

Financial Statements

Mandatory Provident Fund Schemes Authority

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We have audited the financial statements on pages 59 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF THE MPFA AND THE AUDITORS

MPFA
AUDITOR'S
REPORT TO THE
MANDATORY
PROVIDENT
FUND SCHEMES
AUTHORITY
(“THE MPFA”)
Established in Hong Kong
under the Mandatory
Provident Fund
Schemes Ordinance

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 to you.

BASIS OF OPINION

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of the MPFA's affairs as at 31 March 2003 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
12 June 2003

MPFA
INCOME AND
EXPENDITURE
ACCOUNT
for the year ended
31 March 2003

	Notes	2003 HK\$	2002 HK\$
INCOME			
Fee income		10,746,150	11,672,150
Interest income on bank deposits		61,902,795	111,540,910
Net investment income	4	132,260,292	103,008,589
		204,909,237	226,221,649
Other income		47,790	26,240
		204,957,027	226,247,889
EXPENDITURE			
Staff costs		142,158,900	157,357,791
Depreciation		22,732,309	22,395,341
Premises expenses		25,800,706	25,640,748
Public education and publicity expenses		4,704,498	12,103,404
Other operating expenses		21,499,234	26,875,471
		216,895,647	244,372,755
		(11,938,620)	(18,124,866)
DEFICIT FOR THE YEAR	6	(11,938,620)	(18,124,866)

MPFA
BALANCE SHEET
at 31 March 2003

	Notes	2003 HK\$	2002 HK\$
ASSETS			
Property and equipment	7	32,154,965	50,505,038
Projects in progress	8	–	89,250
Investments in securities	9	2,619,750,277	2,442,035,977
Debtors, deposits and prepayments		18,669,618	9,408,968
Interest receivable		43,858,787	43,686,263
Bank deposits		2,520,900,000	2,706,600,000
Bank balances and cash		8,530,003	30,576,000
		5,243,863,650	5,282,901,496
LIABILITIES			
Creditors and accrued charges		23,464,157	49,871,833
Fees received in advance		4,785,650	5,477,200
		28,249,807	55,349,033
NET ASSETS			
		5,215,613,843	5,227,552,463
CAPITAL GRANT			
	10	5,000,000,000	5,000,000,000
INCOME AND EXPENDITURE ACCOUNT			
		215,613,843	227,552,463
CAPITAL AND RESERVE			
		5,215,613,843	5,227,552,463

The financial statements on pages 59 to 67 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 12 June 2003 and are signed on its behalf by:

Rafael Hui
Managing Director

MPFA
STATEMENT OF
CHANGES IN CAPITAL
AND RESERVE
for the year ended
31 March 2003

	Capital Grant HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2001	5,000,000,000	245,677,329	5,245,677,329
Deficit for the year	–	(18,124,866)	(18,124,866)
At 31 March 2002 and at 1 April 2002	5,000,000,000	227,552,463	5,227,552,463
Deficit for the year	–	(11,938,620)	(11,938,620)
At 31 March 2003	5,000,000,000	215,613,843	5,215,613,843

