



Mandatory Provident Fund
Schemes Authority

Make careful
DECISIONS



Annual Report 2009/10

Contents

- 1 MPFA at a Glance
- 2 Statistical Highlights
- 3 Major Results and Future Initiatives
- 8 Chairman's Statement
- 12 Managing Director's Report
- 16 The Management Board
- 22 MPF Schemes Advisory Committee
- 24 MPF Industry Schemes Committee



Our Business Operations

- 27 Refining the Regulatory Framework
- 31 Protecting the Interests of Scheme Members
- 35 Supervising the Industry
- 43 Educating the Public and Reaching Out to the Community
- 49 Preparing for the Implementation of the Employee Choice Arrangement
- 52 Concluding the Government's Injection of Special Contributions into the Accounts of Eligible MPF and ORSO Scheme Members



Our Organization and Our Staff

- 55 Corporate Governance
- 63 The Management Team
- 64 The Organization Structure
- 65 Our Staff and Financial Resources
- 68 Caring for the Community
- 70 International Exchanges



Financial Statements, Statistics, Appendices

- 72 Financial Statements – MPFA
- 94 Financial Statements – Compensation Fund
- 107 Statistics
- 126 Appendices

MPFA at a Glance

Who We Are

The Mandatory Provident Fund Schemes Authority (MPFA) is a statutory body established in September 1998 to regulate and supervise mandatory provident fund (MPF) schemes and occupational retirement schemes (ORSO schemes).

MPF schemes are mandatory and privately managed contribution schemes. The MPF System has been in operation since December 2000. ORSO schemes are retirement schemes set up voluntarily by employers to provide retirement benefits for their employees. Prior to the launch of the MPF System, employers operating ORSO schemes had the option to apply for exemption from MPF requirements.

Mission

To ensure the provision of retirement protection for Hong Kong's workforce through an effective and efficient system of prudential regulation and supervision of privately managed provident fund schemes.

"MPF - A way of life"

Core Values

Commitment

Quality

Teamwork

Community Perspective

STATISTICAL HIGHLIGHTS

	As at 31 Mar 2010	As at 31 Mar 2009
About MPF schemes		
Enrolment rates (with number of participating members in brackets)		
Employers	99.6% (239 000)	99.3% (236 700)
Employees	99.9% (2 207 000)	97.3% (2 201 500)
Self-employed persons	74.0% (262 600)	74.1% (266 000)
Number of approved trustees	19	19
Number of registered schemes	38	38
Number of approved constituent funds	365	340
Number of approved pooled investment funds	296	306
Number of approved index-tracking collective investment schemes	96	95
Aggregate net asset value of all schemes	\$317.31 billion	\$217.74 billion
Annual contribution amount*	\$36,011 million	\$43,418 million
Annualized internal rate of return for the MPF System since 1 Dec 2000	4.8%	-0.8%
Total value of the Compensation Fund	\$1.39 billion	\$1.25 billion
About ORSO schemes		
Total number of schemes	6 902	7 178
Exempted schemes:		
Number of schemes	2 047	2 089
Registered schemes:		
Number of schemes	4 855	5 089
Number of employees covered	447 000	463 000
Aggregate net asset value of all schemes	\$208.54 billion	\$259.51 billion
Annual contribution amount	\$16,302 million	\$15,273 million

* Includes the Government's injection of special contributions into accounts of eligible scheme members, totalling \$8.41 billion.

MAJOR RESULTS AND FUTURE INITIATIVES

The major results of the MPFA's work in the financial year 2009-10, as well as the initiatives to be taken in 2010-11 and beyond, are set out below.

Objective 1:

To ensure that the MPF System fulfills its role in providing retirement protection

Major results in 2009-10	More information	Initiatives in 2010-11 and beyond
Review of the regulatory framework and refinements		
<ul style="list-style-type: none">Followed up the proposal on Employee Choice Arrangement and attended to the enactment of the Mandatory Provident Fund Schemes (Amendment) Bill 2009Reviewed the current regulatory regime of sales and marketing activities of MPF productsExplored measures to enhance the protection of MPF assets invested through insurance policiesCompleted the groundwork for a review of the minimum and maximum levels of relevant income for MPF contribution purposeEmbarked on a review of the regime of information disclosure to scheme membersCommenced working on a comprehensive review of the withdrawal of MPF benefits	<p>Page 27</p> <p>Page 28</p> <p>Page 28</p> <p>Page 28</p> <p>Page 29</p> <p>Page 29</p>	<ul style="list-style-type: none">Explore options to improve the current regulatory regime of sales and marketing activities of MPF productsWork with the industry on solutions identified to protect MPF assets invested through insurance policiesConclude the review of the minimum and maximum levels of relevant income and report the findings to the GovernmentAssess the adequacy of channels for delivering the informationComplete an initial review of the regulation of withdrawal of MPF benefits and consider recommendations and broader consultation

MAJOR RESULTS AND FUTURE INITIATIVES (cont'd)

Major results in 2009-10	More information	Initiatives in 2010-11 and beyond
Preparation for implementing Employee Choice Arrangement		
<ul style="list-style-type: none"> Agreed with MPF trustees in principle on a set of operational policies Worked out the functional and data requirements of an electronic platform for trustees to transmit data to each other to facilitate the transfer of accrued benefits Worked with core Continuing Professional Development course providers to provide training to MPF intermediaries on Employee Choice Arrangement and selling conduct Drew up a phased publicity and communication plan on Employee Choice Arrangement and conducted briefing sessions for stakeholders Agreed with MPF trustees the data requirements for a Personal Account Register, and started the system development work 	Page 49 Page 50 Page 50 Page 51 Page 50	<ul style="list-style-type: none"> Finalize operational policies and set up requisite systems and administrative processes Complete the development of the electronic platform for transmitting data on transfer of accrued benefits Ensure all MPF intermediaries have completed training on Employee Choice Arrangement Launch phased education/publicity programmes to dovetail with the implementation of Employee Choice Arrangement Establish the Personal Account Register to facilitate scheme members' management of their MPF accounts
Member protection		
<ul style="list-style-type: none"> Recovered \$166.7 million in default MPF contributions on behalf of employees Reviewed and enhanced the process of handling employers' appeals against surcharge notices, and reviewed issues related to trustees' administration systems and services in respect of processing of contributions 	Page 33 Page 33	<ul style="list-style-type: none"> Increase the visibility of enforcement actions to enhance deterrent effect, e.g. publish a list of non-compliant employers on MPFA's website Implement new strategies to further streamline the surcharge notice issuing and appeals handling processes

Major results in 2009-10	More information	Initiatives in 2010-11 and beyond
Supervision		
<ul style="list-style-type: none"> Started a round of on-site visits to review investment compliance control and fund governance arrangements of MPF trustees and MPF investment fund managers 	Page 35	<ul style="list-style-type: none"> Complete the current round of on-site visits and develop best practices on investment compliance arrangements based on the information gained from the visits
<ul style="list-style-type: none"> Studied the marketing and selling practices of MPF trustees and intermediaries and issued a best practice note to MPF trustees to guide their supervision of intermediaries 	Page 37	<ul style="list-style-type: none"> Initiate a review of MPF trustees' scheme administration functions, and issue best practice notes on the functions reviewed
<ul style="list-style-type: none"> Introduced quality assurance arrangements for Continuing Professional Development courses for MPF intermediaries 	Page 37	<ul style="list-style-type: none"> Issue guidance to MPF intermediaries on conduct relating to MPF product selling
<ul style="list-style-type: none"> Completed the selection of MPF trustees to operate Industry Schemes upon the expiry of current licences at the end of 2010 	Page 39	<ul style="list-style-type: none"> Assess MPF trustees' implementation of the best practice note on supervision of intermediaries Consider further measures to enhance conduct standards of MPF intermediaries
		<ul style="list-style-type: none"> Award licences to successful applicants for operating Industry Schemes

MAJOR RESULTS AND FUTURE INITIATIVES (cont'd)

Objective 2:

To strengthen public support and deepen their understanding of the MPF System and investments

Major results in 2009-10	More information	Initiatives in 2010-11 and beyond
Public education and publicity		
• Launched programmes of the MPF Investment Education Campaign to educate scheme members on decision making at various stages of their MPF investment journey	Page 43	• Roll out planned programmes under the current MPF Investment Education Campaign to bring investment education messages to the general public
• Launched education programmes for selected target groups including self-employed persons and Industry Scheme members	Page 44	• Organize renewed education and publicity activities for self-employed persons and Industry Scheme members
• Educated the younger generation through parenting programmes and programmes in schools and other educational institutes on the importance of financial planning and saving for the future	Page 45	• Produce a new corporate video to incorporate important developments in the MPF System • Revamp the functions and content of MPFA's website

Objective 3:

To ensure that the MPFA has the ability to deliver the planned programmes

Major results in 2009-10	More information	Initiatives in 2010-11 and beyond
Corporate services		
• Reviewed the structure and resources of various divisions to cater for new regulatory activities and new policy developments in the MPF System • Issued a Career Profile Guide to help staff understand their career prospects and how they can achieve their career goals	Page 61, Page 65 Page 66	• Review the top management structure and the resources of various divisions to meet business needs • Explore the desirability of introducing a management trainee programme for talent development

Major results in 2009-10	More information	Initiatives in 2010-11 and beyond
<ul style="list-style-type: none"> • Developed and implemented a long service award scheme • Adopted green measures in office operations and participated in community work • Awarded the Caring Organization logo for the fifth year 	Page 66 Pages 68-69 Page 68	<ul style="list-style-type: none"> • Establish an Occupational Safety Charter and an Environmental Protection Charter to promulgate the values and practices that underpin a green, safe and healthy working environment • Continue to extend MPFA's caring services to the community

Special project:

To implement the HKSAR Government's initiatives of injecting \$6,000 into the account of each eligible MPF/ORSO scheme member who earns \$10,000 or less a month (The "Government's Injection Project")

Major results in 2009-10	More information	Initiatives in 2010-11 and beyond
<ul style="list-style-type: none"> • Completed the injection processes for all eligible recipients • Completed the handling of requests for review of eligibility and appeals 	Page 52 Page 53	<ul style="list-style-type: none"> • Engage an independent auditor to undertake a review of the Project accounts

CHAIRMAN'S STATEMENT



After six years as a non-executive director of the MPFA in 1998-2005, it is an extraordinary experience for me to rejoin the organization as its Chairman. Delighted with the firm strides that the MPF System has made towards ensuring better retirement protection for our working population, I am immensely grateful to the past Chairmen for having laid a robust foundation for its continued development. While the System has already been up and running for more than nine years, there is no reason for complacency. After all, it is the result of over 30 years' debate for a suitable retirement protection system for Hong Kong. We have the responsibility to make it work, further develop it, improve it and refine it.

REFORMS TO ENHANCE THE MPF SYSTEM

The MPF System is entering its 10th year of operation. The number 10 tends to trigger notions of milestones, reviews and reforms. In fact, ever since the MPF System's launch, the MPFA has never stopped making improvements to it; smoothing and streamlining the operations in early years, and more recently, implementing more fundamental policy changes, such as increasing the penalty on defaulting employers and improving the transparency of fees and facts about funds. All were for the purpose of improving and refining the MPF System in the interest of the working population.

Over the years, the MPFA has identified a list of reform issues for the MPF System, many of which require long term planning and development. During the year, we reviewed and prioritized the items on the list.

Employee Choice Arrangement

With the passage of the MPF Schemes (Amendment) Bill 2009 in July 2009, a reform which will lead to significant and fundamental changes to the operation of the MPF System, giving employees more control over their MPF investments, has come to fruition. Once the provisions of the Bill commence, on a date to be appointed by the Government, employees will be able to transfer the accrued benefits arising from their own mandatory contributions to an MPF scheme of their own choice once a year during employment. This arrangement is referred to as the "Employee Choice Arrangement", or "Portability", as more commonly known. Intensive preparatory activities for the implementation of the Employee Choice Arrangement have started, both in the MPFA and among the industry players, to set up the necessary operational and regulatory infrastructure to put the Employee Choice Arrangement into operation in 2011.

Regulation of Sales and Marketing of MPF Products

With the Employee Choice Arrangement to be implemented soon, reforms related to the regulatory and supervisory arrangements for MPF intermediaries have come to the top of the list of priorities. In this connection, the MPFA has reviewed the existing marketing and sales practices of MPF intermediaries, and gained considerable grounds on the review of the adequacy of the regulatory arrangements for longer-term improvement to the existing regime. With the expectation that the marketing and selling activities will increase with the Employee Choice Arrangement, the MPFA has also been focusing on improving the competencies, knowledge and supervision of MPF intermediaries.

Other Reforms

The MPFA has started to take forward a number of other reforms on its priority list. In view of the upcoming Employee Choice Arrangement and the series of publicity and education programmes that entail, the MPFA has been reviewing the information provided by MPF service providers to scheme members. The review serves to ascertain the adequacy of the existing arrangements and identify issues for further study. Expecting more new MPF fund initiatives from the trustees/investment managers in view of the Employee Choice Arrangement, the MPFA is also starting to review the range of funds that are suitable for offering to MPF members for retirement purposes.

The MPF legislation provides that the MPFA is to review the minimum and maximum levels of relevant income for MPF contributions every four years. Since the last review was conducted in 2006, the MPFA is well advanced into another review this year, taking into account the statutory adjustment factors and other relevant factors. The results will soon be put forward to the Government for consideration.

So far, improvements to the MPF System have been focused on the contribution stage. As the amount of accrued benefits in MPF accounts grows, it is also timely to consider the issue of withdrawal of benefits. Currently, under the MPF legislation, a scheme member is allowed to withdraw accrued benefits under an MPF scheme in a lump sum upon retirement at the age of 65 or under the specific circumstances as specified in the legislation. There have been calls from the general public to relax the criteria for withdrawal of MPF benefits, and comments that withdrawal of MPF benefits should be phased rather than in a lump sum. The MPFA is conducting a comprehensive review on the withdrawal of MPF benefits, for the consideration of whether some sort of phased withdrawal may be introduced, and whether the accrued benefits could be withdrawn in more circumstances than those currently allowed in the legislation.

