

**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 138 to 153, which comprise:

- the statement of financial position as at 31 March 2021;
- the income and expenditure account 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 2021, 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 (HKSA) 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.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

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, 23 June 2021

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2021

	Notes	2021 HK\$	2020 HK\$
INCOME			
Interest income on bank deposits		19,753,789	34,669,139
Net investment income/(loss)	6	17,436,517	(5,624,760)
		37,190,306	29,044,379
EXPENDITURE			
Auditor's remuneration		112,800	110,700
Administrative service expenses	11	1,193,378	1,245,680
Investment expenses		96,563	95,467
Other operating expenses	12	118,404	989
		1,521,145	1,452,836
SURPLUS FOR THE YEAR		35,669,161	27,591,543

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.

Mandatory Provident Fund Schemes Compensation Fund
STATEMENT OF FINANCIAL POSITION

At 31 March 2021

	Notes	2021 HK\$	2020 HK\$
CURRENT ASSETS			
Financial assets at fair value	8	485,376,410	467,147,890
Interest receivable on financial assets at fair value		–	341,895
Interest receivable on bank deposits		2,003,250	6,055,955
Bank deposits		1,497,954,149	1,306,679,457
Cash and cash equivalents		28,214,019	197,703,350
		2,013,547,828	1,977,928,547
CURRENT LIABILITIES			
Creditors and accrued charges		1,323,752	1,373,632
NET ASSETS		2,012,224,076	1,976,554,915
CAPITAL AND RESERVE			
Seed money	10	600,000,000	600,000,000
Income and expenditure account		1,412,224,076	1,376,554,915
		2,012,224,076	1,976,554,915

The financial statements on pages 138 to 153 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 23 June 2021 and signed on its behalf by:

Cheng Yan-chee
Acting Managing Director

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

Mandatory Provident Fund Schemes Compensation Fund

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2021

	Seed Money HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2019	600,000,000	1,348,963,372	1,948,963,372
Surplus for the year	–	27,591,543	27,591,543
At 31 March 2020	600,000,000	1,376,554,915	1,976,554,915
Surplus for the year	–	35,669,161	35,669,161
At 31 March 2021	600,000,000	1,412,224,076	2,012,224,076

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

STATEMENT OF CASH FLOWS

For the year ended 31 March 2021

	2021 HK\$	2020 HK\$
OPERATING ACTIVITIES		
Surplus for the year	35,669,161	27,591,543
Adjustments for:		
Interest income on bank deposits	(19,753,789)	(34,669,139)
Interest income on financial assets at fair value	(503,034)	(2,700,944)
Dividends from financial assets at fair value	(2,159,250)	(2,677,470)
Net (gain)/loss on financial assets at fair value	(14,774,233)	11,003,174
Operating cash flows before movements in working capital	(1,521,145)	(1,452,836)
(Decrease)/increase in creditors and accrued charges	(49,880)	56,170
NET CASH USED IN OPERATING ACTIVITIES	(1,571,025)	(1,396,666)
INVESTING ACTIVITIES		
Dividends received from financial assets at fair value	2,159,250	2,677,470
Interest received on bank deposits	23,806,494	35,190,003
Interest received from financial assets at fair value	844,929	3,769,005
Proceeds on disposals of financial assets at fair value	514,000,000	664,000,000
Purchase of financial assets at fair value	(517,454,287)	(668,319,051)
Increase in bank deposits ^{Note}	(191,274,692)	(6,781,565)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(167,918,306)	30,535,862
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(169,489,331)	29,139,196
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	197,703,350	168,564,154
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	28,214,019	197,703,350
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances	28,164,019	197,653,350
Bank balances held for investment purposes	50,000	50,000
	28,214,019	197,703,350

Note: As at 31 March 2021, bank deposits with original maturities of more than 3 months amounted to HK\$1,497,954,149 (2020: HK\$1,306,679,457).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

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 and recoup 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)

(i) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2020 that would be expected to have a material impact on the Fund.

(ii) New standards and interpretations not yet adopted

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.

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 a straight-line basis over the period covered.

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. Interest income includes interest from bank deposits and interest from financial assets at fair value through profit or loss, which is recognised as part of net investment income.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets

(a) Recognition and measurement

The Fund's financial assets include financial assets at fair value through profit or loss and financial assets measured at amortised cost. 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.

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income and expenditure account.

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.

(b) Classification

The Fund classifies its financial assets into the below categories based on the Fund's business model for managing the asset and, where required, subsequent analysis of cash flow characteristics on individual financial assets.

The business model reflects how the Fund manages particular groups of assets in order to generate future cash flows. Where the business model is to hold the assets to collect contractual cash flows the Fund subsequently assesses whether the financial assets cash flows represent solely payments of principal and interest. The Fund considers whether the cash flows represent basic lending arrangements. Where contractual terms introduce exposure to risk or volatility inconsistent with a basic lending arrangement the financial asset is classified and measured at fair value through profit or loss.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, financial assets mandatorily measured at fair value and those designated at fair value through profit or loss on initial recognition. Financial assets that do not meet the criteria for amortised cost or financial assets classified at fair value through other comprehensive income are measured at fair value through profit or loss. The Fund holds investments which had previously been designated at fair value through profit or loss. All of the Fund's financial assets measured at fair value through profit or loss are mandatorily measured at fair value with no assets being designated. Gains or losses will be recorded in the income and expenditure account.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets (continued)

(b) Classification (continued)

ii. Financial assets at amortised cost

Financial assets at amortised cost are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost mainly consist of levy fee receivable, interest receivable on bank deposits and financial assets at fair value, bank deposits and cash and cash equivalents, interest income from these financial assets is using the effective interest rate method. Any gain or loss of derecognition and impairment losses are recognised in the income and expenditure account.

