MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Independent Auditor's 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 of the MPFA set out on pages 81 to 109, which comprise the statement of financial position as at 31 March 2016, the income and expenditure account, the statement of comprehensive income, the statement of changes in capital and reserve and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## The MPFA's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 6P 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the MPFA, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the MPFA as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 24 June 2016

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Income and Expenditure Account

For the year ended 31 March 2016

| | Notes | 2016 HK$ | 2015 HK$ |
|---|---|---|---|
| **INCOME** | | | |
| Fees and charges | 7 | 34,711,576 | 6,515,091 |
| Interest income on bank deposits | | 1,807,427 | 3,418,382 |
| Net investment (loss)/income | 8 | (25,545,865) | 313,218,127 |
| | | 10,973,138 | 323,151,600 |
| Other income | | 7,779 | 3,585 |
| | | 10,980,917 | 323,155,185 |
| **EXPENDITURE** | | | |
| Staff costs | 10 | 326,837,830 | 325,176,415 |
| Depreciation and amortisation | 13, 14 | 14,571,016 | 13,229,663 |
| Premises expenses | | 107,233,908 | 86,995,014 |
| Public education and publicity expenses | | 27,271,446 | 24,241,977 |
| Investment expenses | | 11,427,712 | 12,930,563 |
| Other operating expenses | | 37,804,214 | 24,805,178 |
| | | 525,146,126 | 487,378,810 |
| **DEFICIT FOR THE YEAR** | | (514,165,209) | (164,223,625) |

The accompanying notes form an integral part of these financial statements.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Statement of Comprehensive Income

For the year ended 31 March 2016

The MPFA had no components of comprehensive income other than “deficit for the year” in either of the years presented. Accordingly, no separate statement of comprehensive income is presented as the MPFA’s “total comprehensive loss” was the same as the “deficit for the year” in both years.

The accompanying notes form an integral part of these financial statements.

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Statement of Financial Position

At 31 March 2016

| | Notes | 2016 HK$ | 2015 HK$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | 13 | 48,384,406 | 10,410,167 |
| Intangible assets | 14 | 14,901,377 | 15,249,871 |
| Projects in progress | 15 | 7,462,642 | 4,147,866 |
| Other non-current deposits | | 13,375,704 | 17,151,419 |
| | | 84,124,129 | 46,959,323 |
| **CURRENT ASSETS** | | | |
| Investments designated at fair value | 16 | 3,541,601,597 | 4,023,639,142 |
| Interest receivable on investments designated at fair value | | 16,248,960 | 17,607,035 |
| Derivative financial instruments | 17 | 1,012,396 | 8,355,833 |
| Unsettled investments receivable | | 24,971,662 | 14,942,011 |
| Debtors, deposits and prepayments | | 15,810,153 | 15,559,433 |
| Bank deposits | | 232,100,000 | 203,523,137 |
| Cash and cash equivalents | | 515,634,454 | 483,203,957 |
| | | 4,347,379,222 | 4,766,830,548 |
| **CURRENT LIABILITIES** | | | |
| Derivative financial instruments | 17 | 6,652,524 | 350,031 |
| Unsettled investments payable | | 416,684,347 | 331,883,738 |
| Creditors and accrued charges | | 61,298,116 | 20,382,129 |
| Fees received in advance | | 3,608,000 | 3,748,400 |
| | | 488,242,987 | 356,364,298 |
| **NET ASSETS** | | 3,943,260,364 | 4,457,425,573 |
| **CAPITAL AND RESERVE** | | | |
| Capital grant | 18 | 5,000,000,000 | 5,000,000,000 |
| Income and expenditure account | | (1,056,739,636) | (542,574,427) |
| | | 3,943,260,364 | 4,457,425,573 |

The financial statements on pages 81 to 109 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 24 June 2016 and are signed on its behalf by:

**Diana Chan**
*Managing Director*

The accompanying notes form an integral part of these financial statements.

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Statement of Changes in Capital and Reserve

For the year ended 31 March 2016

| | Capital Grant HK$ | Income and Expenditure Account HK$ | Total HK$ |
|---|---|---|---|
| At 1 April 2014 | 5,000,000,000 | (378,350,802) | 4,621,649,198 |
| Deficit for the year | — | (164,223,625) | (164,223,625) |
| At 31 March 2015 | 5,000,000,000 | (542,574,427) | 4,457,425,573 |
| Deficit for the year | — | (514,165,209) | (514,165,209) |
| At 31 March 2016 | **5,000,000,000** | **(1,056,739,636)** | **3,943,260,364** |

The accompanying notes form an integral part of these financial statements.