CHAIRMAN'S STATEMENT (cont'd)

The MPFA has planned to look into the reform issues in consultation with stakeholders, and make recommendations to the Government.

ENFORCEMENT

MPF benefits are the fruit of people's hard work. Striving for excellence in enforcing the MPF legislation to better protect the employees' hard-earned money is always dear to my heart. During the year, despite heavy commitments to on-going work programmes as well as special projects like the Government's Injection Project and implementation of the Employee Choice Arrangement, the MPFA has continued to step up enforcement and reviewed its overall enforcement strategies for better protection of scheme members' interests. The review shed light on adequate deployment of resources in appropriate areas to optimize MPFA's enforcement efforts. Implementation of the recommendations is well underway.

MPF INVESTMENT EDUCATION

Ever since the passage of the relevant Bill, the thrust of MPFA's public education efforts has been undertaken with the implementation of Employee Choice Arrangement in mind. The MPFA has worked out elaborate publicity and education programmes to be carried out in phases, with the aim of providing scheme members with the necessary information on the management of MPF accounts in order to make informed MPF investment decisions. To ensure that employees can learn how and what factors to consider at different key decision points along their MPF journey, a new series of investment education publications and a multi-media kit have been published and are being widely distributed to members of the public through stakeholder groups.

We hope that scheme members can fully leverage on our investment education messages and think carefully about how to make an informed choice suitable for themselves when they wish to exercise their rights under the Employee Choice Arrangement. This knowledge should also be useful when they consider making other types of investments, particularly in planning for their retirement.

FEES AND CHARGES

The MPFA continued the approach of ensuring that market forces operate effectively so that fees and charges are kept as low as reasonably possible. Its work focus has been on reducing costs, expanding employees' control over their MPF investment, and enhancing transparency and public education. Last year, the average Fund Expense Ratio of individual constituent funds continued to decrease. The average Fund Expense Ratio of MPF constituent funds with financial year-end dates falling between 1 July 2008 and 30 June 2009 was 1.92%, compared with 1.98% a year earlier, and 2.09% two years ago.

It is envisaged that the Employee Choice Arrangement will help to increase competition, and in turn, further drive down fees and charges. In fact, there is evidence that trustees/promoters are already putting in place their competitive strategies in advance of the implementation of the Employee Choice Arrangement, so that they can be well positioned when choices are opened up to scheme members.

MPF ASSETS

At the end of the 2009-10 financial year, the MPF System's net asset value totalled \$317.31 billion. The average monthly MPF contributions received by the MPF System during the year, excluding the special contribution made by the Government, rose from \$2.94 billion in 2008-09 to \$2.97 billion in 2009-10.

The MPF System has weathered the adversities in the global financial market. As at 31 March 2010, the annualized return for the System, net of fees and charges, was 30.1%, as compared with -25.9% a year earlier. Since the start of the MPF System up to the end of the 2009-10 financial year, the net annualized return for the System was +4.8%.

THE GOVERNMENT'S INJECTION PROJECT

I am pleased to see that the colossal exercise to make a one-off special contribution of \$6,000 into the MPF accounts of eligible individuals has been completed. Under this initiative, a total of \$8.41 billion has been paid into the accounts of over 1.4 million scheme members. In other words, we have helped the Government enhance the retirement protection of the working population, and are happy that, judging by the performance of the MPF System over the past year, the amount of injections should have increased in market value.

VOTE OF THANKS

I wish to put on record my hearty appreciation for the tremendous support my colleagues on the Management Board have given me during my first year as Chairman. Special thanks are due to the chairmen of various supporting committees, and particularly to Mr Edward Chan, who, after retiring from the Management Board in March 2010, has agreed to continue chairing two of the committees/working groups. I also take the opportunity to welcome Mr Rimsky Yuen to the Management Board, and look forward to working closely with him.

I am also grateful to members of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee for giving us valuable advice on various issues for the betterment of the MPF System.

Last but not the least, I would like to thank the MPFA team, under the capable leadership of the Managing Director, Mrs Diana Chan, for their professional and enthusiastic support throughout the year.



Anna Wu Hung-yuk
Chairman

MANAGING DIRECTOR'S REPORT



THE YEAR IN REVIEW

Over the years, one of the MPFA's work focuses has been to ensure that market forces operate effectively so that MPF fees and charges are kept as low as reasonably possible. In July 2009, a key milestone was attained with the passage of the legislation covering the proposal to allow employees to transfer the accrued benefits derived from their own mandatory contributions from a scheme chosen by their employers to an MPF scheme of their own choice ("Employee Choice Arrangement"). The proposal will encourage employees to take a more active role in managing their MPF investments and will enhance market competition.

The implementation of the Employee Choice Arrangement entails a fundamental change of the MPF System from being employer-based to a system that is more member-based. In preparation for the smooth implementation of the Employee Choice Arrangement, the MPFA has been working towards ensuring the readiness of MPF trustees' systems and processes, enhancing the regulation and supervision of MPF intermediaries, and educating scheme members to help them understand the relevant arrangements and make informed choices. While busy attending to preparatory work on this front, we have kept up our efforts to strengthen our monitoring of MPF trustees, launch education programmes for different target groups, take enforcement actions against non-compliant employers, and review various aspects of the MPF System for continued improvement. In this year, we also concluded the Government's injection of \$6,000 into the accounts of eligible MPF/ORSO scheme members.

Supervision of MPF Trustees and Intermediaries

In our supervision of MPF trustees, the emphasis during the year continued to be the fund governance and investment compliance issues relating to MPF investment funds. We began a round of on-site visits to MPF trustees and investment managers in May 2009 to assess their fund governance arrangements and investment compliance control measures, and conducted information sessions for the industry on the interpretation of investment rules to enhance their understanding of relevant requirements. To facilitate the implementation of the Employee Choice Arrangement, we worked closely with MPF trustees in drawing up a set of operational policies, setting up the requisite systems and administrative processes, and developing an electronic platform for automatic transmission of data between trustees to speed up the processing of transfer of accrued benefits between scheme members' accounts with different trustees.

With the introduction of the Employee Choice Arrangement, we expect that MPF marketing activities directed at individuals will increase. To minimize the possibility of mis-selling and to enhance our supervision of MPF intermediaries, we gave guidance to MPF trustees in their monitoring of intermediaries' marketing and selling activities. We have been working closely with MPF trustees, corporate intermediaries and core Continuing Professional Development course providers to enhance the quality and quantity of training to MPF intermediaries and to ensure that all intermediaries are trained on selling conduct and the Employee Choice Arrangement before its introduction. We introduced quality assurance arrangements for core Continuing Professional Development activities, including class visits and enhanced monitoring of the courses.

Public Education

Under the Employee Choice Arrangement, scheme members will have greater freedom in making investment choices in respect of their accrued benefits. To equip them with the knowledge to make informed decisions, we continued with our investment education efforts to disseminate information about the features and risk levels of major types of MPF funds. We also embarked on an Investment Education Campaign with an emphasis on the factors to be considered at the six major decision points during a scheme member's lifelong MPF investment process.

Building on the rapport established over the years, the MPFA continued to work closely with various stakeholders, including employee groups, employers' associations, the industry, professional bodies, political parties, District Councils and community groups, partnering with them to provide education on MPF investment through district carnivals, seminars, exhibitions and other outreach activities. In addition, education and publicity programmes were tailor-made for specific target groups, including different groups of students and school children, job seekers, self-employed persons and Industry Scheme members.

Member Protection

We continued to handle default contribution cases reported by employees and trustees, and recover MPF contributions in arrears on behalf of employees. By pursuing civil claims or by persuasion and counselling of the employers concerned, the MPFA recovered \$166.7 million in default MPF contributions for employees during the year. To streamline the surcharge notice issuing process, we reviewed issues related to MPF trustees' administration system and services in respect of the processing of contributions, and are liaising with the trustees on the areas of improvement identified. We also reviewed our process of handling appeals against surcharge notices and implemented improvement measures.

We have taken prosecution action against cases of abuse of the legislative provision governing early withdrawal of accrued benefits on the grounds of permanent departure from Hong Kong in the past few years. The number of scheme members prosecuted for making false statements in this regard was 55 in 2009-10, compared with 4 in 2008-09. During the year, we also explored measures to tighten the vetting of such claims so as to prevent further abuse.

MANAGING DIRECTOR'S REPORT (cont'd)

Reviews on Regulation

Over the years, the MPFA has identified necessary reforms for the MPF System that require review in the longer term. Work on some of these issues has started this year. In view of the market developments in recent years, we reviewed the effectiveness of the framework for regulating the sales and marketing of MPF products. We also started a comprehensive review of the disclosure of information on MPF investment by service providers to scheme members, including the content disclosed and the presentation of the information.

To enhance the protection of MPF assets invested through insurance policies, we explored means to manage the risks associated with such products, and an agreement has been reached with the industry to introduce measures to improve asset protection in respect of non-guaranteed insurance products. Regarding other reviews, we are well advanced in the review of the minimum and maximum levels of relevant income for MPF contribution purpose, and have started reviewing the withdrawal of MPF benefits.

The Government's Injection Project

In respect of the Government's initiative to inject a one-off special contribution into the accounts of eligible scheme members, we completed making payment of the special contribution, totalling \$8.41 billion, to over 1.4 million eligible members. We handled all requests for review of eligibility and appeals, and made arrangements for the accounts of the project to be reviewed by an independent auditor.

Staff and the Organization

We continued to nurture a corporate culture that fosters trust and values teamwork. During the year, communication sessions were held between the senior management and individual staff groups, during which the senior management explained corporate goals and priorities to staff members directly, who in turn expressed their views and comments on work-related issues. We continued with the annual corporate staff recognition programme to recognize staff who demonstrate our core values, and introduced a Long Service Award Scheme to show appreciation to long-serving staff. Externally, members of our staff were recognized through the Ombudsman's Award scheme for seven years in a row for their exemplary service to the public.

As a caring employer and a socially responsible organization, the MPFA implements caring programmes for its staff, practises green office management and supports environment friendly activities. We also support and encourage staff's involvement in volunteer activities, notably through the operation of the MPFA Volunteer Team. For our achievements in these aspects, we were awarded the Caring Organization logo by the Hong Kong Council of Social Service for the fifth consecutive year.

LOOKING FORWARD

In 2010-11, we will continue to pursue our medium to long-term objectives of ensuring that the MPF System fulfils its role in providing retirement protection, strengthening public support and deepening their understanding of the MPF System, and ensuring that the MPFA has the ability to deliver its planned programmes.

Among the initiatives to be pursued in the furtherance of these objectives, preparation for the implementation of the Employee Choice Arrangement will remain our major focus in the coming year. We will complete the setting up of the requisite systems and administrative

processes, including the development of an electronic platform for MPF trustees to transmit data to each other to facilitate the transfer of accrued benefits. Guidance will be provided to MPF intermediaries directly on selling and marketing activities, and training for all intermediaries on proper selling conduct will complete before the anticipated launch of the Employee Choice Arrangement in 2011. Extensive investment education programmes will continue so as to equip scheme members with the knowledge to make informed choices.

In respect of the supervision of MPF trustees, we will complete the current round of on-site visits to all trustees and their investment managers of MPF funds, and develop best practices on investment compliance arrangements for trustees' reference. Actions will be taken to assess trustees' implementation of the best practice note on supervision of intermediaries, and further means will be considered to enhance the conduct standards of MPF intermediaries. Regarding measures to enhance the compliance of employers, we will explain common breaches and related legislative requirements, provide information on major court cases, and publish a "blacklist" of non-compliant employers to enhance the deterrent effect of our enforcement actions.

As the MPF System enters its 10th year of operation, we will further advance our reviews of various reform proposals. For the statutory review of the minimum and maximum levels of relevant income, a review report will soon be provided to the Government for consideration. On the regulatory framework of MPF intermediaries, we will continue to work with the other regulators on proposals to improve the existing regime. Further advancement is expected in the review of the regime of information disclosure to scheme members, and the review of the withdrawal of MPF accrued benefits. Furthermore, we will continue incremental development and improvement on important issues that form part of our existing work programmes, such as the regulation of MPF investments, strategy of enforcement regarding default contributions, etc.

VOTE OF THANKS

In pursuing our goals in the past year, we have been most fortunate to have the guidance and support of the Management Board and its supporting committees. I would like to express my sincere thanks to our Chairman, Hon Anna Wu, for her inspiring leadership and unwavering support. My special thanks go to Mr Edward Chan, who retired from the Board this year but will continue to advise and support us as Chairman of the Guidelines Committee and the Working Group on Regulation of Sales and Marketing of MPF Products. I am also most grateful to the members of the MPF Schemes Advisory Committee and MPF Industry Schemes Committee, who have given valuable advice on various aspects of the MPF System and the operation of the Industry Schemes.

Finally, I wish to express my gratitude to my colleagues at the MPFA for their dedication, enthusiasm and hard work, and my heartfelt thanks for their staunch support.



Diana Chan Tong Chee-ching
Managing Director

THE MANAGEMENT BOARD

The role of the Management Board and its supporting committees, the number of meetings held during the year and the attendance rates of members are on pages 55 to 58 in the chapter "Corporate Governance".

Members of the Management Board

(as at 31 March 2010)



The Hon Anna Wu Hung-yuk, SBS, JP
Chairman

(Since 17 March 2009; current term will expire on 17 March 2011)
Solicitor, Hong Kong; Non-Official Member, Executive Council; Member, The Law Reform Commission of Hong Kong; Council Member, Hong Kong International Arbitration Centre; Chair, Academic Board for PCLL of the University of Hong Kong; Independent Non-Executive Director, TOM Group Limited; Non-Executive Director, MPFA (1998-2005); has held a number of public offices in the past, including Member, Legislative Council; Chair, Equal Opportunities Commission; Chair, Consumer Council; Chair, Operations Review Committee of the Independent Commission Against Corruption; and Non-Executive Director, Securities and Futures Commission.



