Independent Auditor's Report

Deloitte. 德勤

THE MANDATORY PROVIDENT FUND SCHEMES COMPENSATION FUND
(Established in Hong Kong under the Mandatory Provident Fund Schemes Ordinance)

Opinion

We have audited the financial statements of the Mandatory Provident Fund Schemes Compensation Fund (the "Fund") set out on pages 227 to 244, which comprise the statement of financial position as at 31 March 2026, and the income and expenditure account, statement of changes in capital and reserve and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2026, and of its financial performance and its cash flows for the year then ended in accordance with HKFRS Accounting Standards as 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") as 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Administrator and Those Charged with Governance 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 HKFRS Accounting Standards as 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.

Those charged with governance 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 solely to you 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 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 financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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.

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

- 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 those charged with governance 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.

The engagement partner on the audit resulting in this independent auditor's report is CHAN, Wo Mi (practising certificate number: P05133).

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
25 June 2026

Income and Expenditure Account

For the year ended 31 March 2026

	NOTES	**2026 HK$'000**	2025 HK$'000
INCOME			
Interest income on bank deposits		**48,813**	72,045
Net investment income	6	**22,117**	47,562
		70,930	119,607
EXPENDITURE			
Auditor's remuneration		**102**	100
Administrative service expenses	11	**1,089**	1,127
Investment expenses		**110**	103
Other operating expenses		**2**	3
		1,303	1,333
SURPLUS FOR THE YEAR		**69,627**	118,274

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.

Statement of Financial Position

At 31 March 2026

	NOTES	2026 HK$'000	2025 HK$'000
CURRENT ASSETS			
Financial investments	8	**566,187**	546,351
Interest receivable on bank deposits		**12,193**	7,986
Bank deposits		**1,731,775**	1,450,979
Cash and cash equivalents		**100**	235,301
		2,310,255	2,240,617
CURRENT LIABILITY			
Creditors and accrued charges		**1,216**	1,205
NET ASSETS		**2,309,039**	2,239,412
CAPITAL AND RESERVE			
Seed money	10	**600,000**	600,000
Income and expenditure account		**1,709,039**	1,639,412
		2,309,039	2,239,412

The financial statements on pages 227 to 244 were approved and authorized for issue by the Mandatory Provident Fund Schemes Authority, as the Administrator of the Fund, on 25 June 2026 and are signed on its behalf by:

Cheng Yan-chee
Managing Director
of the Mandatory Provident Fund Schemes Authority

Statement of Changes in Capital and Reserve

For the year ended 31 March 2026

	Seed money HK$'000	Income and expenditure account HK$'000	Total HK$'000
At 1 April 2024	600,000	1,521,138	2,121,138
Surplus for the year	–	118,274	118,274
At 31 March 2025	600,000	1,639,412	2,239,412
Surplus for the year	–	69,627	69,627
At 31 March 2026	**600,000**	**1,709,039**	**2,309,039**

Statement of Cash Flows

For the year ended 31 March 2026

	2026 HK$'000	2025 HK$'000
OPERATING ACTIVITIES		
Surplus for the year	69,627	118,274
Adjustments for		
Interest income on bank deposits	(48,813)	(72,045)
Dividends from financial investments	(3,113)	(3,113)
Net gain on financial investments	(19,004)	(44,449)
Operating cash flows before movements in working capital	(1,303)	(1,333)
Increase/(decrease) in creditors and accrued charges	11	(49)
NET CASH USED IN OPERATING ACTIVITIES	(1,292)	(1,382)
INVESTING ACTIVITIES		
Dividends received from financial investments	3,113	3,113
Interest received on bank deposits	44,606	74,797
Proceeds on disposals of financial investments	494,000	487,000
Purchase of financial investments	(494,832)	(493,218)
Maturity of bank deposits[1]	3,060,250	3,916,088
Placement of bank deposits[1]	(3,341,046)	(3,938,205)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(233,909)	49,575
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(235,201)	48,193
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	235,301	187,108
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	100	235,301
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and deposits at or with original maturities of 3 months or less	50	235,251
Balances held at custodian	50	50
	100	235,301

1 As at 31 March 2026, bank deposits with original maturities of more than 3 months amounted to HK$1,731,775,000 (2025: HK$1,450,979,000).

Notes to the Financial Statements

For the year ended 31 March 2026

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 of the Fund (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 12, Tower 1, The Millennity, 98 How Ming Street, Kwun Tong, Hong Kong.

