Mandatory Provident Fund Schemes Authority

Independent Auditor's Report

TO THE MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

(Established in Hong Kong under the Mandatory Provident Fund Schemes Ordinance)

Opinion

What we have audited

The consolidated financial statements of the Mandatory Provident Fund Schemes Authority ("MPFA") and its subsidiary (the "Group"), which are set out on pages 116 to 154, comprise:

- the consolidated statement of financial position as at 31 March 2023;
- the consolidated income and expenditure account for the year then ended;
- the consolidated statement of changes in capital and reserve for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2023, and of its consolidated financial performance and its consolidated 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 Consolidated 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 Group 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.

Other Information

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 MPFA and the Audit and Risk Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the MPFA is responsible for assessing the Group'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 MPFA either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit and Risk Committee of the MPFA is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 6P of the Mandatory Provident Fund Schemes Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the MPFA.

- Conclude on the appropriateness of the MPFA'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Committee of the MPFA 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, 17 May 2023

Mandatory Provident Fund Schemes Authority

Consolidated Income and Expenditure Account

For the year ended 31 March 2023

	Notes	2023 HK$	2022 HK$
INCOME			
Fees and charges	7	**377,661,525**	349,561,885
Recoveries from the Mandatory Provident Fund Schemes Compensation Fund	27	**1,213,267**	1,093,982
Interest income on bank deposits		**22,462,594**	3,380,670
Net investment loss	8	**(36,736,098)**	(20,806,487)
		364,601,288	333,230,050
Other income	9	**99,185,077**	73,387,780
		463,786,365	406,617,830
EXPENDITURE			
Staff costs	11	**429,987,232**	399,485,801
Depreciation and amortisation	14–16	**68,098,103**	59,594,498
Premises expenses		**13,396,406**	12,384,919
Public education and publicity expenses		**19,654,685**	25,695,557
Investment expenses		**4,353,167**	5,139,236
Auditor's remuneration		**621,800**	557,600
Other operating expenses	13	**48,509,279**	43,564,041
Finance cost	15	**2,073,464**	683,679
		586,694,136	547,105,331
DEFICIT FOR THE YEAR		**(122,907,771)**	(140,487,501)

The Group had no components of comprehensive income other than "deficit for the year" in either of the years presented. Accordingly, no separate consolidated statement of comprehensive income is presented as the Group's "total comprehensive loss" was the same as the "deficit for the year" in both years.

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

Mandatory Provident Fund Schemes Authority

Consolidated Statement of Financial Position

At 31 March 2023

	Notes	2023 HK$	2022 HK$
NON-CURRENT ASSETS			
Property and equipment	14	**21,501,887**	9,210,894
Right-of-use assets	15	**218,112,364**	35,378,612
Intangible assets	16	**15,763,301**	13,594,038
Projects in progress	17	**83,139,389**	7,449,511
Other non-current deposits		**9,981,738**	1,044,032
eMPF Platform	21	**381,648,285**	185,626,023
		730,146,964	252,303,110
CURRENT ASSETS			
Financial assets at fair value	18	**1,281,077,601**	1,308,404,157
Interest receivable on financial assets at fair value		**6,224,994**	5,540,963
Derivative financial instruments	19	**285,284**	28,421
Unsettled investments receivable		**1,735,923**	798,373
Debtors, deposits and prepayments	23	**163,298,699**	161,242,286
Bank deposits		**763,990,000**	946,960,613
Cash and cash equivalents		**1,210,856,759**	819,002,291
		3,427,469,260	3,241,977,104
NON-CURRENT LIABILITIES			
Lease liabilities	15	**183,469,872**	5,815,954
Deferred revenue	23	**390,489,808**	186,802,612
Other payables	24	**17,168,535**	838,560
		591,128,215	193,457,126
CURRENT LIABILITIES			
Lease liabilities	15	**21,262,738**	29,611,736
Derivative financial instruments	19	**968,365**	790,015
Unsettled investments payable		**23,016,976**	45,367,748
Grant for the eMPF Platform Project	21	**995,293,875**	668,137,418
Creditors and accrued charges	24	**156,169,853**	54,695,125
Receipts in advance		**10,788,485**	11,033,371
Deferred revenue	23	**111,153,883**	120,446,070
		1,318,654,175	930,081,483
NET ASSETS		**2,247,833,834**	2,370,741,605
CAPITAL AND RESERVE			
Capital grant	20	**5,000,000,000**	5,000,000,000
Consolidated income and expenditure account		**(2,752,166,166)**	(2,629,258,395)
		2,247,833,834	2,370,741,605

The consolidated financial statements on pages 116 to 154 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 17 May 2023 and are signed on its behalf by:

Cheng Yan-chee
Managing Director

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

Mandatory Provident Fund Schemes Authority

Consolidated Statement of Changes in Capital and Reserve

For the year ended 31 March 2023

	Capital Grant HK$	Consolidated Income and Expenditure Account HK$	Total HK$
At 1 April 2021	5,000,000,000	(2,488,770,894)	2,511,229,106
Deficit for the year	–	(140,487,501)	(140,487,501)
At 31 March 2022	5,000,000,000	(2,629,258,395)	2,370,741,605
Deficit for the year	–	(122,907,771)	(122,907,771)
At 31 March 2023	**5,000,000,000**	**(2,752,166,166)**	**2,247,833,834**