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Statement of Cash Flows

For the year ended 31 March 2016

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Deficit for the year | (514,165,209) | (164,223,625) |
| Adjustments for: | | |
| Depreciation and amortisation | 14,571,016 | 13,229,663 |
| Losses/(gains) on disposals of property and equipment and intangible assets | 114,739 | (6,550) |
| Interest income on bank deposits | (1,807,427) | (3,418,382) |
| Interest income on investments designated at fair value | (59,693,409) | (62,838,425) |
| Dividends from investments designated at fair value | (20,702,270) | (28,412,417) |
| Net losses/(gains) on investments designated at fair value | 98,984,566 | (178,432,578) |
| Net losses/(gains) on derivative financial instruments | 7,846,436 | (43,761,442) |
| Operating cash flows before movements in working capital | (474,851,558) | (467,863,756) |
| Decrease/(increase) in other non-current deposits | 3,775,715 | (8,283) |
| Increase in debtors, deposits and prepayments | (387,204) | (4,011,960) |
| Increase/(decrease) in creditors and accrued charges | 42,383,683 | (8,481,137) |
| Decrease in fees received in advance | (140,400) | (77,500) |
| **NET CASH USED IN OPERATING ACTIVITIES** | (429,219,764) | (480,442,636) |
| **INVESTING ACTIVITIES** | | |
| Dividends received from investments designated at fair value | 21,711,913 | 28,626,082 |
| Interest received on bank deposits | 1,943,912 | 3,509,557 |
| Interest received from investments designated at fair value | 61,051,484 | 65,301,556 |
| Proceeds on disposals of property and equipment and intangible assets | 12,017 | 6,550 |
| Proceeds on disposals of investments designated at fair value | 7,952,721,160 | 6,827,473,552 |
| Purchase of property and equipment, intangible assets and projects in progress | (57,105,990) | (8,512,405) |
| Purchase of investments designated at fair value | (7,495,906,866) | (6,598,896,116) |
| Net settlement of derivative financial instruments | 5,799,494 | 36,324,056 |
| (Increase)/decrease in bank deposits | (28,576,863) | 4,745,898 |
| **NET CASH FROM INVESTING ACTIVITIES** | 461,650,261 | 358,578,730 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | 32,430,497 | (121,863,906) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | 483,203,957 | 605,067,863 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 515,634,454 | 483,203,957 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances held for investment purposes | 249,428,681 | 108,592,324 |
| Short term debt securities | 256,846,884 | 368,335,608 |
| Other bank balances and cash | 9,358,889 | 6,276,025 |
| | 515,634,454 | 483,203,957 |

The accompanying notes form an integral part of these financial statements.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements

For the year ended 31 March 2016

## 1. BACKGROUND AND FUNCTIONS OF THE MANDATORY PROVIDENT FUND SCHEMES AUTHORITY ("THE MPFA")

The MPFA was established in Hong Kong under section 6 of the Mandatory Provident Fund Schemes Ordinance ("the Ordinance") which came into effect on 24 July 1998. The functions of the MPFA are stated in section 6E of the Ordinance. Its office address is Level 16, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and with effect from 22 February 2016, its office address is Level 8, Tower 1, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the MPFA.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2015 that would be expected to have a material impact on the MPFA.

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ("OCI") and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The new standard is not expected to have a significant impact on the financial statements of the MPFA.

HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 'Leases', and related interpretations. The standard is effective for accounting periods beginning on or after 1 January 2019 and earlier application is permitted. The MPFA is assessing the impact of the new standard to the financial statements.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the MPFA.

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

The financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, and in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### 3.1 Revenue recognition

Fees and charges consist of application fees, annual fees and financial penalties arising from the occupational retirement schemes and mandatory provident fund schemes. Application fees and annual fees are accounted for on an accrual basis whereas financial penalties are recognised as and when determined and imposed.

Interest income from a financial asset is accrued on a time proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

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

### 3.2 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the MPFA becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognised immediately in the income and expenditure account.

### 3.3 Financial assets

The MPFA's financial assets include financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method is used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest is recognised on an effective interest basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

#### 3.3 Financial assets (continued)

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss have two subcategories, financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated at fair value upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
(b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the MPFA's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
(c) it forms part of the contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated at fair value.

Investments designated at fair value recognised in the statement of financial position are categorised as financial assets designated at fair value through profit or loss. Subsequent to initial recognition, financial assets at fair value are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the income and expenditure account in the period in which they arise. The net investment income/loss recognised in the income and expenditure account includes any dividend or interest earned on the financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables mainly consist of debtors, deposits, unsettled investments receivable (including dividends receivable and amounts due from brokers), bank deposits and cash and cash equivalents, are carried at amortised cost using the effective interest method, less any identified impairment losses.

#### 3.4 Impairment of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

(a) significant financial difficulty of the issuer or counterparty;
(b) a breach of contract, such as default or delinquency in interest or principal payments;
(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
(d) the disappearance of an active market for that financial asset because of financial difficulties; or
(e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

#### 3.4 Impairment of financial assets (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in the income and expenditure account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurred after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 3.5 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability. The MPFA's financial liabilities are generally classified as other financial liabilities.

Other financial liabilities, including creditors and unsettled investments payable, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method is used to calculate the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

#### 3.6 Derivative financial instruments

Derivative financial instruments (primarily foreign exchange contracts) are used in hedging currency exposure in the investments designated at fair value. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

For derivative financial instruments that do not qualify for hedge accounting, they are deemed financial assets or liabilities held for trading. They are initially designated at fair value through profit or loss. Changes in fair values of such derivatives are recognised directly in the income and expenditure account.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

#### 3.7 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, when the financial assets are transferred and the MPFA has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income and expenditure account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income and expenditure account.

#### 3.8 Property and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the MPFA and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income and expenditure account during the financial period in which they are incurred.

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

Property and equipment are depreciated on a straight-line basis as follows:

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income and expenditure account in the year in which the item is derecognised.

#### 3.9 Intangible Assets

*Computer software licenses*

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed 4 years.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

### 3.9 Intangible Assets (continued)

*Software development costs*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the MPFA are recognised as intangible assets when the following criteria are met:

(a) it is technically feasible to complete the software product so that it will be available for use;
(b) the management intends to complete the software product and use or sell it;
(c) there is an ability to use or sell the software product;
(d) it can be demonstrated how the software product will generate probable future economic benefits;
(e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
(f) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 4 years.

### 3.10 Projects in progress

Projects in progress consist of expenditure of capital projects which are not yet completed and not yet subject to depreciation or amortisation. They are capitalised as property and equipment or intangible assets upon completion when the economic benefit can be realized.