The financial statements are presented in thousands of Hong Kong dollars (HK$'000), which is the same as the functional currency of the Fund.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRS ACCOUNTING STANDARDS

Amendments to an HKFRS Accounting Standard that are mandatorily effective for the current year

In the current year, the Fund has applied the following amendments to an HKFRS Accounting Standard as issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) relevant to the Fund for the first time, which are mandatorily effective for the Fund's annual period beginning on 1 April 2025 for the preparation of the financial statements:

Amendments to HKAS 21	Lack of Exchangeability

The application of the amendments to an HKFRS Accounting Standard in the current year has had no material impact on the Fund's financial positions and performance for the current and prior years and/or on the disclosures set out in the financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRS ACCOUNTING STANDARDS (Continued)

New and amendments to HKFRS Accounting Standards in issue but not yet effective

The Fund has not early applied the following new and amendments to HKFRS Accounting Standards relevant to the Fund that have been issued but are not yet effective:

Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments[1]
Amendments to HKFRS Accounting Standards	Annual Improvements to HKFRS Accounting Standards – Volume 11[1]
HKFRS 18	Presentation and Disclosure in Financial Statements[2]

1 Effective for annual periods beginning on or after 1 January 2026.

2 Effective for annual periods beginning on or after 1 January 2027.

Except for the new HKFRS Accounting Standard mentioned below, the Fund anticipates that the application of all new and amendments to HKFRS Accounting Standards will have no material impact on the financial statements in the foreseeable future.

HKFRS 18 Presentation and Disclosure in Financial Statements (HKFRS 18)

HKFRS 18, which sets out requirements on presentation and disclosures in financial statements, will replace HKAS 1 Presentation of Financial Statements. This new HKFRS Accounting Standard, while carrying forward many of the requirements in HKAS 1, introduces new requirements to present specified categories and defined subtotals in the income and expenditure account; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. In addition, some HKAS 1 paragraphs have been moved to HKAS 8 and HKFRS 7. Minor amendments to HKAS 7 Statement of Cash Flows and HKAS 33 Earnings per Share are also made.

HKFRS 18 will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. HKFRS 18 requires retrospective application with specific transition provisions. The application of the new standard is not expected to have significant impact on the financial performance and positions of the Fund in terms of recognition and measurement. However, it is expected to affect the structure and presentation of the income and expenditure account.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of preparation of financial statements

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 HKFRS Accounting Standards as issued by the HKICPA.

Material accounting policy information

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

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. Refer to Note 9 for details.

Interest income received 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 income or expenditure, which is recognized as part of net investment income.

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

3.2 Financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Fund becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized 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. 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 recognized immediately in the income and expenditure account.

3. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Material accounting policy information (continued)

3.3 Financial assets

(a) Recognition and measurement

The Fund's financial assets include financial assets at fair value through income or expenditure and financial assets measured at amortized cost.

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 income or expenditure, transaction costs that are directly attributable to the acquisition of the financial asset.

Effective interest method is used to calculate the amortized 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 recognized 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 or to hold the assets to collect contractual cash flows and to sell them, the Fund subsequently assesses whether the financial assets cash flows represent solely payments of principal and interest. In doing so 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 income or expenditure. In addition, if the business model is neither held to collect nor held to collect and to sell, then the financial asset is also measured at fair value through income or expenditure.

(i) Financial assets at fair value through income or expenditure

All the Fund's financial assets measured at fair value through income or expenditure, including financial investments and derivative financial instruments, are mandatorily measured at fair value. Gains or losses, as well as any dividend or interest earned on the financial assets, will be recorded in the income and expenditure account and included in the "net investment income" line item.

3. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Material accounting policy information (continued)

3.3 Financial assets (continued)

(b) Classification (continued)

(ii) Financial assets at amortized cost

Financial assets at amortized 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 amortized cost. Financial assets at amortized cost mainly consist of interest receivable on bank deposits, bank deposits and cash and cash equivalents. Any gain or loss on derecognition and impairment losses are recognized in the income and expenditure account.

3.4 Impairment of financial assets

The Fund measures the expected credit losses equal to 12 months expected credit loss, unless there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date, in which case the Fund recognizes lifetime expected credit loss. The Fund assesses on forward looking basis the expected credit losses associated with its financial assets measured at amortized cost. Note 5.3 sets out information about the impairment of financial assets and the Fund's exposure to credit risk.

Any impairment losses are recognized in the income and expenditure account.

(a) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, in particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external credit rating (if available);
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the issuer's or counterparty's ability to meet its obligations;
- an actual or expected significant deterioration in the operating results of the issuer or counterparty; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the issuer or counterparty that results in a significant decrease in the issuer's or counterparty's ability to meet its obligations.

3. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Material accounting policy information (continued)

3.4 Impairment of financial assets (continued)

(a) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Fund has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Fund assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

(b) Definition of default

For internal credit risk management, the Fund considers an event of default occurs when information developed internally or obtained from external sources indicates that the issuer or counterparty is unlikely to pay its creditors, including the Fund, in full (without taking into account any collaterals held by the Fund).