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

Mandatory Provident Fund Schemes Authority

Consolidated Statement of Cash Flows

For the year ended 31 March 2023

	2023 HK$	2022 HK$
OPERATING ACTIVITIES		
Deficit for the year	**(122,907,771)**	(140,487,501)
Adjustments for:		
Depreciation and amortisation	**68,098,103**	59,594,498
Finance cost	**2,073,464**	683,679
Grant income for the eMPF Platform Project	**(94,091,798)**	(63,954,510)
Gains on disposals of property and equipment and intangible assets	**–**	(650)
Interest income on bank deposits[1]	**(22,462,594)**	(3,380,670)
Interest income on financial assets at fair value	**(21,790,537)**	(17,761,445)
Dividends from financial assets at fair value	**(9,818,176)**	(9,622,507)
Net losses on financial assets at fair value	**73,713,564**	54,307,304
Net gains on derivative financial instruments	**(4,268,923)**	(5,837,971)
Operating cash flows before movements in working capital	**(131,454,668)**	(126,459,773)
(Increase)/decrease in other non-current deposits	**(11,352,931)**	11,847,422
Decrease/(increase) in debtors, deposits and prepayments	**2,717,508**	(25,401,104)
Increase/(decrease) in other payables, creditors and accrued charges	**70,110,620**	(1,147,306)
(Decrease)/increase in receipts in advance	**(244,886)**	314,082
(Decrease)/increase in deferred revenue and grant for the eMPF Platform Project	**(9,836,736)**	29,839,297
NET CASH USED IN OPERATING ACTIVITIES	**(80,061,093)**	(111,007,382)
INVESTING ACTIVITIES		
Dividends received from financial assets at fair value	**9,687,595**	9,593,860
Interest received on bank deposits	**17,484,869**	3,155,097
Interest received from financial assets at fair value	**21,106,506**	18,137,140
Proceeds on disposals of property and equipment and intangible assets	**–**	650
Proceeds on disposals of financial assets at fair value	**1,975,690,276**	1,865,747,397
Purchase of property and equipment, intangible assets and projects in progress	**(76,621,004)**	(13,542,387)
Payments in relation to eMPF Platform Project	**(195,071,188)**	(184,683,103)
Purchase of financial assets at fair value	**(2,045,235,025)**	(1,759,221,109)
Net settlement of derivative financial instruments	**4,190,410**	7,417,627
Decrease/(increase) in bank deposits	**182,970,613**	(142,751,407)
NET CASH USED IN INVESTING ACTIVITIES	**(105,796,948)**	(196,146,235)
FINANCING ACTIVITIES		
Contribution received from the grant for the eMPF Platform Project	**625,480,000**	615,093,000
Principal element of lease payments	**(45,901,376)**	(48,924,599)
Interest element of lease payments	**(1,866,115)**	(683,679)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**577,712,509**	565,484,722
NET INCREASE IN CASH AND CASH EQUIVALENTS	**391,854,468**	258,331,105
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**819,002,291**	560,671,186
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**1,210,856,759**	819,002,291
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances in connection with the eMPF Platform Project[2]	**1,019,116,234**	681,363,406
Bank balances held for investment purposes	**36,470,755**	62,067,605
Short term debt securities	**17,949,144**	40,312,749
Other bank balances and cash	**137,320,626**	35,258,531
	1,210,856,759	819,002,291

1 As at 31 March 2023, bank deposits with original maturities of more than 3 months amounted to HK$763,990,000 (2022: HK$946,960,613).

2 In accordance with the Grant Agreement, cash balance in the Designated Account should only be used for the purpose of the eMPF Platform Project.

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

Mandatory Provident Fund Schemes Authority

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

1. Background and Functions of the Mandatory Provident Fund Schemes Authority (The MPFA) and its Subsidiary (Collectively "the Group")

The MPFA was established in Hong Kong under section 6 of the Mandatory Provident Fund Schemes Ordinance (the Ordinance) which came into effect on 24 July 1998.

The MPFA has been tasked by the Government of the Hong Kong Special Administrative Region (the Government) to set up a subsidiary, eMPF Platform Company Limited (the Company) (together the Group) to design, build and operate a common electronic platform, the eMPF Platform, to standardise, streamline and automate the administration processes of the Mandatory Provident Fund schemes of Hong Kong (the eMPF Platform Project). The Company is a limited liability company incorporated on 5 March 2021. The functions of the MPFA and the Company are stated in the Ordinance. The office address of the Group was Level 8, Tower 1, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, Hong Kong but with effect from 24 April 2023, its office address has been changed to Level 12, Tower 1, The Millennity, 98 How Ming Street, Kwun Tong, Hong Kong. Details of MPFA's interest in the Company are set out in Note 22.

The MPFA holds 100% of the shareholding of the Company since its incorporation on 5 March 2021. The Mandatory Provident Fund Schemes (Amendment) Bill (the "MPFS (Amendment) Bill") was passed by the Legislative Council on 22 October 2021. The MPFS (Amendment) Bill has stipulated the functions of the MPFA and its oversight role on the Company in the Ordinance. The amended Ordinance has empowered the MPFA, as the holding entity and the sole shareholder of the Company to oversee the operation of the eMPF Platform and supervise the performance of the Company.

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

2. Application of New and Revised Hong Kong Financial Reporting Standards (HKFRSs)

(i) New and amended standards adopted by the Group

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 April 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Annual Improvements to HKFRS Standards 2018–2020, and
- Reference to the Conceptual Framework – Amendments to HKFRS 3.

(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 Group.

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 consolidated 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). Refer to Note 1 for other details.

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

3.1 Investment in subsidiary

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. A subsidiary is fully consolidated from the date on which control is transferred to the Group. It is deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.2 Revenue recognition

Fees and charges consist of application fees, annual registration fees (ARF) and other annual fees, and financial penalties and other charges arising from retirement schemes registered under the Occupational Retirement Schemes Ordinance (ORSO schemes) and Mandatory Provident Fund Schemes Ordinance (MPF schemes). Application fees, annual registration and other annual fees are accounted for on a straight-line basis over the period covered whereas financial penalties and other charges are recognised as and when determined and imposed. Deferred revenue, or "contract liability" under HKFRS 15, is recognised when the ARF is due and is accounted for as revenue on a straight-line basis over the period covered.

3. Significant Accounting Policies (continued)

3.3 Other income

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.

3.4 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group 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 consolidated income and expenditure account.

(a) Recognition and measurement

The Group'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 Group 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 consolidated 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.