### 3.11 Impairment of non-financial assets

At the end of the reporting period, the MPFA reviews the carrying amounts of its non-financial assets (i.e. non-current 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised 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 recognised for the asset in previous years. A reversal of an impairment loss is recognised as income immediately.

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

#### 3.12 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, cash in transit, cash at banks and other short-term highly liquid investments with original maturities of three months or less.

#### 3.13 Creditors and accrued charges

Creditors and accrued charges are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Creditors and accrued charges are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 3.14 Foreign currencies

In preparing the financial statements of the MPFA, transactions in currencies other than the functional currency of the MPFA are recorded in its functional currency (that is the currency of the primary economic environment in which the MPFA operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising from the settlement of monetary items, and on the retranslation of monetary items, are recognised in the income and expenditure account in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income and expenditure account for the period.

#### 3.15 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease.

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### 3.16 Retirement benefit costs

Contributions paid or payable to Mandatory Provident Fund schemes are charged as expenses when employees have rendered services entitling them to the benefits.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016



## 4. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The MPFA makes estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results. The key estimates and assumptions that may cause a material impact to the carrying amounts of assets and liabilities are addressed below.

### Fair value of derivatives and other financial instruments

The valuation of all the MPFA's financial instruments, including over-the-counter debt securities and derivatives, are measured at fair value and the quotations are provided by a reputable independent custodian bank. At 31 March 2016, the fair value of financial instruments held by the MPFA excluding those fair values obtained using quoted prices in active market are based on the market quotations from external sources. These market quotations may be indicative and not executable or legally binding. As such, these market quotations do not necessarily indicate the price at which the security could actually be traded as at 31 March 2016. Actual transacted prices may differ from the quotes provided by these external sources. The MPFA considers that in the absence of any other reliable market sources, the quotes available from these sources reflect the best estimate of fair value.

### Default contribution claims receivable and payable

As at the reporting date, the default contribution claims receivable amounting to HK$3,480,692 (2015: HK$845,126), included in the debtors, deposits and prepayments, represents the mandatory contributions that are not paid within the period prescribed by the regulations. Such mandatory contributions become due to the MPFA on the expiry of that period. As at the reporting date, the default contribution claims payable amounting to HK$3,480,692 (2015: HK$845,126), included in the creditors and accrued charges, represents the mandatory contributions which will be received by the MPFA as mentioned above and in turn, payable to the approved trustees for allocation to scheme members' MPF accounts in accordance with the Ordinance. The amount of these default contribution claims receivable and payable is best estimated by the MPFA as at the reporting date with the use of certain assumptions.

## 5. CAPITAL MANAGEMENT

The MPFA's objectives when managing capital are:

(a) to safeguard the MPFA's ability to continue as a going concern, so that it continues to regulate and supervise mandatory provident fund schemes and occupational retirement schemes; and
(b) to support the MPFA's stability and growth to provide benefits for stakeholders.

The MPFA actively and regularly reviews and manages its capital and reserve to ensure optimal returns, taking into consideration the future resources requirements of the MPFA and projected capital expenditures. As in previous years, the MPFA manages its capital and reserve through resources planning measures and regular reviews of the investment strategy.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS

### 6.1 Categories of financial instruments

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| **Financial assets** | | |
| At fair value | 3,542,613,993 | 4,031,994,975 |
| Loans and receivables (including bank deposits, cash and cash equivalents and receivables ) | 812,066,610 | 747,526,389 |
| **Financial liabilities** | | |
| At fair value | 6,652,524 | 350,031 |
| Other financial liabilities | 468,043,537 | 350,077,447 |

### 6.2 Financial risk management objectives and policies

The MPFA's major financial instruments include bank deposits, cash and cash equivalents, unsettled investments receivable and payable, interest receivable on investments designated at fair value, debtors and deposits, creditors, derivative financial instruments, debt and equity investments.

The MPFA adopts a statistical approach for strategic asset allocation of its investments. The strategic asset allocation is set within a specific risk tolerance level and after consideration of the risk-return trade-off. The MPFA's investment portfolio includes cash, debt and equity securities with a target weighting for each asset class. Investment Guidelines approved by the Management Board set out limits and restrictions on credit risk, interest rate risk, price risk, currency risk, liquidity risk, hedging and other activities. These Guidelines are reviewed from time to time. The Finance Committee, one of the standing committees of the MPFA, is responsible for overseeing the investment of all MPFA's funds.

Apart from bank deposits that are managed internally, the MPFA contracts out the management of debt and equity securities to external fund managers who make investments in accordance with the global balanced mandates. The fund managers are mandated to invest prudently to achieve principal protection and above-benchmark return.

Permissible investments should satisfy requirements in credit rating, concentration limits, listing, minimum market capitalization and marketability as detailed in the Investment Guidelines. Apart from proactive contributions to stock selection, interest rate and currency risk management, each external fund manager is expected to allocate assets between broad asset classes based on fundamentals and judgment of relative values. The deviation margins, measured against the target weighting, are permitted for each asset class. The deviation margins have been set using a risk budgeting approach and are based on the correlation of asset returns between asset classes, and the volatility and expected tracking error of each asset class.

The MPFA keeps monitoring its investments with due care and would promptly impose contingent measures relating to the investment exposures in light of financial market conditions. The MPFA has also conducted regular due diligence exercises on the external fund managers' compliance and risk management process. In addition, with the efficient management reporting process, the management and the Finance Committee are kept abreast of the investment portfolios' status as well as the general financial market conditions.

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.3 Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the MPFA.

The investment portfolios can only invest in debt securities that have a minimum credit rating of BBB (2015: A–) by Standard & Poor's Ratings Services ("S&P") and Baa2 (2015: A3) by Moody's Investors Service, Inc ("Moody's"). In the event of a split credit rating for a debt securities issue, the Investment Guidelines require that the lower credit rating will apply. The Investment Guidelines require the weighted average credit rating of the total debt securities portfolio to be at or above A/A2 (2015: A+/A1).