Irrespective of the above, the Fund considers that default has occurred when a financial asset is more than 90 days past due unless the Fund reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(c) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event; and
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganization.

3. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Material accounting policy information (continued)

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 amortized cost using the effective interest method.

Effective interest method is used to calculate the amortized 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 derecognized 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 recognized in the income and expenditure account.

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

3.7 Cash and cash equivalents

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

3.8 Creditors and accrued charges

Creditors and accrued charges are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors and accrued charges are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

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.

5. FINANCIAL INSTRUMENTS

5.1 Categories of financial instruments

	2026 HK$'000	2025 HK$'000
Financial assets		
Measured at fair value through income and expenditure	**566,187**	546,351
At amortized cost	**1,744,068**	1,694,266
Financial liabilities		
At amortized cost	**1,216**	1,205

5.2 Financial risk management

The Fund's major financial instruments include bank deposits, cash and cash equivalents, financial investments and interest receivable on bank deposits and creditors. The strategic investment allocation was set using a statistical approach. A set of investment guidelines (the Investment Guidelines) approved by the MPFA's Finance Committee 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 around 4% (2025: 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.

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 on bank deposits.

5. FINANCIAL INSTRUMENTS (Continued)

5.3 Credit risk (continued)

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

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:

	2026		2025	
Credit rating	**HK$'000**	**% of net assets**	HK$'000	% of net assets
AA[1]	**464,789**	**20%**	451,502	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 on bank deposits 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 for the assets subject to 12 months expected credit loss measurement 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.

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.

5. FINANCIAL INSTRUMENTS (Continued)

5.4 Interest rate risk (continued)

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 25 basis points (2025: 50 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 25 basis points (2025: 50 basis points) on average throughout the year, with all other variables being held constant, surplus for the year would have increased or decreased by HK$4.3 million (2025: HK$8.4 million).

The investment portfolio is exposed to the interest rate risk in relation to holdings in debt securities. Such risks may be mitigated by reducing the asset weighting and portfolio duration of the debt securities portfolio. The Fund invests mainly in short-term HK dollar debt securities with maturity up to two years (2025: up to two years).

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

	2026 **Years**	2025 Years
Portfolio duration	**0.45**	0.46

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 25 basis points (2025: 50 basis points) movements. As at the reporting date, if interest rate had fluctuated by 25 basis points (2025: 50 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	
	2026 **HK$'000**	2025 HK$'000
If interest rate were 25 basis points lower in 2026 (50 basis points lower in 2025)	**528**	1,046
If interest rate were 25 basis points higher in 2026 (50 basis points higher in 2025)	**(528)**	(1,046)

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 2026, if the Hong Kong stock market had increased or decreased by 20% (2025: 20%) with all other variables held constant and all the equity instruments moved according to the historical relationship with the Hong Kong stock market, surplus for the year would have increased or decreased by HK$20.3 million (2025: HK$18.8 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 2026, the Fund held cash and cash equivalents and deposits including interest receivable on bank deposits of HK$1,744,068,000 (2025: HK$1,694,266,000) that are highly liquid. In addition, the Fund held marketable securities of HK$566,187,000 (2025: HK$546,351,000), which could be readily realized to provide a further source of cash if the need arose. Therefore, liquidity risk is considered to be minimal.

As at 31 March 2026, the creditors and accrued charges of the Fund included substantially payable to the MPFA amounted to HK$1,216,000 (2025: HK$1,205,000) 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 amortized costs approximate the corresponding carrying amounts.

5. FINANCIAL INSTRUMENTS (Continued)

5.9 Fair value measurements recognized in the statement of financial position

The fair value measurements of financial assets and liabilities are categorized 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).

	2026			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Equity securities	**101,398**	**–**	**–**	**101,398**
Debt securities	**–**	**464,789**	**–**	**464,789**
	101,398	**464,789**	**–**	**566,187**

	2025			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Equity securities	94,849	–	–	94,849
Debt securities	–	451,502	–	451,502
	94,849	451,502	–	546,351

During the years ended 31 March 2026 and 2025, no financial assets were classified under Level 3 and there were no transfers between levels.

6. NET INVESTMENT INCOME

	2026 HK$'000	2025 HK$'000
Dividends from financial investments	**3,113**	3,113
Net gain on financial investments	**19,004**	44,449
	22,117	47,562

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 INVESTMENTS

	2026 HK$'000	2025 HK$'000
Equity securities		
Listed	**101,398**	94,849
Debt securities		
Unlisted	**464,789**	451,502
Total		
Listed	**101,398**	94,849
Unlisted	**464,789**	451,502
	566,187	546,351

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.

9. EXEMPTION OF LEVY (Continued)

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 trustees 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 as seed money of the Fund.

11. ADMINISTRATIVE SERVICE EXPENSES

Administrative service expenses represent the expenses incurred by the MPFA for its services provided in administering the Fund.