

Independent 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)

Opinion

What we have audited

The financial statements of the Fund set out on pages 111 to 125, which comprise:

- the statement of financial position as at 31 March 2017;
- the income and expenditure account for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in capital and reserve for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

Other Information

The Administrator is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Administrator and the Audit Committee for the Financial Statements

The Administrator is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Administrator determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Administrator is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administrator either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Fund's financial reporting process.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 184 of the Mandatory Provident Fund Schemes (General) Regulation and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Administrator.
- Conclude on the appropriateness of the Administrator's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 June 2017

Income and Expenditure Account

For the year ended 31 March 2017

	Notes	2017 HK\$	2016 HK\$
INCOME			
Interest income on bank deposits		14,660,859	12,661,251
Net investment income/(loss)	6	13,447,296	(8,964,386)
		28,108,155	3,696,865
EXPENDITURE			
Auditor's remuneration		98,900	95,000
Administrative service expenses	11	1,109,730	-
Investment expenses		91,011	87,528
Other operating expenses		218	152
		1,299,859	182,680
SURPLUS FOR THE YEAR		26,808,296	3,514,185

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

Statement of Comprehensive Income

For the year ended 31 March 2017

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

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

Statement of Financial Position

At 31 March 2017

	Notes	2017 HK\$	2016 HK\$
CURRENT ASSETS			
Investments designated at fair value	8	446,119,110	430,875,107
Interest receivable on investments designated at fair value		34,689	937,200
Interest receivable on bank deposits		4,364,825	3,312,167
Bank deposits		1,428,352,289	1,415,914,034
Cash and cash equivalents		193,462	104,883
		1,879,064,375	1,851,143,391
CURRENT LIABILITIES			
Creditors and accrued charges		1,223,859	111,171
NET ASSETS		1,877,840,516	1,851,032,220
CAPITAL AND RESERVE			
Seed money	10	600,000,000	600,000,000
Income and expenditure account		1,277,840,516	1,251,032,220
		1,877,840,516	1,851,032,220

The financial statements on pages 111 to 125 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 19 June 2017 and signed on its behalf by:

Diana Chan

Managing Director

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

Statement of Changes in Capital and Reserve

For the year ended 31 March 2017

	Seed Money HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2015	600,000,000	1,247,518,035	1,847,518,035
Surplus for the year	–	3,514,185	3,514,185
At 31 March 2016	600,000,000	1,251,032,220	1,851,032,220
Surplus for the year	–	26,808,296	26,808,296
At 31 March 2017	600,000,000	1,277,840,516	1,877,840,516

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

Statement of Cash Flows

For the year ended 31 March 2017

	2017 HK\$	2016 HK\$
OPERATING ACTIVITIES		
Surplus for the year	26,808,296	3,514,185
Adjustments for :		
Interest income on bank deposits	(14,660,859)	(12,661,251)
Interest income on investments designated at fair value	(589,493)	(810,084)
Dividends from investments designated at fair value	(2,245,620)	(2,222,640)
Net (gain) / loss on investments designated at fair value	(10,612,183)	11,997,110
Operating cash flows before movements in working capital	(1,299,859)	(182,680)
Increase in creditors and accrued charges	1,112,687	8,500
NET CASH USED IN OPERATING ACTIVITIES	(187,172)	(174,180)
INVESTING ACTIVITIES		
Dividends received from investments designated at fair value	2,245,620	2,222,640
Interest received on bank deposits	13,608,201	13,346,931
Interest received from investments designated at fair value	1,503,724	499,129
Proceeds on disposals of investments designated at fair value	518,200,000	586,000,000
Purchase of investments designated at fair value	(522,843,539)	(590,173,909)
Increase in bank deposits	(12,438,255)	(11,717,037)
NET CASH FROM INVESTING ACTIVITIES	275,751	177,754
NET INCREASE IN CASH AND CASH EQUIVALENTS	88,579	3,574
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	104,883	101,309
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	193,462	104,883
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances	143,462	54,883
Bank balances held for investment purposes	50,000	50,000
	193,462	104,883

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

Notes to the Financial Statements

For the year ended 31 March 2017

1. PURPOSE AND CLAIM FOR PAYMENT

The Mandatory Provident Fund Schemes Compensation Fund (“the Fund”) was established under section 17 of the Mandatory Provident Fund Schemes Ordinance (“the Ordinance”) which came into effect on 12 March 1999 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.