As at the reporting date, the credit risk profile as weighted by market value (including accrued interest) was:

| Credit rating | 2016 HK$ | % of net assets | 2015 HK$ | % of net assets |
|---|---|---|---|---|
| AAA[1] | 107,878,058 | 3 | 130,263,839 | 3 |
| AA[2] | 1,580,299,361 | 40 | 1,883,535,768 | 42 |
| A[3] | 787,079,482 | 20 | 962,232,853 | 22 |
| BBB[4] | 245,877,361 | 6 | 4,733,599 | — |
| | 2,721,134,262 | 69 | 2,980,766,059 | 67 |

1 *AAA means AAA by S&P and Aaa by Moody's*
2 *AA means between AA– and AA+ by S&P and Aa3 and Aa1 by Moody's*
3 *A means between A– and A+ by S&P and A3 and A1 by Moody's*
4 *BBB means between BBB and BBB+ by S&P and Baa2 and Baa1 by Moody's*

The weighted average credit rating of the total debt securities portfolio is AA–/Aa3 (2015: AA–/Aa3).

The MPFA does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The MPFA's credit risk exposure to bank deposits, cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks and other financial institutions with high credit ratings (investment grade or above) assigned by international credit rating agencies and are approved by the Finance Committee from time to time. In addition, the credit exposures are guarded by the Investment Guidelines which set out limits and restrictions on the total exposure to a single bank or an issuer of debt securities in order to mitigate concentration risk to a single counterparty. The maximum exposure to credit risk at year end is the carrying amount of the financial assets as shown on the statement of financial position. As at 31 March 2016 and 2015, none of the assets is impaired nor past due but not impaired.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial asset will fluctuate due to changes in interest rates.

The exposure to interest rate risk on bank deposits and cash and cash equivalents carrying interest are limited to the impact of the interest rate fluctuations on the interest income. The MPFA adopts a sensitivity test of 10 basis points (2015: 10 basis points) movement to measure such impact. If the interest rates on the bank deposits and cash and cash equivalents had moved up or down by 10 basis points (2015: 10 basis points) on average throughout the year, with all other variables being held constant, income for the year would have increased or decreased by HK$0.7 million (2015: HK$0.7 million).

The investment portfolios are exposed to the interest rate risk in relation to holdings in debt securities. The fund managers may mitigate such risk by reducing the weighting of debt securities in the portfolios and holding either more cash or equities within the permitted deviation margins from the target weighting. The fund managers may further reduce duration risk, i.e. price sensitivity to changes in interest rate, by reducing the debt securities portfolio duration by up to three years below the benchmark duration. The benchmark duration is a composite of durations of chosen bond indices. On the other hand, the fund managers may also increase duration risk by up to two years above the benchmark duration.

As at the reporting date, the average debt securities portfolio duration versus that of the benchmark is set out below:

| | 2016<br>Years | 2015<br>Years |
|---|---|---|
| Benchmark duration | 5.27 | 5.09 |
| Portfolio duration | 5.30 | 4.83 |

The MPFA measures the interest rate risks through Price Value of Basis Point ("PVBP"). PVBP is a sensitivity test to measure the fluctuation of potential gain or loss on interest rate positions upon a basis point movement.

The MPFA adopts a sensitivity test of 10 basis points (2015: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2015: 10 basis points) and all other variables were held constant, the impact on the MPFA's income would have been as follows.

| | Increase/(decrease) in the MPFA's income | |
|---|---|---|
| | 2016<br>HK$ | 2015<br>HK$ |
| If interest rate were 10 basis points lower | 14,435,025 | 14,386,017 |
| If interest rate were 10 basis points higher | (14,435,025) | (14,386,017) |

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.5 Price risk

Price risk is the risk that the price of a security or a portfolio of securities will fluctuate due to market changes. Price risk consists of both systematic risk, which is also known as market return risk, and non-systematic risk, which can be largely eliminated by diversification in accordance with the Investment Guidelines.

The investment portfolios are investments designated at fair value and are measured at fair value as at each reporting date. The MPFA manages this price risk exposure by maintaining a portfolio of investments with different risk profiles. There is a portfolio diversification benefit by virtue of different degrees of lesser than perfect correlation between different invested asset classes. Control on the concentration of investments has been set out in the Investment Guidelines in order to ensure that the investment portfolios are well diversified. The inclusion of cash in the benchmark portfolio further helps control price risk. The investment performance is reported to the Finance Committee and the Management Board on a regular basis.

As at 31 March 2016, if the Equity Market[Note] had increased or decreased by 10% (2015: 10%), with all other variables being held constant and all the equity instruments moved according to the historical relationship with the Equity Market, income for the year would have increased or decreased by HK$91.7 million (2015: HK$121.7 million).

*Note: Equity Market consists of markets in which the MPFA is authorised to invest in accordance with the Investment Guidelines.*

### 6.6 Currency risk

Currency risk is the risk of loss on an asset or liability denominated in foreign currency due to changes in the foreign exchange rates. Apart from investment portfolios, most of the MPFA's assets and liabilities are in HK dollar or US dollar and minimal currency risk is expected due to the linked exchange rate system in Hong Kong.

The MPFA's Investment Guidelines for the investment portfolios only allow investments in assets denominated in freely convertible currencies. The investment portfolios must maintain a currency exposure of over 85% in HK dollar and US dollar with the remaining in foreign currency securities but not through currency trading. To meet this requirement, fund managers are permitted to hedge related currency risks by acquiring forward currency contracts. However, the over-hedging position for each foreign currency must not exceed 10% of the value of the investments denominated in the same currency and the total over-hedging position must not exceed 1% of the investment portfolio. The unhedged currency positions of the investment portfolio are measured and reported to the management and the Finance Committee on a regular basis.