Mr Leo Kung Lin-cheng, JP
Non-executive Director

(Since 17 March 2005; current term will expire on 17 March 2011)
Executive Vice President, Bangkok Bank Public Company Limited; Vice Chairman, The Belgium-Luxembourg Chamber of Commerce in Hong Kong; Deputy Chairman, Ocean Park Corporation; Member of Board of Directors, Helping Hand; Member of Investment Committee, West Kowloon Cultural District Authority.



Mrs Angelina Lee Wong Pui-ling, JP
Non-executive Director

(Since 17 March 2005; current term will expire on 17 March 2011)
Partner, Woo, Kwan, Lee & Lo; Non-Executive Director, Securities and Futures Commission; Member, Takeovers and Mergers Panel and Takeovers Appeal Committee, Securities and Futures Commission.



Dr David Sun Tak-kei, BBS, JP
Non-executive Director

(Since 17 March 2005; current term will expire on 17 March 2011)
Far East Area Chairman and Managing Partner, Ernst & Young; Member, Process Review Panel for the Securities and Futures Commission; Member, Exchange Fund Advisory Committee of the Hong Kong Monetary Authority; Investment Committee Member, West Kowloon Cultural District Authority.



The Hon Wong Ting-kwong, BBS, JP
Non-executive Director

(Since 17 March 2005; current term will expire on 17 March 2011)
Member, Legislative Council; Member, Small and Medium Enterprises Committee; Member, The Hong Kong Export Credit Insurance Corporation Advisory Board; Member, Po Leung Kuk Advisory Board; Member, Skills Upgrading Scheme Steering Committee, Labour and Welfare Bureau; Convener, Working Group, Import and Export Industry Skills Upgrading Scheme, Labour and Welfare Bureau; Vice-President, The Hong Kong Chinese Importers' and Exporters' Association; Committee Member, The Chinese General Chamber of Commerce; Director, The Hong Kong and Kowloon General Merchandise Merchants' Association.



The Hon Li Fung-ying, BBS, JP
Non-executive Director

(Since 17 March 2007; current term will expire on 17 March 2011)
Member, Legislative Council; Vice-Chairman, The Federation of Hong Kong and Kowloon Labour Unions; Member, Manpower Development Committee; Member, Advisory Committee on Admission of Quality Migrants and Professionals; Member, Vocational Training Council; Ex-officio Executive Councillor, Heung Yee Kuk New Territories.

THE MANAGEMENT BOARD (cont'd)



**The Hon Andrew Leung Kwan-yuen,
SBS, JP**
Non-executive Director

(Since 17 March 2009; current term will expire on 17 March 2011)
Member, Legislative Council;
Chairman, Vocational Training Council; Honorary President, Federation of Hong Kong Industries; Honorary Chairman, Textile Council of Hong Kong; Council Member, Hong Kong Trade Development Council; Member, Commission on Strategic Development; Vice Chairperson, CreateSmart Initiative Vetting Committee; Director, The Hong Kong Mortgage Corporation Limited; Chairman, Sun Hing Knitting Factory Ltd.



The Hon Wong Kwok-kin, BBS
Non-executive Director

(Since 17 March 2009; current term will expire on 17 March 2011)
Member, Legislative Council;
Vice President, Hong Kong Federation of Trade Unions;
Member, Commission on Strategic Development; Non-executive Director, Urban Renewal Authority;
Member, Hong Kong Housing Authority; Member, Subsidised Housing Committee, Hong Kong Housing Authority.



Mr Rimsky Yuen Kwok-keung, SC
Non-executive Director

(Since 17 March 2010; current term will expire on 17 March 2012)
Senior Counsel; Member, Judicial Officers Recommendation Commission; Member, High Court Rules Committee; Part-time Member, Central Policy Unit; Chairman, Hong Kong Bar Association (2007-09).



**Secretary for Financial Services and
the Treasury**
Non-executive Director

(Since 1 July 2002; current term will expire on 17 March 2011)
Prof the Hon K C Chan, SBS, JP (the incumbent) was Dean of Business and Management, the Hong Kong University of Science and Technology (2002-07); Faculty Member, the Hong Kong University of Science and Technology (1993-2007) and Ohio State University, United States (1984-93).

Alternate: Permanent Secretary for Financial Services and the Treasury (Financial Services)

Secretary for Labour and Welfare
Non-executive Director

(Since 1 July 2007; current term will expire on 17 March 2011)
The Hon Matthew Cheung Kin-chung, GBS, JP (the incumbent) was previously Permanent Secretary for Economic Development and Labour (Labour) and Commissioner for Labour.
Alternate: Permanent Secretary for Labour and Welfare

Mr Edward Chan King-sang, SC, JP
Non-executive Director

(Since 12 May 2004; retired with effect from 17 March 2010)
(Biographical information as at 16 March 2010)

Senior Counsel; Chairman, Hong Kong Bar Association (2003-04); Member, Standing Committee on Legal Education and Training.

THE MANAGEMENT BOARD (cont'd)



Mrs Diana Chan Tong Chee-ching, JP
Deputy Chairman and Managing
Director

(Since 1 July 2004; current term will expire on 1 July 2010)
Chief Operating Officer (Corporate Affairs), MPFA (2001-04); Executive Director (Corporate Services), MPFA (2000-01); commissioned the Wong Chuk Hang Hospital and appointed as its first Hospital Chief Executive (1995-2000); Deputy Director (Administration), Hospital Authority (1991-95); Administrative Officer to Principal Assistant Secretary in the Administrative Officer Grade, Hong Kong Government (1980-91).



Ms Hendena Yu, JP
Chief Operating Officer
(Enforcement)

(Since 4 June 2001; current term will expire on 3 July 2012)
Qualified actuary; Executive Director (ORSO Schemes), MPFA (1999-2001); seconded from the Government to the MPFA (1998-99); worked for an employee benefits consulting firm for 13 years before joining the Office of the Registrar of Occupational Retirement Schemes in 1995, responsible for matters related to occupational retirement schemes.



Mr Darren Mark McShane
Executive Director (Regulation &
Policy)

(Since 25 March 2002; current term will expire on 25 March 2011)
Qualified barrister; Member, Committee on Unit Trusts, Securities and Futures Commission; Member, Committee on Investment-Linked Assurance and Pooled Retirement Funds, Securities and Futures Commission; Member, Examination Board, Institute of Financial Planners of Hong Kong; Director, Financial Services Regulation, Australian Securities and Investments Commission (1998-2002); Enforcement & Policy Consultant, Investment Management Regulatory Organisation Limited, United Kingdom (1996-97).



Mr Thomas Yiu Kei-chung
Executive Director (Corporate Services)

(Since 7 November 2006; current term will expire on 15 September 2012)
Head (Corporate Services), MPFA (2005-06); has served for over 30 years in a number of Government departments and related bodies including the Trade and Industry Department, Economic Services Branch, Hong Kong Export Credit Insurance Corporation, and Health, Welfare and Food Bureau.



Ms Cynthia Hui Wai-yee
Executive Director (Supervision)

(Since 1 February 2008; current term will expire on 1 February 2011)
Qualified actuary; Fellow of the Institute of Actuaries of Australia; Chief Supervision Manager, MPFA (2006-08); Advisor (Insurance Affairs), MPFA (2005-06); has held actuarial positions in major insurance companies in Australia for over 15 years before joining the MPFA.

MANDATORY PROVIDENT FUND SCHEMES ADVISORY COMMITTEE

The Mandatory Provident Fund Schemes Advisory Committee ("MPFSAC") was established under the Mandatory Provident Fund Schemes Ordinance ("MPFSO") to make recommendations to the MPFA as to the operation of the MPFSO and the effectiveness and efficiency of the MPFA. The MPFSAC consists of an executive director designated by the MPFA and 10 other members appointed by the Chief Executive of the HKSAR ("CE of HKSAR"). The chairman and deputy chairman of the MPFSAC are appointed by the CE of the HKSAR from amongst its members.

Members of the MPFSAC

(as at 31 March 2010)



Chairman

Mr Lee Kai-ming, SBS, JP
(Since 30 March 2007; current term will expire on 30 March 2011)
Advisor, Federation of Hong Kong and Kowloon Labour Unions



Deputy Chairman

Mrs Diana Chan Tong Chee-ching, JP
(Since 1 July 2003; current term will expire on 30 March 2011)
Managing Director, MPFA



Other Members

The Hon Chan Kin-por, JP
(Since 30 March 2005; current term will expire on 30 March 2011)
Member, Legislative Council



Mr Bob Chong Hot-hoi, BBS
(Since 30 March 2005; current term will expire on 30 March 2011)
Managing Director, Chung Nam Watch Co. Ltd.



The Hon Albert Ho Chun-yan
(Since 30 March 2005; current term will expire on 30 March 2011)
Member, Legislative Council



Mr Lam Yim-nam
(Since 30 March 2005; current term will expire on 30 March 2011)
Deputy Chief Executive, the Bank of China Hong Kong (Holdings) Ltd



Mr Leung Fu-wah, MH, JP
(Since 30 March 2005; current term will expire on 30 March 2011)
Vice-President, the Hong Kong Federation of Trade Unions



Mr Alvin Wong Tak-wai
(Since 30 March 2005; current term will expire on 30 March 2011)
Partner, PricewaterhouseCoopers



The Hon V-Nee Yeh, JP
(Since 30 March 2005; current term will expire on 30 March 2011)
Member, Executive Council



Mr Stanley Lau Chin-ho, BBS, MH, JP
(Since 30 March 2007; current term will expire on 30 March 2011)
Deputy Chairman, Federation of Hong Kong Industries



Ms Ng Wai-yee, MH
(Since 30 March 2009; current term will expire on 30 March 2011)
Vice Chairman, Federation of Hong Kong and Kowloon Labour Unions

During the year, the MPFSAC convened two meetings. It received reports on various aspects of the MPFA's work, including supervision, enforcement, regulation and policy, public education and publicity, the implementation of the Government's injection of special contributions into the accounts of eligible MPF/ORSO scheme members, and the implementation of Employee Choice Arrangement. The Committee gave valuable comments on MPFA's proposed report to the Legislative Council on the review results of the mechanism for determining the optimum level of the Compensation Fund, and on the contents and programme format of the MPF Investment Education Campaign 2009-10. The average attendance rate of members was 91%.

MPF INDUSTRY SCHEMES COMMITTEE

Industry Schemes are special MPF schemes set up for casual employees in the catering and construction industries. The MPF Industry Schemes Committee ("ISC") was established to monitor the effectiveness of industry schemes and to advise on ways to improve the administration and operation of the schemes in the interests of scheme members. The ISC consists of a chairman, at least one (but no more than two) representative(s) of the approved trustee of each Industry Scheme nominated by that trustee, and no fewer than six other persons. All members are appointed by the Financial Secretary of the HKSAR. In addition, an executive director of the MPFA is designated by the MPFA to serve on the ISC.

Members of the ISC

(as at 31 March 2010)



Chairman

The Hon Wong Ting-kwong, BBS, JP
(Since 25 August 2006; current term will expire on 25 August 2010)
Member, Legislative Council



Other Members

Mr Chung Wai-ping
(Since 25 August 2006; current term will expire on 25 August 2010)
President, Association of Restaurant Managers



Mr Hiew Chin, BBS, MH
(Since 25 August 2006; current term will expire on 25 August 2010)
Chairman, Sai Kung Food and Beverages Association



Mr Thomas Ho On-sing
(Since 25 August 2006; current term will expire on 25 August 2010)
Chief Executive, Gammon Construction Co Ltd



Mr Tsang Peng-sun
(Since 25 August 2006; current term will expire on 25 August 2010)
Supervisor, Vocational Skills Training Centre of the Chinese & Western Food Workers Union



Mr Yuen Fuk-wo
(Since 25 August 2006; current term will expire on 25 August 2010)
Chairman, Eating Establishment Employees' General Union



Mr Ng Kwok-kwan
(Since 25 August 2008; current term will expire on 25 August 2010)
Director, Hong Kong Construction Industry Employees General Union



Mr Suen Long-tai
(Since 25 August 2008; current term will expire on 25 August 2010)
Former Chairman, Construction Site Workers General Union



Mr Conrad Wong Tin-cheung, JP
(Since 25 August 2008; current term will expire on 25 August 2010)
President, Hong Kong Construction Association



Mr Adrian Li Man-kiu, JP
(Since 25 August 2006; current term will expire on 25 August 2010)
Director, Bank of East Asia (Trustees) Limited



Mr Ivan Liu Sin-keung
(Since 25 August 2008; current term will expire on 25 August 2010)
Senior Manager, Scheme Administration, Bank Consortium Trust Company Limited



Mr Thomas Yiu Kei-chung
(Since 7 November 2006; current term will expire on 25 August 2010)
Executive Director (Corporate Services), MPFA

During the year, the ISC held four meetings. It received reports from the MPFA and the approved trustees on enrolment, administration, enforcement and publicity matters associated with the Industry Schemes. It also provided advice on the operational aspects of the construction and catering industries with a view to fostering support and enhancing compliance. The average attendance rate of members was 81.25%.