The application for compensation from the Fund has to be made to a court of law in accordance with the Ordinance. The Administrator shall then make the compensation fund payment pursuant to the decisions of the court. The Mandatory Provident Fund Schemes Authority (“the MPFA”) continues to assume the role of the administrator of the Fund. During the year, the MPFA has recouped the expenses incurred in administering the Fund on a cost recovery basis. The MPFA’s 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 Fund.

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 2016 that would be expected to have a material impact on the Fund.

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 Fund.

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 Fund.

Notes to the Financial Statements

For the year ended 31 March 2017

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”).

3.1 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 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 Fund 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 Fund’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.

Notes to the Financial Statements

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (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 Fund'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, including levy fee receivable, interest receivable on bank deposits and investments designated at fair value, 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.

Notes to the Financial Statements

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (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 losses was recognised, the previously recognised impairment loss is reversed in the income and expenditure account 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 Fund's financial liabilities are generally classified as other financial liabilities, and 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 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 Fund 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.

3.7 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.

3.8 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.

Notes to the Financial Statements

For the year ended 31 March 2017

4. CAPITAL MANAGEMENT

The Fund's objectives when managing capital are:

- (a) to safeguard the Fund's ability to continue as a going concern, so that it continues to carry out its statutory functions; and
- (b) to support the Fund's stability and growth to provide benefits under its statutory function.

The Administrator of the Fund actively and regularly reviews and manages its capital and reserve to ensure optimal returns, taking into consideration the future resources requirements. As in previous years, the Administrator manages the Fund's capital and reserve through regular reviews of the levy fee level and investment strategy.

5. FINANCIAL INSTRUMENTS

5.1 Categories of financial instruments

	2017 HK\$	2016 HK\$
Financial assets		
At fair value	446,119,110	430,875,107
Loans and receivables (including bank deposits, cash and cash equivalents and receivables)	1,432,945,265	1,420,268,284
Financial liabilities		
Other financial liabilities	1,223,859	111,171

5.2 Financial risk management objectives and policies

The Fund's major financial instruments include bank deposits, cash and cash equivalents, interest receivable on investments designated at fair value and bank deposits, equity and debt securities investments. The strategic investment allocation was set using a statistical approach. A set of Investment Guidelines approved by the MPFA's Management Board is in place to lay down limits and restrictions on currency risk, interest rate risk, credit risk and general activities. Regular reviews on the Investment Guidelines will be conducted. The Finance Committee, one of the standing committees of the MPFA, is responsible for overseeing the investments of the Fund.

The Fund maintains a fairly high percentage of cash investment, i.e. HK dollar deposits. Debt securities investments are of short maturity and therefore are subject to relatively low price risk. The investment in equities accounted for less than 4% (2016: less than 4%) of the total investments (including bank deposits). Equity securities are managed with a passive investment style and their weightings are re-balanced to maintain the strategic asset allocation within the tolerance limit. The investment performance is reported to the Finance Committee and the Management Board on a regular basis.

Notes to the Financial Statements

For the year ended 31 March 2017

5. FINANCIAL INSTRUMENTS (continued)

5.3 Credit risk

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

Permissible debt securities investments have to satisfy the requirements of the credit rating specified in the Investment Guidelines. The investment portfolio is managed in-house.

The portfolio must invest only in debt securities of investment grade. As at the reporting date, the credit risk profile as weighted by market value (including accrued interest) is set out below:

Credit rating	2017 HK\$	% of net assets	2016 HK\$	% of net assets
AAA ¹	–	–	37,948,242	2
AA ²	375,762,249	20	333,261,115	18

1 AAA means AAA by Standard & Poor's Ratings Services ("S&P") and Aaa by Moody's Investors Services, Inc. (Moody's)

2 AA means between AA- and AA+ by S&P and Aa3 and Aa1 by Moody's

The Fund does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Fund's credit risk exposure to bank deposits and cash and cash equivalents 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. 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 2017 and 2016, none of the assets is impaired nor past due but not impaired.

Notes to the Financial Statements

For the year ended 31 March 2017

5. FINANCIAL INSTRUMENTS (continued)

5.4 Interest rate risk

Interest rate risk is the risk that the fair value and/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 Fund adopts a sensitivity test of 10 basis points (2016: 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 (2016: 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\$1.4 million (2016: HK\$1.4 million).

The investment portfolio is exposed to the interest rate risk in relation to holdings in debt securities. Such risks may be mitigated by reducing the asset weighting and portfolio duration of the debt securities portfolio. The Fund invests mainly in short-term HK dollar debt securities with maturity up to two years (2016: up to two years).

