interest income on investments in securities	**(4,587,929)**	(3,929,038)
Dividends from investments in securities	**(978,180)**	(688,010)
Net loss (gain) on investments in securities	**3,557,002**	(7,555,069)
Operating cashflows before movements in working capital	**37,262,131**	29,464,759
Increase in levy fee receivables	**(8,439,948)**	(10,827,353)
(Decrease) increase in creditors and accrued charges	**(9,318)**	4,075
NET CASH FROM OPERATING ACTIVITIES	**28,812,865**	18,641,481
INVESTING ACTIVITIES		
Dividends received	**978,180**	688,010
Interest received	**8,869,344**	11,978,769
Proceeds from disposals of investments in securities	**439,815,202**	248,571,550
Payment for purchase of investments in securities	**(439,125,481)**	(261,500,137)
Increase in bank deposits	**(39,360,000)**	(18,370,000)
(Increase) decrease in bank balances held for investment purposes	**(4,771)**	4,771
NET CASH USED IN INVESTING ACTIVITIES	**(28,827,526)**	(18,627,037)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(14,661)**	14,444
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	**84,233**	69,789
CASH AND CASH EQUIVALENTS CARRIED FORWARD	**69,572**	84,233
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances	**119,572**	129,462
Less : Bank balances held for investment purposes	**(50,000)**	(45,229)
	69,572	84,233

MPF SCHEMES COMPENSATION FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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 the 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. The MPFA has not charged any administration fee to the Fund during the year.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

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

Interest income on bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Interest income on investments in securities is recognized on a time basis, by reference to the principal outstanding and at the coupon rate applicable.

Dividend income from investments in securities is recognized when the shareholders' rights to receive payment have been established.

Realized gains and losses on investments in securities are recognized when a sales contract is entered into.

Investments in securities
Investments in securities are recognized on a trade date basis and are initially measured at cost.

At subsequent reporting dates, investments in securities are measured at fair value, with unrealized gains and losses included in the income and expenditure account.

MPF SCHEMES COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2005

3. NET INVESTMENT INCOME

	2005 HK$	2004 HK$
Interest income on investments in securities	**4,587,929**	3,929,038
Dividends from investments in securities	**978,180**	688,010
Net (loss) gain on investments in securities	**(3,557,002)**	7,555,069
	2,009,107	12,172,117

4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Fund is exempt from Hong Kong Profits Tax under section 88 of the Inland Revenue Ordinance.

5. INVESTMENTS IN SECURITIES

	2005 HK$	2004 HK$
Listed equity securities, at market value	**32,023,750**	30,044,100
Listed debt securities, at market value	**55,594,100**	179,685,506
Unlisted debt securities	**118,694,954**	–
	206,312,804	209,729,606

6. SEED MONEY

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.