MPFA
CASH FLOW
STATEMENT
for the year ended
31 March 2003

	2003 HK\$	2002 HK\$ (Restated)
OPERATING ACTIVITIES		
Deficit for the year	(11,938,620)	(18,124,866)
Adjustments for :		
Amortisation of premium on held-to-maturity securities	3,588,910	3,149,067
Depreciation	22,732,309	22,395,341
Loss on disposals of property and equipment	56,066	28,787
Interest income on bank deposits	(61,902,795)	(111,540,910)
Interest income on investments in securities	(109,913,256)	(117,875,817)
Dividends from investments in securities	(5,440,000)	(5,780,000)
Net realised gain on disposals of investments in securities	(13,237,298)	(15,573,056)
Net unrealised (gain) loss on investments in securities	(7,258,648)	33,071,217
Operating cashflows before movements in working capital	(183,313,332)	(210,250,237)
(Increase) decrease in debtors, deposits and prepayments	(9,260,650)	17,108,655
(Decrease) increase in creditors and accrued charges	(25,573,339)	16,146,446
(Decrease) increase in fees received in advance	(691,550)	103,150
NET CASH USED IN OPERATING ACTIVITIES	(218,838,871)	(176,891,986)
INVESTING ACTIVITIES		
Dividends received	5,440,000	5,780,000
Interest received	171,643,527	213,422,778
Proceeds from disposals of property and equipment	4,800	115,786
Proceeds from disposals of investments in securities	1,959,299,722	1,952,918,227
Payment of property and equipment	(5,188,190)	(13,169,738)
Payment of investments in securities	(2,120,106,985)	(3,223,488,022)
Decrease in bank deposits	185,700,000	1,263,400,000
Decrease (increase) in bank balances and cash held for investment purposes	20,418,748	(24,476,998)
NET CASH FROM INVESTING ACTIVITIES	217,211,622	174,502,033
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,627,249)	(2,389,953)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	3,163,209	5,553,162
CASH AND CASH EQUIVALENTS CARRIED FORWARD	1,535,960	3,163,209
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as previously stated	-	1,253,576,000
Effect of reclassification of bank deposits and cash balances held for investment purposes	-	(1,250,412,791)
Cash and cash equivalents as restated	-	3,163,209
Being:		
Bank balances and cash	8,530,003	30,576,000
Less :		
Bank balances and cash held for investment purposes	(6,994,043)	(27,412,791)
	1,535,960	3,163,209

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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the MPFA has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in capital and reserve, and in the adoption of the following new and revised accounting policies, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash Flow Statements

In the current year, the MPFA has adopted SSAP 15 (Revised) Cash Flow Statements. Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as investing cash flows. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee Benefits

In the current year, the MPFA has adopted SSAP 34 Employee Benefits, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the MPFA participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. 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 recognised on a time basis, by reference to the principal outstanding and at the coupon rate applicable.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 recognised in the income and expenditure account.

Impairment

At each balance sheet date, the MPFA reviews the carrying amounts of its tangible 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 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 prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised 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 amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation 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 recognised in each period represents a consistent yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

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 unrealised gains and losses included in the income and expenditure account.

MPFA
NOTES TO THE
FINANCIAL
STATEMENTS
for the year ended
31 March 2003

4. NET INVESTMENT INCOME

	2003	2002
	HK\$	HK\$
Interest income on investments in securities	109,913,256	117,875,817
Amortisation of premium on held-to-maturity securities	(3,588,910)	(3,149,067)
	106,324,346	114,726,750
Dividends from investments in securities	5,440,000	5,780,000
Net realised gain on disposals of investments in securities	13,237,298	15,573,056
Net unrealised gain (loss) on investments in securities	7,258,648	(33,071,217)
	132,260,292	103,008,589

5. 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.

6. DEFICIT FOR THE YEAR

Deficit for the year has been arrived at after charging:

	2003	2002
	HK\$	HK\$
Staff costs		
Directors' emoluments:		
- fee	-	-
- other emoluments	20,545,406	19,871,912
Salaries, variable pay and other benefits	115,177,393	129,711,881
Contributions to the Mandatory Provident Fund schemes	6,436,101	7,773,998
	142,158,900	157,357,791
Auditors' remuneration	83,000	83,000
Loss on disposals of property and equipment	56,066	28,787
Operating lease charges - property rentals	18,503,058	17,781,017

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

	2003	2002
	Number of directors	Number of directors
HK\$3,000,001 to HK\$3,500,000	2	3
HK\$3,500,001 to HK\$4,000,000	2	1
HK\$4,000,001 to HK\$4,500,000	-	-
HK\$4,500,001 to HK\$5,000,000	-	-
HK\$5,000,001 to HK\$5,500,000	1	1
	5	5