As at the reporting date, the debt securities portfolio duration is set out below:

	2017 Years	2016 Years
Portfolio duration	0.26	0.35

The Fund 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 Fund adopts a sensitivity test of 10 basis points (2016: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2016: 10 basis points) and all other variables were held constant, the impact on the Fund's income would have been as follows.

	Increase/(decrease) in the Fund's income	
	2017 HK\$	2016 HK\$
If interest rate were 10 basis points lower	98,624	128,427
If interest rate were 10 basis points higher	(98,624)	(128,427)

Notes to the Financial Statements

For the year ended 31 March 2017

5. FINANCIAL INSTRUMENTS (continued)

5.5 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.

As at 31 March 2017, if the Hong Kong stock market had increased or decreased by 10% (2016: 10%) with all other variables held constant and all the equity instruments moved according to the historical relationship with the Hong Kong stock market, income for the year would have increased or decreased by HK\$6.6 million (2016: HK\$5.6 million).

5.6 Currency risk

The Investment Guidelines permit only investments in HK dollars. There is therefore no currency risk taken by the Fund.

5.7 Liquidity risk

Liquidity risk is the potential that the Fund 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.

As at 31 March 2017, the Fund held cash and deposits including interest receivable on bank deposits of HK\$1,432,910,576 (2016: HK\$1,419,331,084) that were expected to orderly mature. In addition, the Fund held marketable securities of HK\$446,119,110 (2016: HK\$430,875,107), which could be readily realised to provide a further source of cash if the need arose. Therefore, liquidity risk is considered to be minimal.

As at 31 March 2017, the creditors and accrued charges of the Fund amounted to HK\$1,223,859 (2016: HK\$111,171) with the maturity of less than 3 months.

5.8 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.

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

Notes to the Financial Statements

For the year ended 31 March 2017

5. FINANCIAL INSTRUMENTS (continued)

5.9 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 including accrued interest 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).

	2017 HK\$	2016 HK\$
Level 1		
Financial assets measured at fair value:		
– Equity securities	70,391,550	60,602,950
– Debt securities	375,727,560	370,272,157
	446,119,110	430,875,107

“Loans and receivables” and “Other financial liabilities” as disclosed in Note 5.1 are carried at amortised cost, their carrying values are a reasonable approximation of fair value.

During the years ended 31 March 2017 and 2016, no financial assets were classified under Levels 2 and 3 and there was no transfer among levels.

6. NET INVESTMENT INCOME/(LOSS)

	2017 HK\$	2016 HK\$
Interest income on investments designated at fair value	589,493	810,084
Dividends from investments designated at fair value	2,245,620	2,222,640
Net realised (loss)/gain on investments designated at fair value	(458,351)	80,074
Net change in unrealised gain/(loss) on investments designated at fair value	11,070,534	(12,077,184)
	13,447,296	(8,964,386)

Notes to the Financial Statements

For the year ended 31 March 2017

7. 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.

8. INVESTMENTS DESIGNATED AT FAIR VALUE

	2017 HK\$	2016 HK\$
Equity securities		
Listed	70,391,550	60,602,950
Debt securities		
Unlisted	375,727,560	370,272,157
Total		
Listed	70,391,550	60,602,950
Unlisted	375,727,560	370,272,157
	446,119,110	430,875,107

9. LEVY SUSPENSION

Sections 191A & B of the Mandatory Provident Fund Schemes (General) Regulation (Chapter 485A), provide for the exemption and revocation of exemption of approved trustee from payment of compensation fund levy, which was enacted in July 2012. In short,

- (a) The levy of 0.03% of the net asset value ("NAV") of Mandatory Provident Fund schemes would be imposed if the NAV of the Fund has fallen below HK\$1 billion; and
- (b) The levy would be suspended if the NAV of the Fund has exceeded HK\$1.4 billion.

Given that the audited NAV of the Fund as at 31 March 2012 was HK\$1.64 billion, an exemption notice was gazetted on 27 July 2012 allowing the MPFA to suspend the levy in relation to the financial periods of Mandatory Provident Fund schemes commencing on or after 1 September 2012.

10. SEED MONEY

On 12 March 1999, an amount of HK\$600 million was injected by the Government of the Hong Kong Special Administrative Region ("HKSARG") as seed money of the Fund.

11. ADMINISTRATIVE SERVICE EXPENSES

Administrative service expenses represent the expenses incurred by the MPFA, of which its capital grant is also funded by the HKSARG, for its services provided in administering the Fund.