3. Significant Accounting Policies (continued)

3.4 Financial instruments (continued)

(b) Classification

The Group classifies its financial assets into the below categories based on the Group'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 Group 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 Group subsequently assesses whether the financial assets cash flows represent solely payments of principal and interest. The Group 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 Group holds investments which had previously been designated at fair value through profit or loss. All of the Group'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 consolidated income and expenditure account.

(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 debtors, deposits, unsettled investments receivable (including dividends receivable and amounts due from brokers), bank deposits and cash and cash equivalents, and interest income from these financial assets is recognised using the effective interest rate method. Any gain or loss of derecognition and impairment losses are recognised in the consolidated income and expenditure account.

3. Significant Accounting Policies (continued)

3.5 Impairment of financial assets

The Group 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. For debtors, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the debtors. Note 6.3 sets out information about the impairment of financial assets and the Group's exposure to credit risk.

3.6 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability. The Group's financial liabilities, except for derivative financial instruments, are generally classified as other financial liabilities.

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

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

3.7 Derivative financial instruments

Derivative financial instruments (primarily foreign exchange contracts) are used in hedging currency exposure in the investments mandatorily measured at fair value. Such derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

For derivative financial instruments that do not qualify for hedge accounting, they are financial assets or liabilities mandatorily measured at fair value. Changes in fair values of such derivatives are recognised directly in the consolidated income and expenditure account.

3.8 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 Group 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 consolidated 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 consolidated income and expenditure account.

3. Significant Accounting Policies (continued)

3.9 Property and equipment

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

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

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

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

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

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

3.10 Intangible Assets

Computer software licenses

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

3. Significant Accounting Policies (continued)

3.10 Intangible Assets (continued)

Software development costs

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

(a) it is technically feasible to complete the software product so that it will be available for use;

(b) the management intends to complete the software product and use or sell it;

(c) there is an ability to use or sell the software product;

(d) it can be demonstrated how the software product will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

(f) the expenditure attributable to the software product during its development can be reliably measured.

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

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

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

3.11 Projects in progress and eMPF Platform

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

3. Significant Accounting Policies (continued)

3.12 Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised as an expense immediately.

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

3.13 Cash and cash equivalents

In the consolidated 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.

3.14 Other payables, creditors and accrued charges

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

3.15 Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

3. Significant Accounting Policies (continued)

3.16 Foreign currencies

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

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

3.17 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. For leases of office premises and storage space for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;

(b) variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) amounts expected to be payable by the Group under residual value guarantees;

(d) the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

3. Significant Accounting Policies (continued)

3.17 Leases (continued)

To determine the incremental borrowing rate, the Group:

(a) uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and

(b) makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated income and expenditure account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

(a) the amount of the initial measurement of lease liability;

(b) any lease payments made at or before the commencement date less any lease incentives received;

(c) any initial direct costs; and

(d) restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

3.18 Employee benefits

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

Salaries and other employee benefits such as annual leave and contract gratuity are accounted for as they accrue.

3. Significant Accounting Policies (continued)

3.19 Government grants

The Grant is recognised at fair value when there is a reasonable assurance that the Group will comply with the conditions attaching to it, and that the Grant will be received.

The Grant is recognised as other income in the Consolidated Income and Expenditure Account over the periods in which the Group recognises the related costs of the eMPF Platform Project as expenses for which the Grants are intended to compensate.

The Grant related to the assets capitalised for the eMPF Platform Project shall be presented in the Consolidated Statement of Financial Position as deferred revenue. The Grant related to depreciable assets are recognised in Consolidated Income and Expenditure Account over the periods and in the proportions in which depreciation expense on those capitalised assets is recognised.

4. Critical Accounting Estimates and Judgments

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

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

Fair value of derivatives and other financial instruments

The valuation of all the Group's financial instruments, including over-the-counter debt securities and derivatives, are measured at fair value and the quotations are provided by a reputable independent custodian bank. At 31 March 2023 and 2022, the fair value of financial instruments held by the Group, excluding those fair values obtained using quoted prices in active market, is based on the market quotations from external sources. These market quotations may be indicative and not executable or legally binding. As such, these market quotations do not necessarily indicate the price at which the security could actually be traded as at 31 March 2023 and 2022. Actual transacted prices may differ from the quotes provided by these external sources. The Group considers that in the absence of any other reliable market sources, the quotes available from these sources reflect the best estimate of fair value.

4. Critical Accounting Estimates and Judgments (continued)

Default contribution claims receivable and payable

At 31 March 2023, the default contribution claims receivable amounting to HK$11,884,589 (2022: HK$5,319,280), included in the debtors, deposits and prepayments, represents the mandatory contributions that are not paid by the employers of the MPF schemes within the period prescribed by the regulations. Such mandatory contributions become due to the Group by the employers of the MPF schemes on the expiry of that period. As at 31 March 2023, the default contribution claims payable amounting to HK$11,884,589 (2022: HK$5,319,280), included in the creditors and accrued charges, represents the mandatory contributions which will be received by the Group as mentioned above and in turn, payable to the approved trustees for allocation to scheme members' MPF accounts in accordance with the Ordinance. The amount of these default contribution claims receivable and payable is best estimated by the Group as at the reporting date with the use of certain assumptions.

Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in office premises leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Impairment of non-financial assets

Assets such as intangible assets and project in progress are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Since a market price of the asset cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgments are exercised over the asset's production, selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumptions.

5. Capital Management

The Group's objectives when managing capital are:

(a) to safeguard the Group's ability to continue as a going concern, so that it continues to regulate and supervise mandatory provident fund schemes and occupational retirement schemes; and

(b) to support the Group's stability and growth to provide benefits for stakeholders.