7. PROPERTY AND EQUIPMENT

MPFA
NOTES TO THE
FINANCIAL
STATEMENTS
for the year ended
31 March 2003

	Leasehold improvements HK\$	Computer equipment and software HK\$	Office equipment and furniture HK\$	Motor vehicles HK\$	Total HK\$
COST					
At 1 April 2002	24,985,343	55,680,164	8,369,462	1,080,802	90,115,771
Additions	79,577	4,211,798	151,727	–	4,443,102
Disposals	(2,812,351)	(578,835)	(52,630)	–	(3,443,816)
At 31 March 2003	22,252,569	59,313,127	8,468,559	1,080,802	91,115,057
ACCUMULATED DEPRECIATION					
At 1 April 2002	14,958,336	20,305,623	3,783,197	563,577	39,610,733
Charge for the year	6,186,219	14,197,603	2,078,286	270,201	22,732,309
Eliminated on disposals	(2,812,351)	(551,330)	(19,269)	–	(3,382,950)
At 31 March 2003	18,332,204	33,951,896	5,842,214	833,778	58,960,092
NET BOOK VALUES					
At 31 March 2003	3,920,365	25,361,231	2,626,345	247,024	32,154,965
At 31 March 2002	10,027,007	35,374,541	4,586,265	517,225	50,505,038

8. PROJECTS IN PROGRESS

Projects in progress consist of capital project expenditure not completed at 31 March 2003 of HK\$ Nil (2002 : HK\$89,250) .

9. INVESTMENTS IN SECURITIES

	Held to maturity securities		Other investments		Total	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Equity securities:						
Listed	–	–	157,087,500	190,400,000	157,087,500	190,400,000
Debt securities:						
Listed	78,389,646	79,317,781	1,316,862,655	1,072,435,764	1,395,252,301	1,151,753,545
Unlisted	415,642,328	418,303,103	651,768,148	681,579,329	1,067,410,476	1,099,882,432
	494,031,974	497,620,884	1,968,630,803	1,754,015,093	2,462,662,777	2,251,635,977
Total:						
Listed	78,389,646	79,317,781	1,473,950,155	1,262,835,764	1,552,339,801	1,342,153,545
Unlisted	415,642,328	418,303,103	651,768,148	681,579,329	1,067,410,476	1,099,882,432
	494,031,974	497,620,884	2,125,718,303	1,944,415,093	2,619,750,277	2,442,035,977
Market value of listed securities	82,227,975	80,554,700	1,473,950,155	1,262,835,764	1,556,178,130	1,343,390,464

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. CAPITAL COMMITMENTS

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

	2003	2002
	HK\$	HK\$
Contracted for but not provided for in the financial statements	177,311	2,261,614
Authorised but not contracted for	–	2,236,178
	177,311	4,497,792

13. 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 as follows:

	2003	2002
	HK\$	HK\$
Within one year	20,455,497	18,741,947
In the second to fifth year inclusive	–	20,455,497
	20,455,497	39,197,444

14. 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 2004. 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.

We have audited the financial statements on pages 69 to 74 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 to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the 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 2003 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
12 June 2003

**MPF SCHEMES
COMPENSATION
FUND**
**AUDITOR’S
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*

**MPF SCHEMES
COMPENSATION
FUND**

**INCOME AND
EXPENDITURE
ACCOUNT**

*for the year ended
31 March 2003*

	Notes	2003 HK\$	2002 HK\$
INCOME			
Levy fee		18,295,244	13,121,850
Interest income on bank deposits		10,752,091	20,812,990
Net investment income	4	8,691,738	7,860,771
		37,739,073	41,795,611
EXPENDITURE			
Auditors' remuneration		40,000	40,000
Other operating expenses		75,723	46,238
		115,723	86,238
SURPLUS FOR THE YEAR		37,623,350	41,709,373