Owing to the linked exchange rate system in Hong Kong, MPFA's currency risk primarily stems from the exposure to foreign currencies other than the US dollar. Other currencies shown in the tables below include Euro, pound sterling, Australian dollar, Japanese yen, Singapore dollar etc. The net financial assets of each type of foreign currencies in terms of HK dollar equivalent is not material. Also, as most of the foreign exchange exposures are well hedged by acquiring forward currency contracts, the exposure is considered not significant and sensitivity analysis is hence not provided.

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.6 Currency risk (continued)

As at the reporting date, the currency exposure of the MPFA is given below:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | HK dollar | | US dollar | | Others | | Total |
| | HK$ equivalent | % | HK$ equivalent | % | HK$ equivalent | % | HK$ equivalent |
| **Financial assets** | | | | | | | |
| Investments designated at fair value | 1,006,028,864 | 28% | 2,337,639,688 | 66% | 197,933,045 | 6% | 3,541,601,597 |
| Derivative financial instruments | – | 0% | 222,354,056 | 79% | 59,903,603 | 21% | 282,257,659 |
| Interest receivable on investments designated at fair value | 5,810,949 | 36% | 10,438,011 | 64% | – | 0% | 16,248,960 |
| Unsettled investments receivable | 11,653,968 | 47% | 4,903,296 | 20% | 8,414,398 | 33% | 24,971,662 |
| Debtors and deposits | 23,111,534 | 100% | – | 0% | – | 0% | 23,111,534 |
| Bank deposits | 232,100,000 | 100% | – | 0% | – | 0% | 232,100,000 |
| Cash and cash equivalents | 42,345,598 | 8% | 473,194,761 | 92% | 94,095 | 0% | 515,634,454 |
| | 1,321,050,913 | 28% | 3,048,529,812 | 66% | 266,345,141 | 6% | 4,635,925,866 |
| **Financial liabilities** | | | | | | | |
| Derivative financial instruments | – | 0% | 59,386,525 | 21% | 228,511,262 | 79% | 287,897,787 |
| Unsettled investments payable | 486,177 | 0% | 412,530,732 | 99% | 3,667,438 | 1% | 416,684,347 |
| Creditors and accrued charges | 49,873,294 | 97% | 1,418,391 | 3% | 67,505 | 0% | 51,359,190 |
| | 50,359,471 | 7% | 473,335,648 | 63% | 232,246,205 | 30% | 755,941,324 |
| | 1,270,691,442 | 33% | 2,575,194,164 | 66% | 34,098,936 | 1% | 3,879,984,542 |

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.6 Currency risk (continued)

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | HK dollar HK$ equivalent | % | US dollar HK$ equivalent | % | Others HK$ equivalent | % | Total HK$ equivalent |
| **Financial assets** | | | | | | | |
| Investments designated at fair value | 1,155,249,113 | 29% | 2,559,853,856 | 64% | 308,536,173 | 7% | 4,023,639,142 |
| Derivative financial instruments | — | 0% | 274,954,294 | 95% | 14,482,199 | 5% | 289,436,493 |
| Interest receivable on investments designated at fair value | 6,480,019 | 37% | 11,127,016 | 63% | — | 0% | 17,607,035 |
| Unsettled investments receivable | 843,258 | 6% | 10,661,685 | 71% | 3,437,068 | 23% | 14,942,011 |
| Debtors and deposits | 28,216,526 | 100% | — | 0% | 33,723 | 0% | 28,250,249 |
| Bank deposits | 192,700,000 | 95% | — | 0% | 10,823,137 | 5% | 203,523,137 |
| Cash and cash equivalents | 24,108,204 | 5% | 453,349,077 | 94% | 5,746,676 | 1% | 483,203,957 |
| | 1,407,597,120 | 28% | 3,309,945,928 | 65% | 343,058,976 | 7% | 5,060,602,024 |
| **Financial liabilities** | | | | | | | |
| Derivative financial instruments | — | 0% | 14,597,453 | 5% | 266,833,238 | 95% | 281,430,691 |
| Unsettled investments payable | — | 0% | 329,345,562 | 99% | 2,538,176 | 1% | 331,883,738 |
| Creditors and accrued charges | 18,019,569 | 99% | 64,721 | 0% | 109,419 | 1% | 18,193,709 |
| | 18,019,569 | 3% | 344,007,736 | 54% | 269,480,833 | 43% | 631,508,138 |
| | 1,389,577,551 | 31% | 2,965,938,192 | 67% | 73,578,143 | 2% | 4,429,093,886 |

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.7 Liquidity risk

Liquidity risk is the potential that the MPFA will encounter difficulty in raising funds to meet its cash commitments. Liquidity risk may result from the need to sell financial assets quickly at their fair values; counterparties' failure to settle a contractual obligation; or inability to generate cash flows as anticipated.

The MPFA does not have any borrowing and therefore has no repayment liability owing to debt. The MPFA maintains sufficient short-term liquidity to fund its operations and runs a bank deposit portfolio to achieve reasonable return on cash. Monthly cash flow forecast is performed to estimate the cash required for operations, including payment for goods/services, office accommodation expenses and payroll.

As at the reporting date, the MPFA held cash and cash equivalents and deposits including interest receivable on bank deposits of HK$748,082,386 (2015: HK$686,727,094) that are of short maturity and will be due orderly. Therefore, liquidity risk is considered to be minimal.