Review and adjust



REFINING THE REGULATORY FRAMEWORK

OVERVIEW

Our role

- Review regulatory and operational policy issues under the MPF System
- Review existing legislation and propose amendments to the Government where appropriate
- Review existing Guidelines and Codes and amend as appropriate
- Prepare new Guidelines and Codes as appropriate
- Conduct research in support of MPFA's role as regulator of the MPF System

In 2009-10, we

- Assisted the Government in introducing the Mandatory Provident Fund Schemes (Amendment) Bill 2009, covering the proposal to expand employees' control over MPF investments, into the Legislative Council, and attended to the enactment of the Bill
- Explored options to improve the existing regime for regulating the sales and marketing of MPF products
- Introduced measures to enhance the protection of scheme members' MPF assets invested through insurance policies
- Reviewed the minimum and maximum levels of relevant income
- Commenced work on a comprehensive review of the withdrawal of MPF benefits
- Amended six sets of existing MPF Guidelines and drew up one set of new Guidelines

EXPANDING EMPLOYEES' CONTROL OVER MPF INVESTMENTS

Helping ensure that market forces are able to work efficiently in setting MPF fees and charges has been a key priority of the MPFA. In the financial year 2007-08, we put forward a proposal to the Government to increase employee control over investment by allowing employees to transfer, once per calendar year, accrued benefits derived from their own mandatory contributions from the schemes chosen by their employers to an MPF scheme of their own choice ("Employee Choice Arrangement"). The Arrangement is aimed at encouraging employees to engage in more active management of their MPF investments, and enhancing market competition to further reduce fees and charges of MPF schemes and improve services to scheme members.

The Mandatory Provident Fund Schemes (Amendment) Bill 2009, covering the proposal on Employee Choice Arrangement, was passed on 8 July 2009 and the corresponding Mandatory Provident Fund Schemes (Amendment) Ordinance was gazetted on 17 July 2009. The Ordinance will come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette. Allowing time for thorough preparation, it is expected that the Employee Choice Arrangement will be implemented in 2011. Details of the preparatory work for implementing the proposal are set out in the chapter "Preparing for the Implementation of the Employee Choice Arrangement".

REGULATION OF MARKETING AND SELLING OF MPF PRODUCTS

In anticipation of the implementation of the Employee Choice Arrangement, MPF service providers may have a greater interest in actively marketing their MPF products directly to scheme members than is the case at present. This and other developments in the market have triggered the need to review the effectiveness of the current framework for regulating MPF intermediaries. We commenced a review of the sales and marketing of MPF schemes and their related investment products in 2008. The review identified scope to provide a more solid and enforceable footing to the current multi-regulator scheme of regulation and the need to update and consolidate conduct requirements for those who sell or advise on MPF products. We are now in discussion with the Government and the other regulators in relation to how the existing regime can be improved.

REDUCING PRODUCT RISKS

To enhance the protection of scheme members' MPF assets invested through insurance policies, the MPFA consulted the industry on how to best manage the credit or counter-party risks associated with the use of insurance policy approved pooled investment funds ("APIF"). The MPFA and the industry reached a consensus regarding the removal of non-guaranteed (Class H) insurance policy APIFs or their conversion into unit trust structures. By the end of January 2010, all relevant trustees had lodged documents related to the removal/conversion of these Class H products. In respect of guaranteed (Class G) insurance policy APIFs, enhanced disclosure and several interim risk mitigation measures are being developed with the MPF industry.

In order to help simplify decision-making for scheme members, we have also been in discussion with the industry, including bodies such as the Hong Kong Investment Funds Association, on whether certain limits should be placed on the range of MPF funds that should be approved and offered to scheme members.

REVIEW OF REGULATORY ISSUES

The MPF legislation provides that the MPFA must, not less than once in every period of 4 years, conduct a review of the minimum and maximum levels of relevant income for MPF contribution purpose to ascertain whether or not there are grounds to amend the levels. The MPFA completed the last review as required by the legislation in 2006. No consensus was reached at that time among different stakeholders regarding the relevant income levels. We are working on the next review which is due in July 2010. In conducting the review, factors set out in the legislation and other relevant factors will be taken into account. A review report setting out whether or not there are grounds to amend the levels will be provided to the Government for consideration.

We reported the results of a review of the Compensation Fund¹ to the Legislative Council Panel on Financial Affairs in July 2009. Having regard to the financial environment at that time, members of the Panel on Financial Affairs generally agreed that the current levy rate of 0.03% of the net asset value of scheme assets should be maintained and the issue be reviewed again in 18 to 24 months' time (i.e. by mid-2011). Research work on a mechanism to determine the optimal level of the Fund is underway.

As part of our efforts to enhance the disclosure of information to scheme members, we embarked on a comprehensive review of the regime of information disclosure for scheme members to ascertain the adequacy of the existing arrangements and identify issues for further study. We have undertaken surveys of MPF scheme members and the industry to assist in the analyses to advance the review.

As one of the long-term reform review issues, the MPFA has commenced work on a comprehensive review of the withdrawal of MPF benefits, covering the grounds for early withdrawal of benefits, prevention of abuse of early withdrawal, the mode of withdrawal (such as annuitization, phased drawdown, etc), and administrative requirements such as standardization of documentation.

GUIDELINES AND CODES

The MPFA issues MPF Guidelines and Codes to elaborate on, and support, the legislative requirements, and to facilitate compliance with the MPF and ORSO legislation. As at 31 March 2010, 62 sets of Guidelines and three Codes were in force.

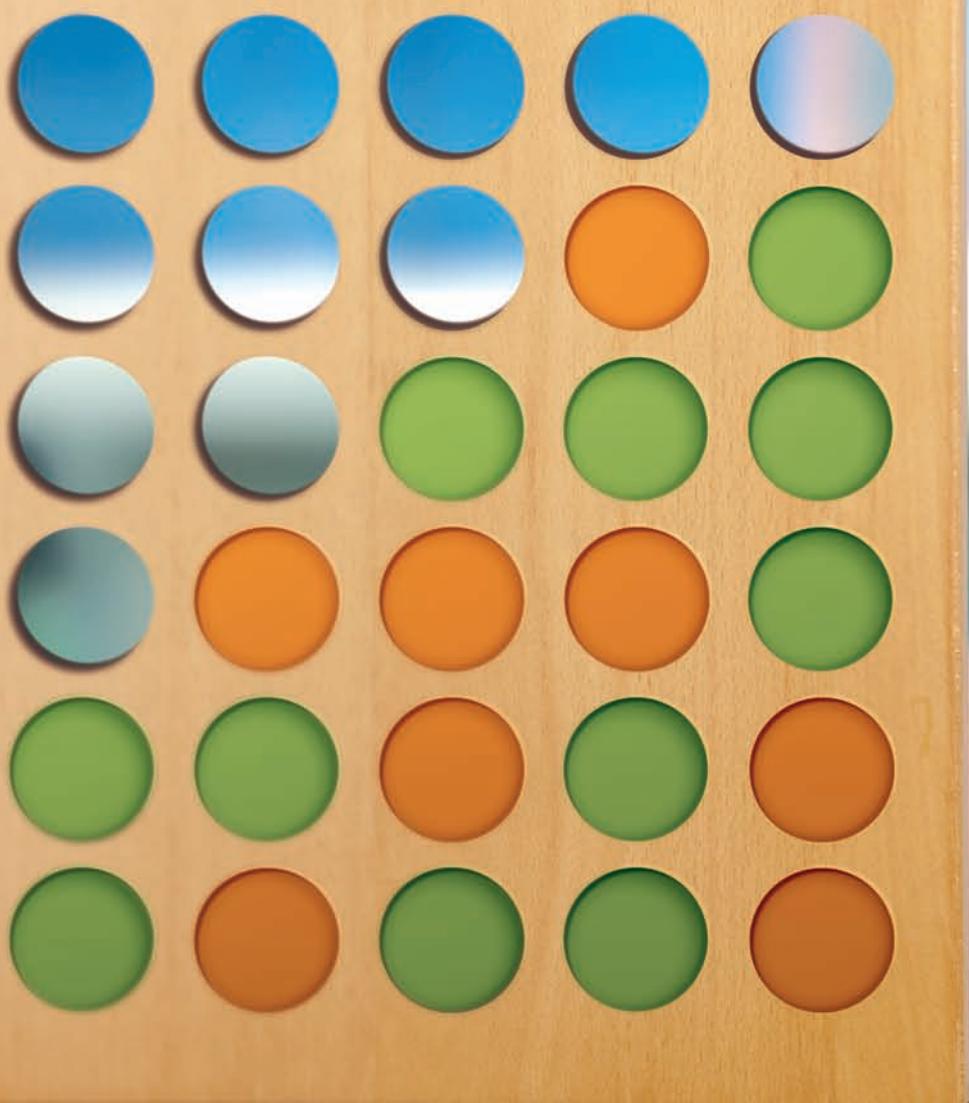
During the year, one set of new guidelines was issued to prescribe the form and contents of a statement to be used by an employer to accompany mandatory contributions paid for and in respect of employees not yet enrolled in an MPF scheme, as required by a new provision of the Mandatory Provident Fund Schemes (Amendment) (No. 2) Ordinance 2008. Six sets of Guidelines were revised to (1) reflect the legislative amendments introduced by the Mandatory Provident Fund Schemes (Amendment) (No. 2) Ordinance 2008, including the definition of the term "contribution day", and new requirements of obtaining the MPFA's consent in respect of the new appointment of shadow directors and substantial shareholders, (2) add a stock exchange to the list of approved stock exchanges, (3) add an authority to the list of recognized overseas regulatory authorities, and (4) remove a permissible MPF investment that no longer exists from the list of securities or kinds of securities approved by the MPFA.

During the year, we started to draw up new MPF Guidelines and revise existing Guidelines to lay down operational policies in relation to the Employee Choice Arrangement. The proposed new guidelines and amendments have been agreed in principle by the MPFA Guidelines Committee and will be put forward to the Management Board for approval for issuance in due course.

All the Guidelines and Codes issued by the MPFA are available on the MPFA's website.

¹ *The Compensation Fund is set up under section 17(1) of the Mandatory Provident Fund Schemes Ordinance ("MPFSO") to compensate MPF scheme members or other persons who have beneficial interests in MPF schemes for any loss in MPF accrued benefits that are attributable to misfeasance or illegal conduct committed by MPF trustees or any other persons concerned with the administration of those MPF schemes. Section 17(3) of the MPFSO stipulates that the MPFA may impose levies for the purpose of the Compensation Fund. The levies are to be payable by the trustee of a registered MPF scheme out of contributions in relation to the scheme. Levies are currently imposed at an annual rate of 0.03% of the net asset value of an MPF scheme. As at 31 March 2010, the total value of the Compensation Fund, including the \$600 million seed money from the Government, the levies collected and investment returns, was \$1.39 billion.*

Set clear objectives



PROTECTING THE INTERESTS OF SCHEME MEMBERS

OVERVIEW

Our role

- Ensure that employers, employees and self-employed persons covered by the MPF System comply with MPF requirements

In 2009-10, we

- Recovered \$166.7 million in default MPF contributions through the courts or by persuasion and counselling of the employers concerned
- Filed 924 claims at the Small Claims Tribunal, District Court and High Court on behalf of 10 550 employees
- Applied for 1 142 summonses in respect of default contributions and non-enrolment
- Submitted 461 claims via liquidators on behalf of 6 533 employees
- Issued 41 financial penalty notices to 39 employers
- Reviewed enforcement strategies and measures to enhance the effectiveness and efficiency of default contribution recovery
- Stepped up enforcement against scheme members who make false statements to withdraw their accrued benefits on the grounds of permanent departure from Hong Kong

As at 31 March 2010

- 99.6%, 99.9% and 74% respectively of employers, employees and self-employed persons were enrolled in MPF schemes
- About 87% of the working population in Hong Kong were covered under various retirement protection schemes

ENROLMENT

Participation in the MPF System remained stable throughout the year. As at 31 March 2010, the enrolment rates for employers, employees and self-employed persons ("SEPs") were 99.6%, 99.9% and 74% respectively, as compared with 99.3%, 97.3% and 74.1% in March 2009. In actual numbers, about 239 000 employers, 2 207 000 employees and 262 600 SEPs have joined the MPF System by the end of March 2010. In addition, 17 000 employers, 349 500 employees and 19 200 SEPs have enrolled in the Industry Schemes set up for casual employees in the catering and construction industries.

About 87% of the working population in Hong Kong were covered under various retirement protection schemes, including MPF schemes, MPF-exempted ORSO schemes or statutory pension plans (such as the Civil Service Pension Schemes). The remaining 13% included 10% who were exempt from the MPF System (people aged below 18, people aged 65 or above, domestic employees and self-employed hawkers, etc), and 3% who should have joined an MPF scheme but have yet to do so.

Detailed statistics on enrolment are included in Part A of the Statistics section of this report.

ENQUIRIES AND COMPLAINTS

We received 180 947 enquiries in 2009-10, as against 237 310 in 2008-09. They were mostly about transfer or withdrawal of benefits, contribution arrangements, as well as the services provided by the MPFA.

During the year, 7 124 complaints were received as compared with 8 265 in 2008-09. Complaints relating to default contributions accounted for the majority of the cases recorded, followed by those relating to non-enrolment.

Statistics relating to enquiries and complaints are in Part E of the Statistics section.

HANDLING OF DEFAULT CONTRIBUTION CASES

Debt Recovery Actions

We adopt various practicable means to enforce the law against employers who fail to make MPF contributions for their employees or who do not enrol their employees in MPF schemes. In accordance with the MPF legislation, a surcharge calculated at 5% of the default contribution amount is imposed on employers who fail to make MPF contributions for their employees. The surcharges received are credited into the employees' MPF accounts. During the year, 283 500 surcharge notices covering different contribution periods were issued.

In 2009-10, the MPFA completed investigations into about 17 200 employers regarding contributions and surcharges in arrears, and pursued civil claims against the employers in substantiated cases. During the year, two claims were filed with the High Court, 128 claims with the District Court and 794 claims with the Small Claims Tribunal on behalf of 2 407, 4 626 and 3 517 employees respectively. In addition, we made 461 applications (for 6 533 employees) to liquidators in respect of default contribution cases.

When we investigate suspected default contribution cases, some employers pay the contributions in arrears after persuasion and counselling by the MPFA's inspectors. Where the default situation continues, and if sufficient evidence is available, we, after obtaining legal advice, refer cases to the Department of Justice and the Police for criminal prosecution. During the year, we applied for 1 062 and 80 summonses in respect of default contributions and non-enrolment respectively. Amongst the 93 employers (involving 581 summonses) who had taken plea by 31 March 2010, 90 (involving 578 summonses) pleaded guilty or were convicted. The total amount of fines imposed was \$1,575,200. Among the summonses issued, 329 were laid against 34 directors/managers of limited companies. 19 of these directors/managers were convicted and fined between \$2,000 and \$57,000 each. The rest were pending court judgment.