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

6. Financial Instruments

6.1 Categories of financial instruments

	2023 HK$	2022 HK$
Financial assets		
At fair value	**1,281,362,885**	1,308,432,578
At amortised cost	**2,133,027,505**	1,922,842,623
Financial liabilities		
At fair value	**968,365**	790,015
Other financial liabilities	**1,309,014,023**	799,147,261

Financial assets as disclosed in the consolidated statement of financial position, including interest receivable on financial assets at fair value, unsettled investments receivable, debtors and deposits, bank deposits and cash and cash equivalents, are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Financial liabilities as disclosed in the consolidated statement of financial position, including lease liabilities, other payables, unsettled investments payable, grant for the eMPF Platform Project, creditors, are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

6. Financial Instruments (continued)

6.2 Financial risk management

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

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

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

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

The MPFA keeps monitoring its investments with due care and would promptly impose contingent measures relating to the investment exposures in light of financial market conditions. In view of the volatility in the financial markets in recent years, the MPFA had implemented a risk mitigating strategy since February 2021 as a medium-term measure to secure its operating funding and avoid suffering from significant capital loss. The MPFA has also conducted regular due diligence exercises on the external fund manager's compliance and risk management process. In addition, with the efficient management reporting process, the management and the Finance Committee are kept abreast of the investment portfolio's status as well as the general financial market conditions.

6. Financial Instruments (continued)

6.3 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 Group 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.

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

To manage the credit risk, the investment portfolio can only invest in debt securities that have a minimum credit rating of BBB (2022: BBB) by Standard & Poor's Ratings Services (S&P) and Baa2 (2022: Baa2) by Moody's Investors Service, Inc (Moody's). In the event of a split credit rating for a debt securities issue, the Investment Guidelines require that the lower credit rating will apply. The Investment Guidelines require the weighted average credit rating of the total debt securities portfolio to be at or above A/A2 (2022: A/A2).

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

	2023		2022	
Credit rating	**HK$**	**% of net assets**	HK$	% of net assets
AAA[1]	**6,061,723**	**0%**	9,590,669	0%
AA[2]	**462,328,264**	**21%**	358,749,438	15%
A[3]	**311,987,306**	**14%**	347,688,033	15%
BBB[4]	**56,716,340**	**2%**	106,986,829	5%
	837,093,633	**37%**	823,014,969	35%

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

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.

6. Financial Instruments (continued)

6.3 Credit risk (continued)

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group's credit risk exposure to bank deposits, cash and cash equivalents, unsettled investments receivable, interest receivable from financial assets at fair value and derivative financial instruments is limited because the counterparties are banks and other financial institutions with high credit ratings (investment grade or above) assigned by international credit rating agencies and are approved by the Finance Committee from time to time. In addition, the credit exposures are guarded by the Investment Guidelines which set out limits and restrictions on the total exposure to a single bank or an issuer of debt securities in order to mitigate concentration risk to a single counterparty. 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 consolidated statement of financial position. As at 31 March 2023 and 2022, none of the assets is impaired nor past due but not impaired.

6.4 Interest rate risk

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

The exposure to interest rate risk on bank deposits and cash and cash equivalents carrying interest are limited to the impact of the interest rate fluctuations on the interest income. The Group adopts a sensitivity test of 10 basis points (2022: 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 (2022: 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$2.0 million (2022: HK$1.8 million).

The investment portfolio is exposed to the interest rate risk in relation to holdings in debt securities. The fund manager may mitigate such risk by reducing the weighting of debt securities in the portfolio and holding either more cash or equities within the permitted deviation margins from the target weighting. The fund manager may further reduce duration risk, i.e. price sensitivity to changes in interest rate, by reducing the debt securities portfolio duration by up to three years (2022: up to three years) below the benchmark duration. The benchmark duration is a composite of durations of chosen bond indices. On the other hand, the fund manager may also increase duration risk by up to two years (2022: up to two years) above the benchmark duration.

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

	2023 Years	2022 Years
Benchmark duration	**4.93**	5.52
Portfolio duration	**5.23**	5.43

6. Financial Instruments (continued)

6.4 Interest rate risk (continued)

The Group 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 Group adopts a sensitivity test of 10 basis points (2022: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2022: 10 basis points) and all other variables were held constant, the impact on the Group's income would have been as follows.

	Increase/(decrease) in the Group's income	
	2023	2022
	HK$	HK$
If interest rate were 10 basis points lower	**4,379,495**	4,470,124
If interest rate were 10 basis points higher	**(4,379,495)**	(4,470,124)

6.5 Price risk

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

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

As at 31 March 2023, if the Equity Market[Note] had increased or decreased by 10% (2022: 10%), with all other variables being held constant and all the equity instruments moved according to the historical relationship with the Equity Market, income for the year would have increased or decreased by HK$52.4 million (2022: HK$60.1 million).

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

6. Financial Instruments (continued)

6.6 Currency risk

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

MPFA's Investment Guidelines for the investment portfolio only allow investments in assets denominated in Renminbi or freely convertible currencies. The investment portfolio must maintain a currency exposure of over 85% (2022: 85%) in HK dollar and US dollar with the remaining in foreign currency securities but not through currency trading. To meet this requirement, the fund manager is permitted to hedge related currency risks by acquiring forward currency contracts. However, the over-hedging position for each foreign currency must not exceed 10% (2022: 10%) of the value of the investments denominated in the same currency and the total over-hedging position must not exceed 1% (2022: 1%) of the investment portfolio. The unhedged currency positions of the investment portfolio are measured and reported to the management and the Finance Committee on a regular basis.