The following table summarises the contractual maturity in relation to non-derivative financial liabilities and derivative instruments. For non-derivative financial liabilities, the figures are undiscounted cash flows of financial liabilities based on the earliest date on which the MPFA is required to pay. The cash flows include both principal and interest. For derivative instruments requiring gross settlement, the figures represent undiscounted gross inflows or outflows on these derivatives.

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | ≤1 month HK$ | 1–3 months HK$ | >3 months HK$ | ≤1 month HK$ | 1–3 months HK$ | >3 months HK$ |
| **Non-derivative financial liabilities** | | | | | | |
| Unsettled investments payable[1] | 416,684,347 | – | – | 331,883,738 | – | – |
| Creditors and accrued charges | 17,970,612 | 20,319,322 | 13,069,256 | 9,849,822 | 5,978,666 | 2,365,221 |
| Total | 434,654,959 | 20,319,322 | 13,069,256 | 341,733,560 | 5,978,666 | 2,365,221 |
| **Derivative financial liabilities** | | | | | | |
| Foreign currency forward contracts | | | | | | |
| — Inflows | 282,257,659 | – | – | 228,206,585 | 61,229,908 | – |
| — Outflows | (287,897,787) | – | – | (222,351,835) | (59,078,856) | – |
| Total | (5,640,128) | – | – | 5,854,750 | 2,151,052 | – |

1 *The fund managers are not allowed to borrow money for the managed portfolios or hold a negative cash position on a trade date basis.*

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.8 Fair values

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of listed investments and unlisted investments with standard terms and conditions are determined by reference to bid prices quoted in active markets and over-the-counter market quotations respectively.

The fair values of derivative financial instruments are determined based on the quoted market prices for equivalent instruments as at the reporting date.

The fair values of other financial assets and financial liabilities stated at amortised costs approximate the corresponding carrying amounts.

### 6.9 Fair value measurements recognised in the statement of financial position

The fair value measurements of financial assets and liabilities are categorised using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

(a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

(b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 6. FINANCIAL INSTRUMENTS (continued)

### 6.9 Fair value measurements recognised in the statement of financial position (continued)

As at the reporting date, the fair values of the financial assets and liabilities are set out below:

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$ | Level 2<br>HK$ | Level 3<br>HK$ | Total<br>HK$ |
| **Financial assets** | | | | |
| Equity securities | 836,716,295 | – | – | 836,716,295 |
| Debt securities | 2,103,733,528 | 601,151,774 | – | 2,704,885,302 |
| Derivative financial instruments | 1,012,396 | – | – | 1,012,396 |
| | 2,941,462,219 | 601,151,774 | – | 3,542,613,993 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | 6,652,524 | – | – | 6,652,524 |

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$ | Level 2<br>HK$ | Level 3<br>HK$ | Total<br>HK$ |
| **Financial assets** | | | | |
| Equity securities | 1,060,480,118 | – | – | 1,060,480,118 |
| Debt securities | 2,380,058,833 | 583,100,191 | – | 2,963,159,024 |
| Derivative financial instruments | 8,355,833 | – | – | 8,355,833 |
| | 3,448,894,784 | 583,100,191 | – | 4,031,994,975 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | 350,031 | – | – | 350,031 |

"Loans and receivables" and "Other financial liabilities" as disclosed in Note 6.1 are carried at amortised cost, their carrying values are a reasonable approximation of fair value.

During the years ended 31 March 2016 and 2015, no financial assets or financial liabilities were classified under Level 3. During the year ended 31 March 2016, there were a few debt securities being transferred from level 1 to level 2 amounting to HK$51,013,468 as the trading activities of these debt securities were relatively thinner on 31 March 2016 than on 31 March 2015. During the year ended 31 March 2015, there was no transfer among levels.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 7. FEES AND CHARGES

Fees and charges consist of application fees, annual fees and financial penalties and other charges arising from Occupational Retirement Schemes ("ORSO Schemes") and Mandatory Provident Fund Schemes ("MPF Schemes").

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Application fees | 323,250 | 277,200 |
| Annual fees | 5,605,800 | 5,794,900 |
| Financial penalties and other charges | 28,782,526 | 442,991 |
| | 34,711,576 | 6,515,091 |

## 8. NET INVESTMENT (LOSS)/INCOME

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Interest income on investments designated at fair value | 59,693,409 | 62,838,425 |
| Dividends from investments designated at fair value | 20,702,270 | 28,412,417 |
| Net realised gain on investments designated at fair value[1] | 6,993,467 | 143,824,068 |
| Net change in unrealised (loss)/gain on investments designated at fair value[2] | (105,088,575) | 34,381,775 |
| Net realised gain on derivative financial instruments | 5,799,494 | 36,324,056 |
| Net change in unrealised (loss)/gain on derivative financial instruments | (13,645,930) | 7,437,386 |
| | (25,545,865) | 313,218,127 |

1 *The amount included net realised foreign exchange loss of HK$20,466,561 (2015: HK$13,950,799) from foreign currency securities.*

2 *The amount included net change in unrealised foreign exchange gain of HK$28,120,956 (2015: net change in unrealised foreign exchange loss of HK$35,405,497) from foreign currency securities.*

## 9. 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.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 10. STAFF COSTS

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| Salary and performance related remuneration | 295,646,174 | 295,224,185 |
| Contributions to MPF Schemes | 23,686,933 | 22,828,547 |
| Staff benefits | 7,504,723 | 7,123,683 |
| | 326,837,830 | 325,176,415 |

The MPFA operates three Mandatory Provident Fund Schemes ("the Schemes") for all qualified employees. The assets of the Schemes are held separately from those of the MPFA and are under the control of trustees.