During the year, we issued statutory demands to 2 employers, who were repeat offenders, requesting them to settle outstanding MPF contributions and surcharges within 21 days, failing which we would file a winding-up/bankruptcy petition with the High Court. One of the employers subsequently paid the contributions in arrears. The MPFA filed winding-up petitions against the other employer, and the High Court had granted a winding up order in respect of the employer.

The MPFA is empowered under the MPF legislation to impose financial penalties on defaulting employers. During the year, 41 financial penalties of \$5,000 for each case or 10% of the outstanding contribution, whichever was the greater, were imposed on 39 employers for default offences. They were mainly repeat defaulters who owed substantial amounts of default contributions.

During the year, we proactively inspected 2 263 employment establishments to check on non-enrolment and default contributions. Major targets of these inspections included catering establishments, retail outlets and construction sites. Inspections were held jointly with the Labour Department at the work places of government contractors providing cleansing, pest control and security services.

In 2009-10, we recovered \$166.7 million in default MPF contributions. Statistics on enforcement action taken are set out in Part F of the Statistics section.

Measures to Enhance the Default Contribution Recovery Process

The legislative provisions to streamline the default contribution recovery process by removing the 30-day settlement period following the contribution day took effect on 1 November 2008. As a result, employers are required to make mandatory contributions for their employees on or before the tenth day of each month. After the removal of the settlement period, the number of employers who appealed against surcharge notices increased. In response, we reviewed issues related to MPF trustees' administration system and services in respect of the processing of contributions and worked out measures with trustees to streamline the processes. We also reviewed our appeal handling process and implemented improvement measures.

We reviewed our enforcement strategies and measures in the light of operational experience with the aim to enhance the effectiveness and efficiency in protecting scheme members' interests. Strategies adopted to recover default contributions, including the strategies for initiating prosecution actions, enforcing court judgments and imposing financial penalties, were found to be effective and were maintained. The strategy for investigating complaints was fine-tuned to further enhance effectiveness.

OTHER COMPLIANCE ISSUES

We continued to take measures to enhance the compliance of SEPs. By distributing leaflets to SEP groups, we reminded them of their MPF obligations and encouraged them to actively look after their MPF investments. We conducted proactive inspections against suspected non-enrolled SEPs and followed up the non-enrolment cases identified. We also made outbound calls to selected SEPs to check on their compliance with MPF requirements.



Under the MPF legislation, the benefits accrued in an MPF scheme member's account are to be preserved until retirement. Permanent departure from Hong Kong is one of the circumstances in which a scheme member may withdraw his accrued benefits before attaining retirement age. To tackle the issue of scheme members making false statements to withdraw accrued benefits on such grounds, we liaised with the relevant Government departments to vet the permanent departure claims and investigated suspected cases of abuse. During the year, we prosecuted 55 scheme members for making false statements in this regard. 29 of the scheme members pleaded guilty and were fined between \$3,000 and \$7,000 each. The other cases were pending court judgment as at 31 March 2010. To enable trustees to tighten the vetting of permanent departure claims, we reviewed the relevant MPF guidelines and planned to stipulate the submission of more information in relation to the claims.



Distributing souvenirs and leaflets to Industry Scheme members



Plan ahead

SUPERVISING THE INDUSTRY

OVERVIEW

Our role

- Approve and supervise MPF trustees
- Register and approve MPF schemes and funds
- Register and supervise MPF intermediaries
- Supervise the operation of occupational retirement schemes ("ORSO schemes")

In 2009-10, we

- Continued to review investment compliance and fund governance issues of MPF investment funds
- Worked with MPF trustees to prepare for the implementation of the Employee Choice Arrangement (please refer to the chapter "Preparing for the Implementation of the Employee Choice Arrangement")
- Took steps to enhance the supervision and training of MPF intermediaries
- Completed the tendering exercise of industry schemes

As at 31 March 2010

- There were 19 approved MPF trustees, 38 registered schemes, 365 approved constituent funds, and 296 approved pooled investment funds
- Aggregate net asset value of all MPF schemes was \$317.31 billion
- There were 27 712 registered MPF intermediaries, comprising 471 corporations and 27 241 individuals
- There were 6 902 ORSO schemes
- The total asset size of ORSO registered schemes was \$208.54 billion

SUPERVISION OF APPROVED MPF TRUSTEES

During 2009-10, the number of approved MPF trustees remained unchanged from last year at 19. A list of the MPF trustees and their background as at 31 March 2010 is at Appendix 2.

Fund Governance and Investment Compliance

We continued to review the fund governance and investment compliance issues relating to MPF investment funds. In early 2009, we completed a detailed checking of the permissibility of the portfolio holdings of all MPF funds. The results indicated that trustees largely complied with the investment requirements of the MPF legislation. Information sessions were held with the trustees and investment managers to share the findings of the review and clarify the interpretation of MPF investment regulations to enhance their understanding of relevant requirements. Portfolio checking in high-risk areas was subsequently carried out on a regular basis as a proactive breach detection measure. In May 2009, we started a round of on-site visits to MPF trustees and their investment managers of MPF funds to assess their investment compliance measures and fund governance arrangements. No major deficiencies have been noted from the trustees and investment managers visited so far. The visits will continue until the end of 2010.

Liaison with MPF Trustees

We maintain a regular dialogue with MPF trustees on various issues, including administration and operational matters, as well as initiatives to promote the development of the MPF System. During the year, the Managing Director of the MPFA held three meetings with the chief executive officers of MPF trustees to give updates on the development of the MPF System and the focus of MPFA's work, and invited their views on various MPF-related issues. At the working level, the Trustees Operations Liaison Group, comprising representatives from all MPF trustees and MPFA, met four times during the year to discuss MPF scheme operational issues that are of common interest across the industry. There are also working groups formed with the trustees to facilitate the implementation of the proposal to enhance employees' control over MPF investments. Details are set out in the chapter "Preparing for the Implementation of the Employee Choice Arrangement".

On-going Monitoring

We monitor MPF trustees' compliance with statutory and regulatory requirements on an on-going basis. In addition to the round of on-site visits to review fund governance and investment compliance mentioned above, we also carried out thematic visits to MPF trustees to check on specific areas of operation. The relevant trustees implemented measures to improve their operations in the light of our recommendations. We also took steps to enhance the supervision of MPF trustees, including carrying out detailed scrutiny and detection activities more frequently and taking prompt actions on substantiated non-compliance issues.

In 2009-10, we issued 92 reminder letters to MPF trustees involved in breaches, which were mainly related to non-compliance with scheme administration and investment requirements. These breaches were reported by the MPF trustees themselves or identified by the MPFA through on-going monitoring, or enquiries and complaints received. In addition, 6 financial penalty notices were issued to 2 MPF trustees in relation to 86 breaches, which were in relation to scheme administration. 371 complaints (compared with 426 in the previous financial year) were lodged with the MPFA in 2009-10 against MPF trustees, most of which were related to scheme administration. Actions were taken to follow up the issues with the trustees concerned.

SUPERVISION OF MPF INTERMEDIARIES

MPF intermediaries are licensed or authorized by at least one financial regulatory regime. To minimize duplication of regulatory efforts, we adopt a decentralized and coordinated approach in regulating MPF intermediaries and rely on the three regulators (the Hong Kong Monetary Authority, the Securities and Futures Commission, and the Insurance Authority) to supervise MPF intermediaries falling under their respective regulatory regimes.

Registration of MPF Intermediaries

MPF corporate and individual intermediaries are required to register with the MPFA if they sell MPF products or advise on MPF business. The registration of MPF intermediaries is normally valid for three years and subsequent renewal of the registration is required. During the year, the MPFA processed 6 050 new applications for registration as MPF intermediaries and 19 138 renewals.

As at 31 March 2010, there were 27 712 registered MPF intermediaries (compared with 26 796 last year), comprising 471 corporations and 27 241 individuals. The number of MPF intermediaries has been increasing, while their distribution among the three industries (banking, insurance and securities) has been constant. Statistics on intermediaries are in Part C of the Statistics section of this report.

Supervision of Marketing and Selling of MPF Products

In 2009, we conducted an operational study on the marketing and selling practices of MPF trustees and their intermediaries. The results showed that the level of marketing and selling activities is relatively low and the chance of mis-selling is not high given that investment rules are tight, MPF products are relatively straightforward and homogeneous, and that the selling targets are mainly employers at the moment. However, increased MPF selling activities directed at individuals are expected going forward in view of the introduction of the Employee Choice Arrangement. Members of the public also have heightened awareness and higher expectations of proper selling of financial products. To enhance our supervision of MPF intermediaries, we issued a best practice note to MPF trustees in September 2009 to guide their supervision of MPF intermediaries. Further guidance will also be given directly to MPF intermediaries.

Training of MPF Intermediaries

To maintain their professional competencies, all MPF intermediaries must comply with the Continuing Professional Development ("CPD") requirement by undertaking a minimum of 10 hours of CPD activities in each calendar year, with at least two hours devoted to core subject areas. Compliance with the CPD requirement is a prerequisite for renewal of registration so as to provide a reasonable assurance that individual intermediaries are competent to remain registered for MPF business.

Eight institutions or professional bodies continued to be recognized as core CPD activity providers in the year. A list of these institutions/bodies is at Appendix 4. In 2009-10, the MPFA also recognized 29 programmes as core CPD courses.

To enhance the quality of core CPD training, we provided a quality assurance aid to course providers in November 2009 and introduced new on-going quality assurance arrangements for core CPD activities, including class visits by the MPFA and enhanced monitoring of the courses. Nine briefing sessions on investment education were conducted for more than 2 000 representatives of trustees and corporate intermediaries to enhance their understanding of MPF investment. We also worked with core CPD course providers on the provision of training to MPF intermediaries focusing on the Employee Choice Arrangement and selling conduct. Details are set out in the chapter "Preparing for the Implementation of the Employee Choice Arrangement".

REGISTRATION AND APPROVAL OF MPF SCHEMES AND FUNDS

As at 31 March 2010, there were 38 registered MPF schemes, 365 approved constituent funds and 296 approved pooled investment funds. The aggregate net asset value of all MPF schemes was \$317.31 billion. Table 1 sets out the statistics on registration and approval of MPF schemes and funds during the year, and Table 2 shows an analysis of the structure of approved pooled investment funds. A full list of the registered schemes and their respective underlying constituent funds is at Appendix 3.

Table 1. Processing statistics on registration and approval of MPF schemes and funds

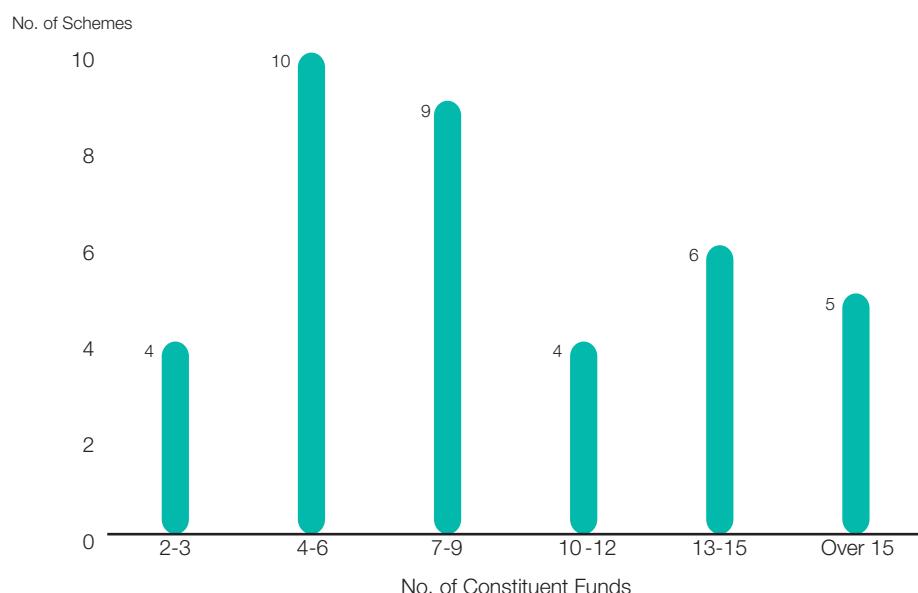
	Number as at 31 March 2009	Terminated/ Withdrawn During the year	Registration/ Approval During the year	Number as at 31 March 2010
Registered Schemes	38	1	1	38
Master Trust Schemes	34	0	1	35
Industry Schemes	2	0	0	2
Employer Sponsored Schemes	2	1	0	1
Approved Constituent Funds	340	6	31	365
Approved Pooled Investment Funds	306	18	8	296
Approved Index-Tracking Collective Investment Schemes	95	0	1	96

Table 2. Analysis of approved pooled investment funds (by fund structures)

	Unit Trust		Insurance Policy		Total	
	as at 31 March 2009	as at 31 March 2010	as at 31 March 2009	as at 31 March 2010	as at 31 March 2009	as at 31 March 2010
Umbrella funds	23	23	4	3	27	26
Internal portfolios	162	167	25	22	187	189
Feeder funds	3	4	31	25	34	29
Portfolio management funds	39	36	19	16	58	52
Total	227	230	79	66	306	296

As at 31 March 2010, the number of constituent funds available under each registered scheme ranged from 2 to 26 (see Figure 1).

Figure 1. Number of constituent funds per MPF scheme as at 31 March 2010



The fund expense ratios¹ ("FER") of individual constituent funds continued to decrease. The average FER derived from FERs of individual constituent funds of MPF registered schemes with financial year-end dates falling within the period from 1 July 2008 to 30 June 2009 was 1.92%. For comparison, the average FER of individual constituent funds with financial year-end dates falling within the period from 1 July 2007 to 30 June 2008 was 1.98%.