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

6. Financial Instruments (continued)

6.6 Currency risk (continued)

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

	2023						
	HK dollar HK$ equivalent	%	US dollar HK$ equivalent	%	Others HK$ equivalent	%	Total HK$ equivalent
Financial assets							
Financial assets at fair value	553,898,015	43%	620,456,524	49%	106,723,062	8%	1,281,077,601
Interest receivable on financial assets at fair value	2,926,700	47%	2,692,454	43%	605,840	10%	6,224,994
Derivative financial instruments	86,106,350	46%	58,412,941	31%	43,758,862	23%	188,278,153
Unsettled investments receivable	835,019	48%	695,554	40%	205,350	12%	1,735,923
Debtors and deposits	150,219,827	100%	–	0%	–	0%	150,219,827
Bank deposits	763,990,000	100%	–	0%	–	0%	763,990,000
Cash and cash equivalents	1,170,660,243	97%	40,079,501	3%	117,015	0%	1,210,856,759
	2,728,636,154	76%	722,336,974	20%	151,410,129	4%	3,602,383,257
Financial liabilities							
Derivative financial instruments	43,187,757	23%	666,573	0%	145,106,904	77%	188,961,234
Unsettled investments payable	724,444	3%	22,292,532	97%	–	0%	23,016,976
Other payables, creditors and accrued charges	85,943,671	100%	26,891	0%	–	0%	85,970,562
Grants for the eMPF Platform Project	995,293,875	100%	–	0%	–	0%	995,293,875
Lease liabilities	204,732,610	100%	–	0%	–	0%	204,732,610
	1,329,882,357	88%	22,985,996	2%	145,106,904	10%	1,497,975,257
	1,398,753,797	66%	699,350,978	33%	6,303,225	1%	2,104,408,000

6. Financial Instruments (continued)

6.6 Currency risk (continued)

	2022						
	HK dollar HK$ equivalent	%	US dollar HK$ equivalent	%	Others HK$ equivalent	%	Total HK$ equivalent
Financial assets							
Financial assets at fair value	560,987,736	43%	669,587,878	51%	77,828,543	6%	1,308,404,157
Interest receivable on financial assets at fair value	2,767,026	50%	2,773,937	50%	–	0%	5,540,963
Derivative financial instruments	–	0%	74,650,346	96%	2,970,198	4%	77,620,544
Unsettled investments receivable	37,760	5%	618,003	77%	142,610	18%	798,373
Debtors and deposits	150,540,383	100%	–	0%	–	0%	150,540,383
Bank deposits	946,960,613	100%	–	0%	–	0%	946,960,613
Cash and cash equivalents	764,379,360	93%	54,545,910	7%	77,021	0%	819,002,291
	2,425,672,878	74%	802,176,074	24%	81,018,372	2%	3,308,867,324
Financial liabilities							
Derivative financial instruments	–	0%	2,964,473	4%	75,417,665	96%	78,382,138
Unsettled investments payable	5,993,321	13%	39,374,427	87%	–	0%	45,367,748
Other payables, creditors and accrued charges	50,158,341	100%	56,064	0%	–	0%	50,214,405
Grant for the eMPF Platform Project	668,137,418	100%	–	0%	–	0%	668,137,418
Lease liabilities	35,427,690	100%	–	0%	–	0%	35,427,690
	759,716,770	87%	42,394,964	5%	75,417,665	8%	877,529,399
	1,665,956,108	69%	759,781,110	31%	5,600,707	0%	2,431,337,925

6. Financial Instruments (continued)

6.7 Liquidity risk

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

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

As at the reporting date, the Group held cash and cash equivalents and deposits including interest receivable on bank deposits of HK$1,980,637,643 (2022: HK$1,766,776,062) that will be due orderly. Therefore, liquidity risk is considered to be minimal.

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

	2023			2022		
	≤1 month HK$	**1–3 months HK$**	**>3 months HK$**	≤1 month HK$	1–3 months HK$	>3 months HK$
Non-derivative financial liabilities						
Unsettled investments payable[1]	**23,016,976**	**–**	**–**	45,367,748	–	–
Other payables, creditors and accrued charges	**12,015,525**	**72,759,203**	**1,195,834**	15,286,079	17,565,066	17,363,260
Lease liabilities	**279,380**	**558,760**	**230,832,960**	4,441,422	8,897,402	22,088,866
Total	**35,311,881**	**73,317,963**	**232,028,794**	65,095,249	26,462,468	39,452,126
Derivative financial instruments						
Foreign currency forward contracts						
– Inflows	**86,094,133**	**102,184,020**	**–**	77,620,544	–	–
– Outflows	**(86,509,198)**	**(102,452,036)**	**–**	(78,382,138)	–	–
Total	**(415,065)**	**(268,016)**	**–**	(761,594)	–	–

1 The fund manager is not allowed to borrow money for the managed portfolio or hold a negative cash position on a trade date basis.

Regarding the Grant for eMPF Platform Project, the unspent balance of the Grant, at the request of the Government, shall be returned to the Government upon expiry or termination of the Grant Agreement.

6. Financial Instruments (continued)

6.8 Fair values

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

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

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

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

6.9 Fair value measurements recognised in the consolidated 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).

6. Financial Instruments (continued)

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

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

	2023 Level 1 HK$	 Level 2 HK$	 Level 3 HK$	 Total HK$
Financial assets				
Equity securities	**450,208,962**	**–**	**–**	**450,208,962**
Debt securities	**418,314,100**	**412,554,539**	**–**	**830,868,639**
Derivative financial instruments	**285,284**	**–**	**–**	**285,284**
	868,808,346	**412,554,539**	**–**	**1,281,362,885**
Financial liabilities				
Derivative financial instruments	**968,365**	**–**	**–**	**968,365**

	2022 Level 1 HK$	 Level 2 HK$	 Level 3 HK$	 Total HK$
Financial assets				
Equity securities	490,930,151	–	–	490,930,151
Debt securities	486,654,267	330,819,739	–	817,474,006
Derivative financial instruments	28,421	–	–	28,421
	977,612,839	330,819,739	–	1,308,432,578
Financial liabilities				
Derivative financial instruments	790,015	–	–	790,015

During the years ended 31 March 2023 and 2022, no financial assets or financial liabilities were classified under Level 3. During the years ended 31 March 2023 and 2022, there was no transfer between levels.

7. Fees and Charges

Fees and charges consisted of application fees, ARF and other annual fees, financial penalties and other charges arising from ORSO schemes and MPF schemes.