The total expenses recognised in the income and expenditure account represent contributions paid or payable to the Schemes at rates specified in the participation rules. As at 31 March 2016, contributions of HK$355,195 were due but not yet paid over to the Schemes (2015: HK$327,703).

## 11. DIRECTORS' EMOLUMENTS

The emoluments of all directors for the years ended 31 March 2016 and 2015 are set out below:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Fees HK$ | Salaries and other benefits HK$ | Contributions to MPF schemes HK$ | Variable pay HK$ | Total emoluments HK$ |
| **Executive Directors** | | | | | |
| Diana Chan Tong Chee-ching | – | 4,508,898 | 526,549 | 789,730 | 5,825,177 |
| Cheng Yan-chee | – | 3,464,423 | 400,986 | 567,059 | 4,432,468 |
| Alice Law Shing-mui | – | 3,714,264 | 429,065 | 606,760 | 4,750,089 |
| Darren Mark McShane | – | 4,210,090 | 489,591 | 734,310 | 5,433,991 |
| Cynthia Hui Wai-yee | – | 2,781,614 | 317,557 | 421,250 | 3,520,421 |
| **Non-Executive Directors** | | | | | |
| David Wong Yau-kar | – | – | – | – | – |
| K C Chan | – | – | – | – | – |
| Matthew Cheung Kin-chung | – | – | – | – | – |
| Ip Kwok-him | – | – | – | – | – |
| Paddy Lui Wai-yu | – | – | – | – | – |
| John Poon Cho-ming | – | – | – | – | – |
| Poon Siu-ping | – | – | – | – | – |
| Abraham Shek Lai-him | – | – | – | – | – |
| Annie Tam Kam-lan[1] | – | – | – | – | – |
| Philip Tsai Wing-chung | – | – | – | – | – |
| Andrew Wong Ho-yuen[2] | – | – | – | – | – |
| Kingsley Wong Kwok | – | – | – | – | – |
| Horace Wong Yuk-lun | – | – | – | – | – |
| | – | 18,679,289 | 2,163,748 | 3,119,109 | 23,962,146 |

1 *Alternate to Matthew Cheung Kin-chung.*

2 *Alternate to K C Chan.*

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 11. DIRECTORS' EMOLUMENTS (continued)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Fees HK$ | Salaries and other benefits HK$ | Contributions to MPF schemes HK$ | Variable pay HK$ | Total emoluments HK$ |
| **Executive Directors** | | | | | |
| Diana Chan Tong Chee-ching | — | 4,350,415 | 507,744 | 761,515 | 5,619,674 |
| Cheng Yan-chee | — | 3,392,289 | 392,355 | 554,850 | 4,339,494 |
| Alice Law Shing-mui | — | 3,471,622 | 400,986 | 567,059 | 4,439,667 |
| Darren Mark McShane | — | 4,110,739 | 478,116 | 717,120 | 5,305,975 |
| Cynthia Hui Wai-yee | — | 2,694,911 | 307,699 | 408,187 | 3,410,797 |
| **Non-Executive Directors** | | | | | |
| Anna Wu Hung-yuk[1] | — | — | — | — | — |
| David Wong Yau-kar[2] | — | — | — | — | — |
| Au King-chi[3] | — | — | — | — | — |
| K C Chan | — | — | — | — | — |
| Matthew Cheung Kin-chung | — | — | — | — | — |
| Ip Kwok-him | — | — | — | — | — |
| Andrew Leung Kwan-yuen[1] | — | — | — | — | — |
| Paddy Lui Wai-yu | — | — | — | — | — |
| John Poon Cho-ming | — | — | — | — | — |
| Poon Siu-ping | — | — | — | — | — |
| Abraham Shek Lai-him[2] | — | — | — | — | — |
| Annie Tam Kam-lan[4] | — | — | — | — | — |
| Philip Tsai Wing-chung | — | — | — | — | — |
| Andrew Wong Ho-yuen[5] | — | — | — | — | — |
| Kingsley Wong Kwok[2] | — | — | — | — | — |
| Wong Kwok-kin[1] | — | — | — | — | — |
| Horace Wong Yuk-lun | — | — | — | — | — |
| | — | 18,019,976 | 2,086,900 | 3,008,731 | 23,115,607 |

1 *Retired as from 17 March 2015.*
2 *Appointment effective from 17 March 2015.*
3 *Alternate to K C Chan; retired as from 30 December 2014.*
4 *Alternate to Matthew Cheung Kin-chung.*
5 *Alternate to K C Chan; appointment effective from 30 December 2014.*

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments at the MPFA, in which four (2015: all) were Executive Directors, whose emoluments are included in note 11 above. The emoluments of the five highest paid individuals were within the following bands:

| | 2016 No. of employees | 2015 No. of employees |
|---|---|---|
| HK$3,000,001 to HK$3,500,000 | — | 1 |
| HK$3,500,001 to HK$4,000,000 | 1 | — |
| HK$4,000,001 to HK$4,500,000 | 1 | 2 |
| HK$4,500,001 to HK$5,000,000 | 1 | — |
| HK$5,000,001 to HK$5,500,000 | 1 | 1 |
| HK$5,500,001 to HK$6,000,000 | 1 | 1 |
| | 5 | 5 |