**MPF SCHEMES
COMPENSATION
FUND**
BALANCE SHEET
at 31 March 2003

	Notes	2003 HK\$	2002 HK\$
ASSETS			
Investments in securities	6	189,245,950	177,529,310
Levy fee receivable		17,559,583	12,263,902
Interest receivable		4,022,436	8,554,588
Bank deposits		549,630,000	524,480,000
Bank balances and cash		119,789	124,023
		760,577,758	722,951,823
LIABILITIES			
Creditors and accrued charges		52,987	50,402
		760,524,771	722,901,421
NET ASSETS			
		760,524,771	722,901,421
COMPENSATION FUND SEED MONEY			
	7	600,000,000	600,000,000
INCOME AND EXPENDITURE ACCOUNT			
		160,524,771	122,901,421
CAPITAL AND RESERVE			
		760,524,771	722,901,421

The financial statements on pages 69 to 74 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 12 June 2003 and signed on its behalf by:

Rafael Hui
Managing Director

**MPF SCHEMES
COMPENSATION
FUND**

**STATEMENT OF
CHANGES IN CAPITAL
AND RESERVE**

*for the year ended
31 March 2003*

	Compensation Fund Seed Money HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2001	600,000,000	81,192,048	681,192,048
Surplus for the year	–	41,709,373	41,709,373
At 31 March 2002 and at 1 April 2002	600,000,000	122,901,421	722,901,421
Surplus for the year	–	37,623,350	37,623,350
At 31 March 2003	600,000,000	160,524,771	760,524,771

**MPF SCHEMES
COMPENSATION
FUND**

**CASH FLOW
STATEMENT**

for the year ended
31 March 2003

	2003 HK\$	2002 HK\$ (Restated)
OPERATING ACTIVITIES		
Surplus for the year	37,623,350	41,709,373
Adjustments for :		
Interest income on bank deposits	(10,752,091)	(20,812,990)
Interest income on investments in securities	(5,951,015)	(5,690,719)
Dividends from investments in securities	(83,300)	–
Net realised gain on disposals of investments in securities	(2,624,248)	(1,653,500)
Net unrealised gain on investments in securities	(33,175)	(516,552)
Operating cashflows before movements in working capital	18,179,521	13,035,612
Increase in levy fee receivable	(5,295,681)	(8,573,246)
Increase in creditors and accrued charges	2,585	6,652
NET CASH FROM OPERATING ACTIVITIES	12,886,425	4,469,018
INVESTING ACTIVITIES		
Dividends received	83,300	–
Interest received	21,235,258	29,719,145
Proceeds from disposals of investments in securities	462,323,916	103,056,500
Payment of investments in securities	(471,383,133)	(278,415,758)
(Increase) decrease in bank deposits	(25,150,000)	141,280,000
Increase in bank balances and cash held for investment purposes	(4,017)	(45,983)
NET CASH USED IN INVESTING ACTIVITIES	(12,894,676)	(4,406,096)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,251)	62,922
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	78,040	15,118
CASH AND CASH EQUIVALENTS CARRIED FORWARD	69,789	78,040
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as previously stated	–	9,604,023
Effect of reclassification of bank deposits and cash balances held for investment purposes	–	(9,525,983)
Cash and cash equivalents as restated	–	78,040
Being :		
Bank balances and cash	119,789	124,023
Less :		
Bank balances and cash held for investment purposes	(50,000)	(45,983)
	69,789	78,040

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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Fund has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in capital and reserve, and in the adoption of the following new and revised accounting policy but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash Flow Statements

In the current year, the Fund has adopted SSAP 15 (Revised) Cash Flow Statements. Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as investing cash flows. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

3. 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 recognised on a time basis, by reference to the principal outstanding and at the coupon rate applicable.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in securities

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

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

4. NET INVESTMENT INCOME

	2003	2002
	HK\$	HK\$
Interest income on investments in securities	5,951,015	5,690,719
Dividends from investments in securities	83,300	–
Net realised gain on disposals of investments in securities	2,624,248	1,653,500
Net unrealised gain on investments in securities	33,175	516,552
	8,691,738	7,860,771

5. 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.

6. INVESTMENTS IN SECURITIES

	2003	2002
	HK\$	HK\$
Listed equity securities, at market value	10,292,550	–
Listed debt securities, at market value	178,953,400	101,313,910
Unlisted debt securities	–	76,215,400
	189,245,950	177,529,310

7. COMPENSATION FUND 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.