	2023 HK$	2022 HK$
Application fees	2,349,620	3,775,240
Annual fees		
– ARF [Note]	338,535,977	327,576,865
– other annual fees	14,889,637	15,589,970
Financial penalties	21,389,454	2,277,017
Other charges	496,837	342,793
	377,661,525	349,561,885

Note: Subsequent to the passage of the MPF Schemes (Amendment) Bill 2019 by the Legislative Council on 17 July 2020, the charging of ARF came into effect on 1 October 2020. Thereafter, MPF trustees are required to pay ARF to the MPFA at a rate of 0.03% on the respective schemes' net asset value. For the year ended 31 March 2023, ARF of HK$338,535,977 (2022: HK$327,576,865) was recognised in the Consolidated Income and Expenditure Account and the amount receivable of HK$116.20 million (2022: HK$130.24 million) was recognised in the Consolidated Statement of Financial Position. Refer to Note 23.

8. Net Investment Loss

	2023 HK$	2022 HK$
Interest income on financial assets at fair value	21,790,537	17,761,445
Dividends from financial assets at fair value	9,818,176	9,622,507
Net realised (loss)/gain on financial assets at fair value[1, 3]	(73,073,251)	88,050,770
Net change in unrealised gain/(loss) on financial assets at fair value[2, 3]	459,517	(142,079,180)
Net realised gain on derivative financial instruments[4]	4,190,409	7,417,627
Net change in unrealised gain/(loss) on derivative financial instruments[4]	78,514	(1,579,656)
	(36,736,098)	(20,806,487)

1 The amount included net realised foreign exchange loss of HK$2,114,436 (2022: net realised foreign exchange gain of HK$51,822) from foreign currency securities.

2 The amount included net change in unrealised foreign exchange gain of HK$1,086,043 (2022: HK$533,589) from foreign currency securities.

3 The MPFA contracts out the management of debt and equity securities to the external fund manager who makes investments in accordance with the global balanced mandates. Details of the Group's financial risk management objectives and policies are set out in Note 6.2.

4 The derivative financial instruments were held for hedging purpose (Note 6.6)

9. Other Income

Other income mainly included (i) government grant in relation to the eMPF Platform Project of HK$94.09 million (2022: HK$63.95 million); and (ii) government grant in relation to the Anti-epidemic Fund (AEF) of HK$5.02 million (2022: HK$9.43 million). Please refer to Note 21 for further information about government grant for eMPF Platform Project.

10. Taxation

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the MPFA is exempt from Hong Kong Profits Tax under section 88 of the Inland Revenue Ordinance. With the passage of the Mandatory Provident Fund Schemes (Amendment) Bill 2021 on 22 October 2021, section 6(4) of the Ordinance also exempts the Group from Hong Kong taxes.

11. Staff Costs

	2023 **HK$**	2022 HK$
Salary and performance related remuneration	**391,908,133**	362,967,249
Contributions to MPF schemes [Note]	**27,848,594**	26,322,262
Staff benefits	**10,230,505**	10,196,290
	429,987,232	399,485,801

Note: The Group operates three MPF schemes for all qualified employees. The assets of the MPF schemes are held separately from those of the Group and are under the control of trustees.

Staff costs include directors' emoluments as disclosed in Note 12. The total expenses recognised in the consolidated income and expenditure account represent contributions paid or payable to the MPF schemes at rates specified in the participation rules.

12. Directors' Emoluments

The aggregate emoluments of MPFA's senior staff members (Executive Directors) are set out below:

	2023 HK$	2022 HK$
Salary and other benefits	**11,892,041**	14,852,272
Contributions to MPF schemes	**1,328,113**	1,661,495
Variable pay	**1,661,091**	2,056,915
	14,881,245	18,570,682

The emoluments of the senior staff members (Executive Directors) of MPFA were within the following bands:

	2023 No. of employees	2022 No. of employees
HK$1,000,001 to HK$1,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**1**	2
HK$5,000,001 to HK$5,500,000	**1**	1
	4	5

13. Other Operating Expenses

Other operating expenses consisted of legal and professional expenses of HK$15.76 million (2022: HK$14.23 million) and other expenses of HK$32.75 million (2022: HK$29.33 million).

14. Property and Equipment

	Leasehold improvements HK$	Computer equipment HK$	Office equipment and furniture HK$	Total HK$
COST				
At 1 April 2021	50,799,036	40,428,720	24,211,469	115,439,225
Additions	781,880	4,199,985	282,422	5,264,287
Disposals	–	(3,097,116)	(90,574)	(3,187,690)
At 31 March 2022	51,580,916	41,531,589	24,403,317	117,515,822
Additions	5,457,832	9,601,922	3,530,447	18,590,201
Disposals	(2,890,614)	(4,649,136)	(734,646)	(8,274,396)
At 31 March 2023	54,148,134	46,484,375	27,199,118	127,831,627
DEPRECIATION				
At 1 April 2021	50,475,525	33,066,717	22,920,378	106,462,620
Charge for the year	502,181	4,013,560	514,257	5,029,998
Eliminated on disposals	–	(3,097,116)	(90,574)	(3,187,690)
At 31 March 2022	50,977,706	33,983,161	23,344,061	108,304,928
Charge for the year	1,491,565	3,875,468	932,175	6,299,208
Eliminated on disposals	(2,890,614)	(4,649,136)	(734,646)	(8,274,396)
At 31 March 2023	49,578,657	33,209,493	23,541,590	106,329,740
CARRYING AMOUNT				
At 31 March 2023	**4,569,477**	**13,274,882**	**3,657,528**	**21,501,887**
At 31 March 2022	603,210	7,548,428	1,059,256	9,210,894

As at 31 March 2023, leasehold improvement of the existing office amounted to HK$48.60 million with net book value of HK$0.04 million is expected to be disposed due to office relocation in April 2023.

15. Leases

This note provides information for leases where the Group is a lessee.