In early 2009, the operator of an employer-sponsored scheme, in preparation for the discontinuation of the scheme, transferred the members and assets of the scheme to a master trust scheme. Following the completion of the transfer, the registration of the employer-sponsored scheme was cancelled in June 2009. Subsequently, only one employer-sponsored scheme remains in the MPF market. Meanwhile, there has been an increase in the number of constituent funds (from 340 in March 2009 to 365 in March 2010). More statistics on MPF schemes and funds are included in Part B of the Statistics section.

To avoid confusion about the risk characteristics of the MPF capital preservation fund category, the MPFA, after consulting various stakeholders, requested that all constituent funds named as "Capital Preservation Fund" be renamed as "MPF Conservative Fund". The new name can better reflect the fund's features and be more easily understood by the general public. The renaming exercise completed in September 2009.

The existing licences for operating MPF industry schemes will expire in December 2010. A tender exercise was carried out from May 2009 to invite MPF trustees to tender for operating industry schemes upon expiry of the current licences. After assessing the applications received against the selection criteria, the MPFA found that two applicants, both being existing licensees, are suitable for operating industry schemes. Licences will be granted to the trustees for operating MPF industry schemes for another 10 years commencing 1 December 2010.

¹ The Fund Expense Ratio ("FER") is a ratio that measures the expenses of an MPF fund as a percentage of fund size.

REGULATION OF OCCUPATIONAL RETIREMENT SCHEMES

The MPFA is the Registrar of Occupational Retirement Schemes. As at 31 March 2010, there were 6 902 ORSO schemes. The total asset size of ORSO registered schemes was \$208.54 billion.

MPF-exempted ORSO Schemes

Prior to the launch of the MPF System, employers operating ORSO schemes had the option to apply for exemption from the MPF requirements. The benefits accrued to the accounts of new members joining MPF-exempted ORSO schemes after the launch of the MPF System (up to an amount equivalent to the minimum MPF benefits) are preserved until the members reach retirement age, as in the case of the MPF System. Existing members of MPF-exempted ORSO schemes had a one-off option to choose between their existing ORSO scheme and an MPF scheme. For those ORSO schemes which did not obtain MPF exemption status, employers may choose to retain them as top-up schemes, freeze or terminate the schemes.

During the year, 204 MPF-exempted ORSO schemes, covering about 2 800 members, relinquished their exemption status. The number of remaining MPF-exempted ORSO schemes as at 31 March 2010 was 4 392, covering about 6 400 employers and 400 000 scheme members. Among these MPF-exempted ORSO schemes, 308 were ORSO exempted schemes and 4 084 were ORSO registered schemes.

Termination of ORSO Schemes

During the year, 299 ORSO schemes (comprising 206 MPF-exempted schemes and 93 non MPF-exempted schemes) were wound up. As at 31 March 2010, 116 ORSO schemes (including 70 MPF-exempted schemes and 46 non MPF-exempted schemes) were in the process of being terminated, pending the transfer of scheme assets and/or provision of the necessary information to the MPFA. After the termination of these schemes, the number of remaining ORSO schemes would be 6 786, including 4 325 MPF-exempted schemes (covering about 400 000 scheme members) and 2 461 non MPF-exempted schemes (covering about 45 000 employees).

Based on the information obtained from the termination notices submitted and the latest annual returns of ORSO registered schemes, the asset arrangements on the termination of these ORSO registered schemes are set out in Table 3.

Table 3. Asset arrangements on termination of the ORSO registered schemes effected in the period from 1 April 2009 to 31 March 2010

ORSO Asset Arrangement	No. of Schemes	%	Asset Size (HK\$ million)	%
Transferred to MPF scheme	61	25	537	25
Transferred to another ORSO scheme	13	6	1,118	53
Paid out to scheme members	166	69	455	22
Total	240	100	2,110	100

Funding of ORSO Schemes

The MPFA monitors the funding status of ORSO schemes by examining the annual returns and audited financial statements of the schemes. In the case of defined benefit schemes, actuarial certificates have to be supplied to the MPFA at least once every three years. In view of the financial crisis in late 2008, the MPFA advised employers operating ORSO defined benefit schemes to assess the financial situation of their schemes to ensure that all obligations to scheme members could be met. As expected, the valuation of many schemes conducted during the market downturn reflected a fall in asset value. According to reports received up to 31 March 2010, there were 15 under-funded schemes (out of 275 defined benefit schemes), covering around 14 200 scheme members. The asset size of these schemes was \$11 billion and the shortfall was \$1.6 billion (about 15% of the assets of the under-funded schemes). The relevant employers are required to top up the shortfall in funding within three years and to submit actuarial certificates annually until the schemes are fully funded. We have been monitoring the situation closely to ensure that contributions are made in accordance with the terms and rules of the schemes and, if applicable, the actuarial recommendations.

Statistics and Other Operation Information

A list of the corporate administrators who administer pooling agreements for ORSO schemes is at Appendix 5. Statistics on ORSO schemes are set out in Part D of the Statistics section. Information on other operations of the MPFA as the Registrar of Occupational Retirement Schemes is presented in Appendix 6.

Start early



EDUCATING THE PUBLIC AND REACHING OUT TO THE COMMUNITY

OVERVIEW

Our role

- Educate the public on the MPF System and MPF investment
- Foster continuous community support for the MPF System

In 2009-10, we

- Rolled out an Investment Education Campaign to disseminate MPF investment messages to the community
- Continued with the thematic campaign on risk management for MPF investments
- Educated the younger generation on saving for the future and money management
- Organized education and publicity programmes for different target groups on various aspects of the MPF System
- Published more than 380 articles and press releases on enforcement and other MPF topics

MPF INVESTMENT EDUCATION

The MPFA has rolled out MPF investment education in phases over the years to raise general awareness of the importance of early planning for retirement and reinforce scheme members' understanding of MPF investments. During the year, we embarked on an MPF Investment Education Campaign for 2009-10 to equip scheme members with the knowledge to make informed decisions in managing their MPF investments.

Under the theme of "Making Informed Decisions for Your MPF Life", the Campaign focused on explaining the six major decision points at different stages of the lifelong MPF investment process. The decision points are:

- Which fund(s) should I choose?
- Which MPF scheme should I choose?
- Should I make additional MPF contributions?
- What should I do with my MPF accrued benefits when I change jobs?
- When and how should I adjust my MPF fund choices?
- What should I do with my MPF accrued benefits when I retire?



A series of publications and a multi-media kit on MPF Investment Education were widely distributed in the community



A thematic website was developed for members of the public to obtain detailed information relating to MPF investment

For the Campaign, a new series of publications and a multi-media kit were produced and widely distributed in our community outreaching activities. They were also made available on the MPFA's website for public access. A group of our staff members acted as MPFA's Ambassadors to conduct briefing sessions for representatives of various stakeholder groups, to whom we appealed to help disseminate MPF messages to their peers and stakeholders. During the year, the MPFA's Ambassadors conducted 138 briefing sessions for various stakeholder groups.

OUR BUSINESS OPERATIONS

EDUCATING THE PUBLIC AND REACHING OUT TO THE COMMUNITY (cont'd)



Briefing sessions were conducted for various stakeholder groups to disseminate messages on investment education to different sectors of the community



In-bus seat-back sticker was one of the media platforms used to publicize messages on risk management for MPF investments

As part of our investment education efforts, the thematic campaign on risk management for MPF investments continued from April to June 2009. Messages on how to look after MPF investment portfolios under a volatile market and how the MPF System safeguards the interests of scheme members were disseminated through various media platforms, including a thematic column in a free newspaper.

OUTREACHING PROGRAMMES

In our effort to broaden and consolidate support for the MPF System, we maintained close communication with various stakeholders, including employer and employee groups, industry and professional bodies, the media, political parties, Legislative Council Members and District Councillors. In partnership with the political parties, we organized 32 MPF district carnivals and tea gatherings in various districts during the year to disseminate MPF messages. Also, we participated in dinner gatherings and activities organized by labour unions and associations to reach out to employees. Souvenirs and leaflets were distributed to Industry Schemes employees of the catering and construction industries and self-employed mini-bus and taxi drivers to remind them of their MPF obligations. To enhance understanding of the MPF System and MPF investment, a total of 27 talks were organized for community groups, labour unions, civil servants, labour relations officers, professionals, visitors from the Mainland, students of tertiary institutions, and members of the public.



Reaching out to the community at district carnivals





Recruitment briefings on an inter-university competition were staged at all local universities to disseminate MPF messages



The Skit Programme won a Best Practice Financial Services Award 2009 in the Investor Education category, and was the Best-in-class winner among the three Outstanding Achievement Awardees in the category

EDUCATING THE YOUNG

During the year, we organized a variety of education programmes for different youth groups to educate them on the importance of saving for the future and to disseminate MPF messages. Where possible, MPF investment education messages were incorporated into these programmes to create synergy and enhance the overall impact of the public education efforts.

An Inter-University Competition for Creating a Radio Programme was organized in partnership with a radio station from January to March 2010 to enhance MPF knowledge of university students and to capitalize on the students' creativity to disseminate MPF messages to the general public. Roving exhibitions and recruitment briefings were staged at all local universities. A fan page on a popular online social networking platform and a thematic webpage were developed to further promote the competition and disseminate relevant MPF messages.

In the academic years 2007-08 and 2008-09, two rounds of Skit Programme were organized with the Institute of Financial Planners of Hong Kong. Under the Programme, an interactive drama was staged at local secondary schools to deliver messages on retirement planning and merits of the MPF System to senior students. The Programme won the Best-in-class among the three Outstanding Achievement Awardees of the Best Practice Award Category: Investor Education under the Best Practice Financial Services Award 2009. Subsequently, the MPFA rolled out another round of the Programme in 2009-10, with a total of 60 performances completed as planned.

To facilitate the incorporation of financial planning concepts in the subject of Liberal Studies in the New Senior Secondary ("NSS") Curriculum, two training workshops were organized with the Education Bureau and the Hong Kong Teachers' Centre for prospective teachers of NSS Liberal Studies. The importance of financial management skills and early planning for MPF investment to adolescents' personal development were presented. Also, a teaching kit was developed to facilitate in-class teaching.

OUR BUSINESS OPERATIONS

EDUCATING THE PUBLIC AND REACHING OUT TO THE COMMUNITY (cont'd)



Winners and guests of honour at the prize presentation ceremony of the Parenting Creative Drawing Competition for Kindergarten Kids



Through completing a series of tasks, primary school students were trained to develop proper attitudes towards money management



Two teachers' training workshops were organized to facilitate the incorporation of financial planning concepts in the subject of Liberal Studies in the New Senior Secondary Curriculum



The MPFA exhibition booth at the Education and Careers Expo was well received by visitors

With the support of the Education Bureau, two parenting programmes were organized in the year to educate children about the concept of saving and at the same time disseminate MPF messages to their parents and teachers. These included a recognition programme for primary school students and a drawing competition for kindergarten kids. The recognition programme was launched in partnership with a media organization to help primary school students develop proper attitudes towards money management through completing a series of tasks set out in a task book and through a writing competition. The Parenting Creative Drawing Competition was organized with a magazine group for kindergarten kids. A storybook was developed to demonstrate proper attitudes towards spending and saving to the kids and a teaching kit was produced for their teachers to facilitate in-class teaching.

In the year, we continued to promote MPF messages to students who were about to join the workforce to prepare them for joining the MPF System. A total of 23 MPF talks were organized for students of tertiary institutions and youth centres in 2009-10. We published a contribution article on the MPF System and investment in the Prospect Guide of Hok Yau Club, which was distributed to Form Five graduates, and distributed an MPF youth booklet to school leavers through the careers section of local secondary schools. At the Education and Careers Expo 2010 organized by the Hong Kong Trade Development Council, we staged an exhibition booth and conducted a seminar to deliver MPF messages to the participants.

OTHER EDUCATION AND PUBLICITY ACTIVITIES

We gave appropriate publicity to new developments in the MPF System. Following the passage of the legislation on the arrangement to enhance employees' control over their MPF investments (the "Employee Choice Arrangement"), we briefed various stakeholder



In the process of implementing the Government's initiative to make a one-off special contribution to the accounts of eligible scheme members, the MPFA launched a thematic campaign to inform ORSO scheme members of the key features of the MPF System



To remind scheme members to take good care of their MPF accounts when changing jobs, the preserved account leaflet was distributed as a cover wrapper for a free recruitment magazine

groups on the key features of the Arrangement during investment education and communication sessions. Also, we continued with the publicity and communication programmes on the implementation arrangements of the Government's initiative to make a one-off special contribution to the accounts of eligible scheme members.

A thematic campaign on preserved accounts was launched from May to August 2009 to remind scheme members to properly manage their preserved accounts. Advertorials on the subject were published and a leaflet was enclosed in a free recruitment magazine. Meanwhile, relevant information and tips were published in a free tabloid newspaper, and a promotional banner was placed on a recruitment website. Also, we displayed exhibition panels and distributed MPF publications on the subject in a career fair organized by the Hong Kong Employment Development Service.

In November 2009, we rolled out a focused publicity campaign to remind scheme members to regularly check their employers' contribution. In addition to advertising in a free newspaper and a popular web portal, we distributed a calendar card carrying the slogan “定期定期查供款 退休權益有保障” (which means “check MPF contributions regularly for retirement protection”) and the number of the Contribution Enquiry Line, through which scheme members could reach trustees' hotlines to check employers' contributions over the past three months. Separately, a simple and easy-to-read flyer was published to set out the differences between MPF and ORSO schemes to facilitate scheme members' understanding and choice of the two different types of schemes.

During the year, we issued more than 380 articles and press releases on MPFA's enforcement actions and other MPF topics. The articles were published in newspapers, magazines and the newsletters of trustees and labour unions.

A list of major public education and publicity activities is set out at Appendix 7.