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 13. PROPERTY AND EQUIPMENT

| | Leasehold improvements HK$ | Computer equipment HK$ | Office equipment and furniture HK$ | Motor vehicle HK$ | Total HK$ |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 April 2014 | 33,944,042 | 32,466,217 | 23,125,771 | 529,900 | 90,065,930 |
| Additions | — | 3,632,137 | 110,882 | — | 3,743,019 |
| Disposals | (21,050) | (1,499,180) | (335,854) | — | (1,856,084) |
| At 31 March 2015 | 33,922,992 | 34,599,174 | 22,900,799 | 529,900 | 91,952,865 |
| Additions | 35,484,530 | 2,489,038 | 7,480,087 | — | 45,453,655 |
| Disposals | (11,076,676) | (3,458,320) | (1,730,065) | — | (16,265,061) |
| At 31 March 2016 | 58,330,846 | 33,629,892 | 28,650,821 | 529,900 | 121,141,459 |
| **DEPRECIATION** | | | | | |
| At 1 April 2014 | 30,344,101 | 26,337,805 | 20,182,934 | 231,831 | 77,096,671 |
| Charge for the year | 1,664,224 | 3,080,056 | 1,425,356 | 132,475 | 6,302,111 |
| Eliminated on disposals | (21,050) | (1,499,180) | (335,854) | — | (1,856,084) |
| At 31 March 2015 | 31,987,275 | 27,918,681 | 21,272,436 | 364,306 | 81,542,698 |
| Charge for the year | 3,236,747 | 2,963,142 | 1,020,296 | 132,475 | 7,352,660 |
| Eliminated on disposals | (11,076,676) | (3,458,320) | (1,603,309) | — | (16,138,305) |
| At 31 March 2016 | 24,147,346 | 27,423,503 | 20,689,423 | 496,781 | 72,757,053 |
| **CARRYING AMOUNT** | | | | | |
| At 31 March 2016 | **34,183,500** | **6,206,389** | **7,961,398** | **33,119** | **48,384,406** |
| At 31 March 2015 | 1,935,717 | 6,680,493 | 1,628,363 | 165,594 | 10,410,167 |

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 14. INTANGIBLE ASSETS

| | Computer software licenses HK$ | Software development costs HK$ | Total HK$ |
|---|---|---|---|
| COST | | | |
| At 1 April 2014 | 20,150,576 | 63,473,891 | 83,624,467 |
| Additions | 606,786 | 5,129,850 | 5,736,636 |
| Disposals | — | — | — |
| At 31 March 2015 | 20,757,362 | 68,603,741 | 89,361,103 |
| Additions | 1,166,664 | 5,703,198 | 6,869,862 |
| Disposals | (2,833,581) | (28,480,763) | (31,314,344) |
| At 31 March 2016 | 19,090,445 | 45,826,176 | 64,916,621 |
| AMORTISATION | | | |
| At 1 April 2014 | 16,837,261 | 50,346,419 | 67,183,680 |
| Charge for the year | 1,597,293 | 5,330,259 | 6,927,552 |
| Eliminated on disposals | — | — | — |
| At 31 March 2015 | 18,434,554 | 55,676,678 | 74,111,232 |
| Charge for the year | 1,259,177 | 5,959,179 | 7,218,356 |
| Eliminated on disposals | (2,833,581) | (28,480,763) | (31,314,344) |
| At 31 March 2016 | 16,860,150 | 33,155,094 | 50,015,244 |
| CARRYING AMOUNT | | | |
| At 31 March 2016 | 2,230,295 | 12,671,082 | 14,901,377 |
| At 31 March 2015 | 2,322,808 | 12,927,063 | 15,249,871 |

## 15. PROJECTS IN PROGRESS

Projects in progress consisted of expenditure of capital projects not yet completed at 31 March 2016 amounting to HK$7,462,642 (2015: HK$4,147,866).

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016

## 16. INVESTMENTS DESIGNATED AT FAIR VALUE

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| **Equity securities** | | |
| Listed | 836,716,295 | 1,060,480,118 |
| **Debt securities** | | |
| Listed | 1,743,134,248 | 1,897,446,527 |
| Unlisted | 961,751,054 | 1,065,712,497 |
| | 2,704,885,302 | 2,963,159,024 |
| **Total** | | |
| Listed | 2,579,850,543 | 2,957,926,645 |
| Unlisted | 961,751,054 | 1,065,712,497 |
| | 3,541,601,597 | 4,023,639,142 |

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Assets<br>HK$ | Liabilities<br>HK$ | Assets<br>HK$ | Liabilities<br>HK$ |
| Foreign currency forward contracts | 1,012,396 | 6,652,524 | 8,355,833 | 350,031 |

The above derivatives are not under hedge accounting and are measured at fair value at each reporting date.

The notional principal amount of the outstanding foreign currency forward contracts as at 31 March 2016 was HK$287,897,787 (2015: HK$281,430,691). The contractual maturity of these foreign exchange forward contracts was within 12 months.

## 18. 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.

## 19. LOANS TO DIRECTORS AND EXECUTIVES

There were no loans to directors or executives during the years ended 31 March 2016 and 2015 and no loans were outstanding at 31 March 2016 and 2015.

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Notes to the Financial Statements (continued)

For the year ended 31 March 2016



## 20. CAPITAL COMMITMENTS

At the reporting date, the MPFA had commitments for capital expenditure in respect of the acquisition of property and equipment and intangible assets as follows:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Contracted but not provided for | 9,302,629 | 1,228,941 |
| Authorised but not contracted for | 219,353 | 209,180 |
| | 9,521,982 | 1,438,121 |

## 21. OPERATING LEASE COMMITMENTS

Operating lease payments represent rental payable by the MPFA for its office premises and storage space.

At the reporting date, the MPFA had commitments for future minimum lease payments under non-cancellable operating leases as follows:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Within one year | 50,858,616 | 66,852,313 |
| In the second to fifth year inclusive | 98,906,147 | 16,579,555 |
| | 149,764,763 | 83,431,868 |

## 22. 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. The MPFA was appointed as the administrator of the compensation fund until 31 March 2019. 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. The MPFA has not charged any administration fee to this compensation fund during the years ended 31 March 2016 and 2015.