15.1 Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2023 HK$	2022 HK$
Right-of-use assets		
Office premises and storage space	**218,112,364**	35,378,612
Lease liabilities		
Current	**21,262,738**	29,611,736
Non-current	**183,469,872**	5,815,954
	204,732,610	35,427,690

During the year ended 31 March 2023, additions to the right-of-use assets amounted to HK$238,292,423 (2022: HK$15,404,055), of which HK$216,179,683 is related to the lease of new office being effective from 1 January 2023.

15.2 Amounts recognised in the consolidated income and expenditure account

The consolidated income and expenditure account shows the following amounts relating to leases:

	2023 HK$	2022 HK$
Depreciation charge of right-of-use assets		
Office premises and storage space	**55,558,671**	49,149,284
Interest expense on lease liabilities (included in finance cost)	**2,073,464**	683,679

The total cash outflow for leases during the year ended 31 March 2023 was HK$47,767,491 (2022: HK$49,608,278).

15. Leases (continued)

15.3 The Group's leasing activities and how these are accounted for

The Group leases various office premises and storage space. Rental contracts are typically made for fixed periods of two to seven years (2022: two to four years), but may have extension options as described in the paragraph below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Extension and termination options

Extension and termination options are included in a number of leases of office premises across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

16. Intangible Assets

	Computer software licenses HK$	Software development costs HK$	Total HK$
COST			
At 1 April 2021	27,233,857	52,493,122	79,726,979
Additions	3,403,322	4,389,536	7,792,858
Disposals	(186,025)	–	(186,025)
At 31 March 2022	30,451,154	56,882,658	87,333,812
Additions	2,876,507	5,532,980	8,409,487
At 31 March 2023	33,327,661	62,415,638	95,743,299
AMORTISATION			
At 1 April 2021	22,403,411	46,107,172	68,510,583
Charge for the year	2,151,833	3,263,383	5,415,216
Eliminated on disposals	(186,025)	–	(186,025)
At 31 March 2022	24,369,219	49,370,555	73,739,774
Charge for the year	2,645,267	3,594,957	6,240,224
At 31 March 2023	27,014,486	52,965,512	79,979,998
CARRYING AMOUNT			
At 31 March 2023	**6,313,175**	**9,450,126**	**15,763,301**
At 31 March 2022	6,081,935	7,512,103	13,594,038

17. Projects in Progress

Projects in progress consisted of expenditure of capital projects including IT projects and renovation of new office not yet completed as at 31 March 2023 amounting to HK$83,139,389 (2022: HK$7,449,511).

18. Financial Assets at Fair Value

	2023 HK$	2022 HK$
Equity securities		
Listed	**450,208,962**	490,930,151
Debt securities		
Listed	**495,114,412**	476,927,331
Unlisted	**335,754,227**	340,546,675
	830,868,639	817,474,006
Total		
Listed	**945,323,374**	967,857,482
Unlisted	**335,754,227**	340,546,675
	1,281,077,601	1,308,404,157

19. Derivative Financial Instruments

	2023		2022	
	Assets HK$	**Liabilities HK$**	Assets HK$	Liabilities HK$
Foreign currency forward contracts	**285,284**	**968,365**	28,421	790,015

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

The notional principal amount of the outstanding foreign currency forward contracts as at 31 March 2023 was HK$188,961,234 (2022: HK$78,382,138). The contractual maturity of these foreign exchange forward contracts was within 12 months.

20. 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.

21. Grant for the eMPF Platform Project

21.1 Grant for the eMPF Platform Project

According to the Grant Agreement dated 30 December 2019 entered into between the MPFA and the Government, funding support (the Grant) will be arranged by the Government for the provision to the MPFA for carrying out the eMPF Platform Project by the MPFA jointly with or through the Company. The Grant is to be disbursed in relation to reimbursement of expenses already incurred by the MPFA for the eMPF Platform Project, as well as to be disbursed on an annual basis in relation to the expenditure in accordance with the amount of budget approved by the Government in the Annual Budget and Work Plan (BWP) of the eMPF Platform Project, and paid into a separate bank account maintained by the MPFA (the Designated Account) which the cash balance in the Designated Account should only be used for the purpose of the eMPF Platform Project. Upon expiry or termination of the Grant Agreement and at the request of the Government, the MPFA shall return to the Government all accumulated unspent balance including unspent bank interest income.

In January 2021, the MPFA entered into an agreement (the Core Contract) with the contractor who was awarded the eMPF Platform Project and subsequently the MPFA also entered into contracts with other contractors in relation to the eMPF Platform (the Other Contracts). The MPFA and the Company have been steering and monitoring the contractors in developing the eMPF Platform.

The Company was established on 5 March 2021. According to an agreement (Undertaking Agreement) entered into between the MPFA and the Company on 14 December 2021, (a) the MPFA agrees to provide funding from the Grant for the payment of the relevant expenditure upon the Core Contract and Other Contracts have been novated from the MPFA to the Company (Contract Novation) and (b) the Company obliges to comply with the terms and conditions of the Grant Agreement and the approved BWP.

On 1 January 2022, the Core Contract, and the Other Contracts in relation to the eMPF Platform Project and the relevant assets including property and equipment of HK$1.47 million, intangible assets of HK$0.24 million, deposit and prepayments of HK$0.70 million and eMPF Platform of HK$66.98 million (in total of HK$69.39 million) have been novated and transferred from the MPFA to the Company (Contract Novation). Since then, the transactions with the contractors in relation to Contract Novation have been reflected in the books and records of the Company.

As at 31 March 2023, the balance of the Grant was HK$995.29 million (2022: HK$668.14 million). During the year ended 31 March 2023, a total of HK$625.48 million (2022: HK$615.09 million) grant was received by the Group in accordance with the Grant Agreement, covering BWP for 2023–24 (2022: 2021–22 and 2022–23).