To enhance scheme members' understanding of the differences between MPF and ORSO schemes, a flyer was published to highlight the key features of both



To ride on the festive mood of Chinese New Year, a series of specially designed Fai Chun cum paper figurines of the "JJ Five" Band carrying MPF messages was distributed to the general public



Exercise
prudence



PREPARING FOR THE IMPLEMENTATION OF THE EMPLOYEE CHOICE ARRANGEMENT

OVERVIEW

Our role

- Prepare for the implementation of the proposal to expand employees' control over MPF investments ("Employee Choice Arrangement")

In 2009-10, we

- Agreed with MPF trustees in principle on a set of operational policies
- Commenced the development of an electronic platform for automatic transmission of transfer data between trustees
- Explored measures to enhance the regulation and supervision of marketing and selling of MPF schemes
- Took steps to enhance the supervision and training of MPF intermediaries
- Drew up phased publicity and communication programmes to tie in with different stages of the implementation
- Commenced the establishment of a personal account register

In the financial year 2007-08, we put forward a proposal to the Government to enhance employees' control over their MPF investment ("Employee Choice Arrangement"). Under the Employee Choice Arrangement, employees are allowed to transfer, once per calendar year, accrued benefits derived from their own mandatory contributions made during current employment from a contribution account under their employer chosen scheme to an MPF scheme of their choice. The aims of the Arrangement are to encourage employees to engage in more active management of their MPF investments and to enhance market competition.

Following the enactment of the Mandatory Provident Fund Schemes (Amendment) Bill 2009 covering the proposal on Employee Choice Arrangement, the MPFA and MPF trustees commenced work in preparation for the implementation of the Arrangement. Preparatory work is focused on setting up the requisite systems and administrative processes, enhancing the supervision of MPF intermediaries, and implementing investment education programmes for scheme members.

READINESS OF SYSTEMS AND PROCESSES

Operational Arrangements

MPF trustees need to revamp their systems and adjust their operations to prepare for the implementation of the Employee Choice Arrangement. We formed a working group with MPF trustees to draw up a set of operational policies. By the end of the financial year 2009-10, the policies were agreed with trustees in principle. Based on the agreed policies, trustees started the necessary system development/upgrade work, and the revision of their procedural manuals, control measures and administration process. Meanwhile, we are drawing up new MPF Guidelines and revising existing Guidelines to lay down operational policies in relation to the Employee Choice Arrangement.

PREPARING FOR THE IMPLEMENTATION OF THE EMPLOYEE CHOICE ARRANGEMENT (cont'd)

Also, MPF trustees need to review and revise MPF scheme documentation and disclosure materials to specify details of the Employee Choice Arrangement. The MPFA is reviewing the draft amended offering documents submitted by trustees.

Automation of Transfer Process

After the implementation of the Employee Choice Arrangement, the volume of transfer of accrued benefits is expected to increase, as scheme members will have greater freedom in moving their accrued benefits to MPF schemes of their own choice during employment. The current process of handling a request for transfer of accrued benefits involves manual delivery of members' data between trustees. To cope with the expected increase in transfer volume, expedite the transfer process and lower the operating costs of the MPF System, we started to develop an electronic platform for automatic transmission of transfer data between trustees. The platform is to be built on the basis of the TrusNet, an existing intranet connecting the MPFA and individual trustees. A working group was formed with the trustees to work out the project plan, the detailed functional and data requirements and the test plans. Based on the agreed requirements, the trustees will proceed with the development of their computer systems for the electronic platform.

Personal Account Register

A register of personal accounts is required by the amended MPF legislation to enable an individual scheme member to ascertain the number of personal accounts established and maintained by the member and the relevant trustees with which the personal account or each of the personal accounts is established and maintained. We have agreed with trustees the data requirements for the register, and started the system development work.

READINESS OF MPF INTERMEDIARIES

Supervision and Regulation of Marketing and Selling of MPF Products

As scheme members will have a greater control over the choice of MPF trustees and schemes after the launch of the Employee Choice Arrangement, it is expected that there will be more marketing activities of MPF products directed at individuals. In view of this, and in the light of the results of an operational study on marketing and selling practices as well as a study of the policy on the regulatory framework, we have explored measures to enhance the regulation and supervision of sales and marketing of MPF schemes. Details are set out in the chapters "Supervising the Industry" and "Refining the Regulatory Framework" respectively.

Training of MPF Intermediaries

At present, we are working closely with the core Continuing Professional Development activity providers (a list of these providers is at Appendix 4) on the provision of training to MPF intermediaries focusing on the Employee Choice Arrangement and marketing and selling conduct. We envisage that all MPF intermediaries will receive the training before the introduction of the Employee Choice Arrangement. MPF trustees and corporate intermediaries will be asked to ensure that all individual MPF intermediaries under their responsibility receive the training and that sufficient training resources are made available within their organizations. Trustees and corporate intermediaries will also be expected to monitor their intermediaries' attendance at the training and to keep appropriate records. Meanwhile, we have commenced inspection visits to Continuing Professional Development classes and stepped up monitoring of the courses to enhance the quality of these programmes.

READINESS OF SCHEME MEMBERS

Investment Education

With the implementation of the Employee Choice Arrangement, scheme members will have a greater control over the choice of MPF trustees and MPF schemes. It is necessary to equip them with the requisite knowledge to make informed decisions. As part of our investment education programme which commenced in mid-2009, we educated the public on the factors to be considered at six major decision points¹ in a scheme member's MPF investment journey. We also explained the features and risk levels of major types of MPF funds.

Publicity and Communication

In view of general interest in the Employee Choice Arrangement, we explained the key features of the Arrangement during our investment education and communication sessions with various stakeholder groups, including labour unions, employer groups, District Council members, the media, etc. A communication plan has been prepared and will be implemented in phases until the launch of the Employee Choice Arrangement in 2011. High profile publicity will commence closer to the time of the launch of the Arrangement.

PROJECT GOVERNANCE

We established a Steering Committee and an Implementation Group, both led by the Managing Director, to oversee the preparatory work for the implementation of the Employee Choice Arrangement. Regular meetings were held to discuss and resolve implementation issues and monitor progress. Five work teams were also established, each focusing on an area of work, namely, operational policies, supervision of and training for intermediaries, communication and publicity, automation of transfer process, and establishment of a personal account register. The progress of the preparatory work was reported to the Management Board regularly.

The progress of all aspects of preparation is being monitored closely. We will liaise with the Government in assessing the readiness of all parties involved for consideration of an appropriate timing for the launch of the Employee Choice Arrangement.

¹ The six decision points are: (1) Which fund(s) should I choose? (2) Which MPF scheme should I choose? (3) Should I make additional MPF contributions? (4) What should I do with my MPF accrued benefits when I change jobs? (5) When and how should I adjust my MPF fund choices? (6) What should I do with my MPF accrued benefits when I retire?

CONCLUDING THE GOVERNMENT'S INJECTION OF SPECIAL CONTRIBUTIONS INTO THE ACCOUNTS OF ELIGIBLE MPF AND ORSO SCHEME MEMBERS

OVERVIEW

Our role

- Implement the Government's initiative, announced in its 2008-09 Budget, to make a one-off injection of a special contribution of \$6,000 to each MPF and ORSO scheme member who meets the eligibility criteria

In 2009-10, we

- Completed payment of the Government's special contribution to over 1.4 million eligible MPF and ORSO scheme members
- Completed the handling of requests for review of eligibility and appeals

COMPLETION OF PROJECT

Payment of the Special Contribution

In the Government's 2008-09 Budget, the Financial Secretary of HKSAR announced that a one-off injection of a special contribution of \$6,000 would be made to the accounts of eligible members of MPF and ORSO schemes ("Government's Injection Project"). The MPFA is the agent assigned to implement the initiative.

After completion of all the preparatory work, by the end of the last financial year 2008-09, over 1.3 million (97%) of the eligible persons have received the special contribution. Subsequently, by end of April 2009, all the injection procedures were completed with a total pay-out of \$8.41 billion to the over 1.4 million eligible scheme members.

Withdrawal of the Special Contribution

We have identified 12 045 mis-injection cases (0.9% of the total injection cases) resulting from the mis-reporting of member data by trustees or employers. The errors were mainly caused by system bugs in retrieving data from different sub-systems or data files, system limitations in compiling income data for special situations (e.g. conversion of fortnightly contribution cycles to monthly), as well as human errors in compiling the accurate income data of the correct months for reporting.

MPF trustees followed the MPFA's instructions to withdraw the special contribution from the accounts to which the injection should not have been made, and to pay the special contribution to scheme members who were re-classified as eligible. For scheme members who did not wish to receive the special contribution, arrangements for withdrawal were also made on receiving their written instructions.

Enquiries and Complaints

A dedicated hotline was set up for members of the public to make enquiries, check their eligibility, and lodge complaints that are related to the Government's Injection Project. Since the commencement of the handling of related enquiries in February 2009 up to 31 March 2010, we have handled 106 823 enquiries, 2 386 grievance cases, and 202 complaints against employers, MPF trustees, or ORSO administrators.

Requests for Review and Appeals

During the period 30 March 2009 to 30 September 2009, members of the public could check their eligibility status for the special contribution with the MPFA and request a review of their eligibility status. An individual who disagreed with MPFA's decision on his/her request for review might, within three weeks from the date of MPFA's written reply, lodge an appeal.

We received a total of 9 614 requests for review of eligibility, 9% of which were lodged by individuals who received the injection but were not sure they were eligible. The other cases involved those who considered themselves eligible but did not receive the injection. The processing of all review requests was completed by end of January 2010 through meticulous application of the eligibility criteria to all available facts and evidence provided by the requesters or obtained from the MPF trustees, ORSO administrators, and employers concerned. In the light of the review results, the eligibility of 6 604 individuals was re-classified.

A total of 144 individuals who did not agree with the decisions made by the MPFA on their review requests lodged appeals. Two cases were withdrawn before being heard and ten of the 142 cases heard were ruled successful, mostly on additional information becoming available at the appeal stage to prove the eligibility. All the appeals were heard by an Appeal Panel, chaired by the Chairman of the MPF Schemes Advisory Committee, and assisted by non-executive directors of the MPFA as Panel members. The membership of the Panel is set out in Appendix 1.

MONITORING AND REVIEW

Liaison with the Government

The working group set up between the MPFA and the Financial Services and the Treasury Bureau provided a regular platform for both parties to address issues and monitor progress. Ten meetings were held during the year. Policy issues and special cases requiring the Government's direction were discussed thoroughly in the meetings to ensure that the eligibility criteria were applied in a fair and consistent manner.

CONCLUDING THE GOVERNMENT'S INJECTION OF SPECIAL CONTRIBUTIONS INTO THE ACCOUNTS OF ELIGIBLE MPF AND ORSO SCHEME MEMBERS (cont'd)

The Committee to Oversee MPFA's Implementation of the Government Injection Project ("Government's Injection Project Committee")

The Government's Injection Project Committee set up by the MPFA Management Board oversaw MPFA's implementation of the Project to ensure transparency and public accountability of the implementation process. The membership list of the Committee is at Appendix 1.

Monitoring of Trustees

We closely monitored trustees' payment of the special contributions and their processing of withdrawal with respect to mis-reported cases. In view of these cases, we conducted on-site visits from March to May 2009 to all MPF trustees, all the corporate administrators of pooled ORSO schemes, as well as major ORSO administrators to review their systems and data processing procedures to ensure data accuracy.

Financial Control and Audit

We have kept the funds received from the Government for the purpose of paying the special contribution in a separate bank account. Proper accounts and records were maintained in respect of the disbursement and withdrawal of funds. In May 2010, we engaged an independent auditor to undertake a review of the Project accounts.

The MPF trustees have been required to maintain proper accounts and records of payment and withdrawal. Specific auditing requirements are also stipulated for the financial statements of MPF registered schemes for the year(s) ending on or after 28 February 2009, until after the completion of the Project.

A set of summary statistics of the Government's Injection Project is at Part G of the Statistics Section.

CORPORATE GOVERNANCE

The MPFA is committed to high standards of corporate governance. We strive to enhance the effectiveness of management of the organization, ensure accountability to the public and maintain transparency of our operations. Many aspects of the operations of the MPFA's Management Board, its supporting committees and executive management are governed by the MPF legislation. The MPFA also adopts general principles and practices of internal control, risk management and reporting, and corporate governance practices that are applicable to the MPFA.

GOVERNING STRUCTURE

The Management Board

The Management Board is the governing body of the MPFA. The Mandatory Provident Fund Schemes Ordinance ("MPFSO") (Chapter 485) stipulates that the Management Board is to consist of not fewer than 10 directors appointed by the Chief Executive of the HKSAR, and a majority of them must be non-executive directors.

On 12 March 2010, the HKSAR Government announced the appointment of Mr Rimsky Yuen Kwok-keung as non-executive director of the MPFA for a term of two years with effect from 17 March 2010, replacing Mr Edward Chan King-sang upon the expiry of his term of office. The Government also announced the re-appointment of Mrs Diana Chan Tong Chee-ching as the Managing Director of the MPFA for a further term of three years with effect from 1 July 2010. As at 31 March 2010, the Management Board consists of eleven non-executive directors and five executive directors. Information on the directors is set out on pages 16 to 21 of this report and published on MPFA's website.

The Management Board oversees the delivery of the functions of the MPFA as set out in section 6E of the MPFSO. It is responsible for determining key corporate strategies and policies, overseeing the delivery of the planned results, endorsing the corporate plan and budget of the MPFA, and ensuring that the MPFA's operations are conducted prudently and within the framework of applicable laws, regulations and policies. Besides being supported by a number of committees, the Management Board delegates the management of day-to-day operations to the executives of the MPFA.

The roles of the Chairman and the Managing Director of the MPFA are distinct and segregated to ensure a balance of power and authority. The Chairman is a non-executive director and is responsible for the leadership and effective running of the Management Board. The Managing Director, an executive director, is the administrative head of the MPFA and is responsible for administering the affairs of the MPFA subject to the direction of the Management Board.