3.4 Impairment of financial assets

The Fund assesses on forward looking basis the expected credit losses associated with its financial assets measured at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 5.3 sets out information about the impairment of financial assets and the Fund's exposure to credit risk.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

	2021 HK\$	2020 HK\$
Financial assets		
At fair value	485,376,410	467,147,890
At amortised cost (including bank deposits, cash and cash equivalents and receivables)	1,528,171,418	1,510,780,657
Financial liabilities		
Other financial liabilities	1,323,752	1,373,632

5.2 Financial risk management objectives and policies

The Fund's major financial instruments include bank deposits, cash and cash equivalents, interest receivable on financial assets 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 are 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 slightly more than 4% (2020: 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.

5.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund assesses credit risk and expected credit losses by considering probability of default, exposure at default and loss given default. Both historical and forward looking information are considered in assessing the expected credit loss.

5. FINANCIAL INSTRUMENTS (continued)**5.3 Credit risk (continued)**

The main concentration of credit risk to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on the transactions in bank deposits, cash and cash equivalents and interest receivable from financial assets at fair value.

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.

To manage the credit risk, 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) was:

Credit rating	2021 HK\$	% of net assets	2020 HK\$	% of net assets
AA ¹	402,864,270	20	398,825,635	20

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

All transactions in securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the counterparty has received payment. Payment is made on a purchase once the securities have been received by the counterparty. The trade will fail if either party fails to meet its obligation.

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, cash and cash equivalents and interest receivable from financial assets at fair value 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. Moreover, the counterparties have a strong capacity to meet their obligations in the near term and therefore the probability of default of the counterparties is considered to be close to zero. As a result, the expected credit losses is minimal. 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 2021 and 2020, none of the assets is impaired nor past due but not impaired.

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 (2020: 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 (2020: 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\$1.5 million (2020: HK\$1.5 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 (2020: up to two years).

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

	2021 Years	2020 Years
Portfolio duration	0.47	0.40

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 (2020: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2020: 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	
	2021 HK\$	2020 HK\$
If interest rate were 10 basis points lower	188,720	158,111
If interest rate were 10 basis points higher	(188,720)	(158,111)

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 2021, if the Hong Kong stock market had increased or decreased by 10% (2020: 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\$8.3 million (2020: HK\$6.7 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 2021, the Fund held cash and cash equivalents and deposits including interest receivable on bank deposits of HK\$1,528,171,418 (2020: HK\$1,510,438,762) that were expected to orderly mature. In addition, the Fund held marketable securities of HK\$485,376,410 (2020: HK\$467,147,890), 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 2021, the creditors and accrued charges of the Fund included substantially payable to the MPFA amounted to HK\$1,323,752 (2020: HK\$1,373,632) 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.

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 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).

Level 1	2021 HK\$	2020 HK\$
Financial assets measured at fair value:		
– Equity securities	82,512,140	68,664,150
– Debt securities	402,864,270	398,483,740
	485,376,410	467,147,890

During the years ended 31 March 2021 and 2020, no financial assets were classified under Levels 2 and 3 and there were no transfers between levels.

6. NET INVESTMENT INCOME/(LOSS)

	2021 HK\$	2020 HK\$
Interest income on financial assets at fair value	503,034	2,700,944
Dividends from financial assets at fair value	2,159,250	2,677,470
Net realised gain on financial assets at fair value	3,383,297	3,934,470
Net change in unrealised gain/(loss) on financial assets at fair value	11,390,936	(14,937,644)
	17,436,517	(5,624,760)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

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. FINANCIAL ASSETS AT FAIR VALUE

	2021 HK\$	2020 HK\$
Equity securities		
Listed	82,512,140	68,664,150
Debt securities		
Listed	–	95,314,550
Unlisted	402,864,270	303,169,190
	402,864,270	398,483,740
Total		
Listed	82,512,140	163,978,700
Unlisted	402,864,270	303,169,190
	485,376,410	467,147,890

9. EXEMPTION OF LEVY

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 as at the end of a financial year has fallen below HK\$1 billion; and
- (b) Exemption of the levy would be granted if the NAV of the Fund as at the end of a financial year has exceeded HK\$1.4 billion.

Given that the audited NAV of the Fund has exceeded HK\$1.4 billion as at the end of each financial year since 2012, the MPFA has granted exemption by notice published in the Gazette on 27 July 2012 to exempt the approved trustee of Mandatory Provident Fund schemes from paying 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.

12. OTHER OPERATING EXPENSES

Other operating expenses consisted of professional expenses of HK\$117,000 (2020: nil) and other expenses of HK\$1,404 (2020: HK\$989).