During the year ended 31 March 2023, the Grant utilised as operating expenditure by the Group in relation to the eMPF Platform Project amounted to HK$94.09 million (2022: HK$63.95 million) with the same corresponding amount of other income from the Grant were recognised in the Consolidated Income and Expenditure Account.

21. Grant for the eMPF Platform Project (continued)

21.1 Grant for the eMPF Platform Project (continued)

As at 31 March 2023, the assets capitalised in relation to the eMPF Platform Project by the Group amounted to HK$396.57 million (2022: HK$188.46 million) and the same corresponding amounts of deferred grant income from the Grant were recognised in the Consolidated Statement of Financial Position as at 31 March 2023.

The Grant will be fully transferred to the Company once the MPFA received it from the Government. During the year ended 31 March 2023, fund available for the eMPF Platform Project of HK$1,290.48 million was transferred from the MPFA to the Company after the Company's bank account was opened for operational needs of the eMPF Platform Project in July 2022.

The movement of the unspent balance of the Grant for the years ended 31 March 2023 and 2022 are as follows:

	2023 HK$ million	2022 HK$ million
Balance, beginning of year	**668.14**	348.61
Government grant received during the year [Note]	**625.48**	615.09
Government grant utilised in respect of operating expenditure incurred during the year and in prior years	**(92.08)**	(107.13)
Amount recognised as deferred grant income in relation to assets acquired for the eMPF Platform Project	**(210.13)**	(188.81)
Interest income from the Designated Account	**3.88**	0.38
Unspent balance	**995.29**	668.14

Note: The Government grant received during the year ended 31 March 2023 included a one-off cash advance of HK$195.50 million for the eMPF Platform Project, which should be repaid to the Government in subsequent years with forecast surplus.

21.2 eMPF Platform

The eMPF Platform balance of HK$381.65 million (2022: HK$185.63 million) consisted of milestone payments made to the Core Contract for the development of eMPF Platform amounting to HK$352.24 million (2022: HK$176.12 million) and costs of setting up and operating data centre for eMPF Platform during development phase amounting to HK$29.21 million (2022: HK$9.31 million), as well as costs of tools and services directly attributable to developing the eMPF Platform amounting to HK$0.20 million (2022: HK$0.20 million). The eMPF Platform Project has yet to be completed as at 31 March 2023.

22. Investment in eMPF Platform Company Limited

Nature of entity	Place of business/ incorporation	% of ownership interest		Carrying amount	
		2023	2022	**2023**	2022
		%	%	**HK$**	HK$
eMPF Platform Company Limited	Hong Kong	**100**	100	**10,000**	10,000

The Company is a limited liability company incorporated on 5 March 2021. The principal activities are to design, build and operate a common electronic platform, the eMPF Platform, to standardise, streamline and automate the administration processes of the Mandatory Provident Fund schemes of Hong Kong. The Company is accounted for as an entity following its formation with an issued share capital of HK$10,000 and wholly owned by the MPFA. Refer to Note 1 for details.

23. Annual Registration Fee Receivable and Deferred Revenue

Included in the debtors, deposits and prepayments was a balance of HK$116.20 million (2022: HK$130.24 million) relating to ARF due from trustees as at 31 March 2023.

During the year ended 31 March 2023, ARF of HK$338.54 million (2022: HK$327.58 million) (Note 7) was recognised in the consolidated income and expenditure account and balance of deferred revenue of HK$104.67 million (2022: HK$118.57 million) was recorded in the Consolidated Statement of Financial Position as at 31 March 2023.

	2023	2022
	HK$ million	HK$ million
Deferred grant income	**396.57**	188.46
ARF	**104.67**	118.57
AEF	**0.40**	0.22
Total deferred revenue	**501.64**	307.25
Non-current portion	**390.49**	186.81
Current portion	**111.15**	120.44
Total	**501.64**	307.25

As at 31 March 2023 and 2022, the deferred grant income represents balances in relation to eMPF Platform, property and equipment, intangible assets, projects in progress, deposit and prepayments, which will be recognised in the consolidated income and expenditure account when the eMPF Platform is ready to use or on a straight-line basis over the useful life of the related assets in subsequent financial periods.

24. Creditors, Other Payables and Accrued Charges

	2023 HK$	2022 HK$
Creditors, other payables and accrued charges	**139,478,253**	41,421,704
Provision for reinstatement costs	**33,860,135**	14,121,981
	173,338,388	55,543,685
Current portion	**156,169,853**	54,695,125
Non-current portion	**17,168,535**	838,560
Total	**173,338,388**	55,533,685

25. Loans to Directors and Executives

There were no loans to directors or executives during the years ended 31 March 2023 and 2022 and no loans were outstanding at 31 March 2023 and 2022.

26. Capital Commitments

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

	2023 HK$	2022 HK$
Contracted but not provided for	**863,341,543**	1,063,163,740

27. Mandatory Provident Fund Schemes Compensation Fund

Section 17 of the Ordinance requires the MPFA to establish a compensation fund and the MPFA may appoint an administrator for the compensation fund or where there is no such administrator, the MPFA must administer the compensation fund. The MPFA continues to administer the compensation fund until 31 March 2025 (2022: until 31 March 2025). The Mandatory Provident Fund Schemes (General) Regulation requires the compensation fund to be maintained in separate bank accounts and separate financial statements are to be prepared in respect of the fund. The seed money of the compensation fund and the capital grant of the MPFA are both funded by the Government.

Recoveries from the Mandatory Provident Fund Schemes Compensation Fund represents the recouping of expenses incurred by the MPFA for its services provided in administering the compensation fund.

28. Events after the Reporting Period

Subsequent to the year ended 31 March 2023, the contractor who was awarded the eMPF Platform Project was unable to deliver a functional eMPF Platform in accordance with the development schedule and requirements of the Core Contract. The Company is in the process of undertaking necessary actions according to the Core Contract and assessing the financial effect relating to the delay in the delivery of development work performed by the contractor to the Company.