The Management Board convened eight meetings during the year, and additionally considered 26 papers by circulation. The average attendance rate of members was 85%.

Supporting Committees

A number of committees have been set up to give advice and assistance to and perform functions delegated by the Management Board. They help provide checks and balances and capitalize on the specific expertise and experience of individual non-executive directors to refine and expedite the decision-making process. These include standing committees providing on-going support, as well as ad hoc committees formed to advise on one-off projects. The membership lists of the Management Board and its supporting committees are in Appendix 1.

Standing Committees

The Audit Committee

The Audit Committee comprises only non-executive directors. It advises the Management Board on the appointment of the external auditor, oversees the implementation of the auditor's recommendations, reviews the annual financial statements before submission to the Management Board, and initiates special financial audits as and when necessary. It also reviews the management's reports on internal control systems and the internal audit programme, and considers the major findings of internal investigations and management's responses.

During the year, the Audit Committee met twice and additionally considered two papers by circulation. The attendance rate of members was 88%. The Audit Committee's work included the following:

- reviewed the financial statements of the MPFA and the MPF Schemes Compensation Fund for the financial year 2008-09;
- received the half-yearly financial reports of the MPFA and the MPF Schemes Compensation Fund;
- received the progress report on the implementation of recommendations of a review on information technology security;
- considered and endorsed the internal audit programmes for the financial years 2009-10 to 2010-11;
- considered and endorsed the work plan on selection of external auditor for the financial years 2010-11 to 2012-13; and
- considered and endorsed internal audit reports on subjects including publicity and education programme management, and staff recruitment process.

The Administration Committee

The Administration Committee consists of three non-executive directors and two executive directors. It advises the Management Board on the development of human resources policies and procedures as well as policies relating to general administration. During the year, it held five meetings and additionally considered two papers by circulation. The average attendance rate of members was 96%.

The Finance Committee

The Finance Committee consists of three non-executive directors and two executive directors. It advises the Management Board on the development of financial strategies and policies, examines and reviews the annual budget of the MPFA, and oversees the financial position and investment of the funds of the MPFA and the MPF Schemes Compensation Fund. During the year, it held three meetings and additionally considered six papers by circulation. The average attendance rate of members was 87%.

The Guidelines Committee

The Guidelines Committee is currently chaired by a co-opted member, who is a former non-executive director. Other members include two non-executive directors, one executive director and six other co-opted members who are representatives of the industry and relevant professional bodies. It scrutinizes draft MPF Guidelines developed to give details on issues that are not spelt out in the MPF legislation for the guidance of MPF service providers, and reviews and updates existing Guidelines. The Committee did not meet during the year, but scrutinized one set of new Guidelines and six sets of revised Guidelines through circulation of papers.

The Tender Board

The Tender Board consists of two non-executive directors, one executive director, and one other executive director or head responsible for the subject under consideration. It considers the assessment of tender submissions conducted by the Assessment Panel comprising MPFA staff, recommends the award of contract to a selected tender or the rejection of the tender submissions, and reports to and advises the Managing Director on matters regarding tender submissions. During the year, it held one meeting and additionally considered two papers by circulation. The attendance rate of members was 100%.

Ad hoc Committees

The Committee to Oversee MPFA's Implementation of the Government Injection Project (the "Government's Injection Project Committee")

The Government's Injection Project Committee consists of four non-executive directors. It oversees the smooth implementation of the Government's injection of contributions into the accounts of MPF and ORSO scheme members, ensures proper financial control in the disbursement of funds, and oversees the handling of appeals and complaints arising from the implementation process. It held five meetings during the year and the average attendance rate of members was 85%.

The Appeal Panel to Handle Appeals Relating to the Government's Injection Project (the "Appeal Panel")

The Appeal Panel was appointed by the Management Board. It handles and decides on appeals against the MPFA's decision relating to the Government's Injection Project in accordance with the pre-set eligibility criteria and having regard to information provided by appellants and the findings of the MPFA's investigation. It is chaired by the Chairman of the MPF Schemes Advisory Committee and consists of all non-executive directors (except *ex officio* members, i.e. Secretary for Financial Services and the Treasury and Secretary for Labour and Welfare, and their alternates) of the Management Board. During the year, the Appeal Panel held 11 meetings.

The Working Group on Regulation of Sales and Marketing of MPF Products (the "Working Group")

The Working Group was formed in August 2009, comprising three non-executive directors and a co-opted member, who is a former non-executive director. It advises the Management Board on interim and long-term measures to improve the regulation and supervision of intermediaries, and of the sales and marketing of MPF schemes and funds. It met twice during the year and the attendance rate of members was 100%.

The Industry Schemes Selection Panel

The Industry Schemes Selection Panel was formed in April 2009 to evaluate applications for operating industry schemes and make recommendations to the Management Board for decision. It is chaired by the Chairman of the Industry Schemes Committee, who is also a non-executive director, and consists of six other members who are drawn from the Industry Schemes Committee and the MPF Schemes Advisory Committee. The Selection Panel met in February 2010 to consider the applications and additionally considered one paper by circulation. The average attendance rate of members was 71%.

CORPORATE GOVERNANCE (cont'd)

The following table sets out the attendance of individual directors at Management Board and Committee meetings in 2009-10.

Attendance of directors at meetings

	Management Board	Audit Committee	Administration Committee	Finance Committee	Government's Injection Project Committee	Tender Board	Working Group	Industry Schemes Selection Panel
Number of meetings held during the year	8	2	5	3	5	1	2	1
Attendance of directors								
Hon Anna Wu Hung-yuk	8/8			5/5	1/3			
Mr Edward Chan King-sang ¹	6/7							2/2
Mr Leo Kung Lin-cheng	6/8				3/3	4/5	1/1	2/2
Mrs Angelina Lee Wong Pui-ling	7/8	2/2						2/2
Dr David Sun Tak-kei	6/8	2/2			3/3	5/5		
Hon Wong Ting-kwong	8/8	2/2		5/5		5/5		1/1
Hon Li Fung-ying	3/8			4/5		3/5		
Hon Andrew Leung Kwan-yuen	4/8						1/1	
Hon Wong Kwok-kin	5/8	1/2						
Mr Rimsky Yuen Kwok-keung ²		1/1						
Secretary for Labour and Welfare ³	8/8							
Secretary for Financial Services and the Treasury ⁴	7/8							
Mrs Diana Chan Tong Chee-ching	8/8			5/5	3/3			
Ms Hendena Yu	8/8							
Mr Darren Mark McShane	8/8							
Mr Thomas Yiu Kei-chung	8/8			5/5	3/3		1/1	
Ms Cynthia Hui Wai-yee	8/8							

Notes:

1 Ceased to be a director with effect from 17 March 2010

2 Appointed as a director with effect from 17 March 2010

3 6 meetings attended by alternate director

4 6 meetings attended by alternate director

ACCOUNTABILITY AND TRANSPARENCY

Management of Conflicts of Interest

The Management Board and its supporting committees adopt a system of declaration of interest. Under the system, directors are required to disclose their general pecuniary interest, such as remunerated directorship and employment, when they are first appointed. Should there be any changes to their declaration of interests, they are requested to notify the MPFA as soon as practicable, preferably within two weeks, after becoming aware of the relevant facts. As required by the MPF legislation, a director must also disclose his pecuniary interest in a matter placed before the Management Board or a committee if the interest appears to raise a conflict with the proper performance of the director's duties in relation to the consideration of the matter. Particulars of the disclosure made at Management Board meetings are recorded in a register available for public inspection.

Reporting System

The MPFA is required to submit a draft corporate plan and a budget of estimated expenditure to the Financial Secretary of HKSAR for approval before the start of each financial year. It is also required to deliver an annual report, together with audited financial statements and auditor's report, to the Financial Secretary. The financial statements are prepared in accordance with the recognized accounting standards, reporting standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants or the accounting and reporting standards, if any, notified in writing by the Financial Secretary under section 6N(3) of the MPFSO. The financial and budgetary statements and reports are considered and reviewed by the Finance Committee and the Audit Committee before endorsement by the Management Board and submission to the Financial Secretary.

We release information on our operations to the public through press releases, and publish a quarterly Statistical Digest to provide statistics on MPF and ORSO schemes. These press releases, statistics, our annual reports and other publications are available for download from the MPFA's website. The website also provides comprehensive information about the MPF System and the MPFA.

Performance Pledges

The MPFA has a system of performance pledges to monitor the attainment of service standards and the achievement of operational targets. The achievement of our pledges to the public in the 2009-10 financial year is set out in the table below.

Achievement of Performance Standards in 2009-10

Service	Service Standard	Performance Achieved
Complaints and Enquiries (Hotline 2918 0102)		
(1) Answering telephone enquiries and telephone messages	Answer a telephone call within 30 seconds, or return call to caller within the next working day if caller cannot get through and leaves a message	100%
(2) Answering written enquiries	A. Acknowledge within 3 working days B. Reply within 10 working days on general issues or send an interim reply within 7 working days if immediate reply is not possible on matters requiring research	100%
(3) Answering enquiries made in person	Interview walk-in enquirers within 5 minutes	100%
(4) Complaint acknowledgement	Send an acknowledgement letter within 3 working days for all cases	100%
Complaints Investigation		
(1) Initial contact with complainant for investigation by Case Officer	Contact complainant for investigation within 7 working days from the date of receiving a case	99.84%
(2) Responding to enquiries by complainant/complainee on investigation progress	Inform complainant/ complainee of investigation progress within 3 working days	99.82%
(3) Informing complainants of enforcement actions		
A. Cases involving prosecution	A1.Notify complainants by phone of issue of prosecution summonses not less than 2 working days before the summonses are applied A2.Notify complainants of prosecution results within 10 working days from the date of receiving a verdict	100%
B. Cases involving surcharge	B. Notify complainants by phone of issue of surcharge notices not less than 2 working days before actual issuance	100%

Supply of and Access to Information

Since the MPFA's Code on Access to Information came into operation in November 2007, we have received 31 requests under the Code and followed the required procedures set out in the Code in processing the requests.

INTERNAL CONTROLS

The MPFA puts in place an internal control system to provide assurance regarding the achievement of the MPFA's objectives through effective and efficient operations, reliable internal and external reporting, and compliance with applicable laws, regulations and internal policies.

Individual divisions and departments in the organization are responsible for implementing effective controls within their purview, following policies and guidelines applicable to their operations. Policies, strategies, principles, controls and procedures relating to financial and asset management, accountancy and budgetary control, procurement and tendering, and the use of administrative and human resources have been reviewed and endorsed by the Finance Committee and the Administration Committee respectively.

Internal Audit and Management Review

The MPFA's internal audit function is performed by the Risk Management Unit, which reports to the Managing Director. The Unit provides an independent assessment of internal controls according to the guidelines and standards on internal audit promulgated by the Hong Kong Institute of Certified Public Accountants. It reviews whether operational policies, procedures and controls are adequate and whether they are complied with, and identifies improvement opportunities. Findings are reported to and considered by the Audit Committee, which reports the findings directly to the Management Board to ensure objectivity and independence. During the year, four internal audits were conducted on subjects including cash and liquidity management, publicity and education programme management, staff recruitment process, and record keeping practices.

MPFA's organizational structure, roles and responsibilities are regularly reviewed and operational process re-engineered as and when necessary for fine-tuning and meeting changing needs and requirements. During the year, we reviewed the structure and manpower requirements of the Supervision Division. Two management reviews were conducted on the deployment of resources of the Enforcement Division and on the implementation of the Government's Injection Project.

Risk Management

The MPFA has a risk assessment and management programme to identify, assess and manage risks in a timely and systematic manner. A corporate level risk register and a departmental risk register for each department are maintained to keep track of treatments of identified risks. These are reviewed and updated annually during the corporate planning process.

Regular security risk assessments of the MPFA's information technology infrastructure and application systems were conducted in the year. Solutions have been implemented to resolve the risks identified. More stringent measures were imposed to further strengthen the security protection of our information systems and to minimize the risks of data leakage.

We have in place a set of policies and procedures to maintain business continuity of vital functions at times of contingency and disaster. Our information technology systems disaster recovery programme is an integral part of the corporate-wide business contingency and disaster recovery plan. In October 2009, a disaster recovery drill was conducted in our disaster recovery centre to familiarize staff with the recovery procedures for continuing the operation of our critical computer systems in the event of a disaster in our main computer centre.

Code of Conduct

MPFA's staff are required to comply with a Code of Conduct, which sets out the standards of acceptable conduct, how staff should respond to different situations in official dealings, and their legal and contractual obligations to the MPFA. The Code also provides specific guidelines on various issues, such as confidentiality of information, the offer and acceptance of advantages, avoidance of conflicts of interest, and declaration of financial and other interests.

INDEPENDENT CHECKS AND BALANCES

Reviews

The MPFA may invite external reviews of its operations to ensure that the control measures are adequate and to identify improvement areas. During the year, a consultant was engaged to review the procurement policies and procedures of the MPFA. Taking into account the consultant's recommendations and operational experience, the MPFA has planned to implement certain changes to the procedures.

Deloitte Touche Tohmatsu continued to be the MPFA's external auditor in the financial year 2009-10.

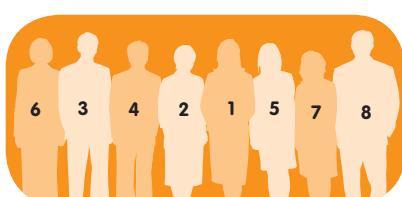
Appeal Boards

The Mandatory Provident Fund Schemes Appeal Board established pursuant to section 35 of the MPFSO hears appeals against any decision of the MPFA specified in Schedule 6 of the MPFSO. The Occupational Retirement Schemes Appeal Board established pursuant to section 61 of the ORSO hears appeals against the ORSO Registrar's decisions as specified in the ORSO. No appeal was lodged with either appeal board during the year.

THE MANAGEMENT TEAM



On 31 March 2010, the senior management of the MPFA comprised:

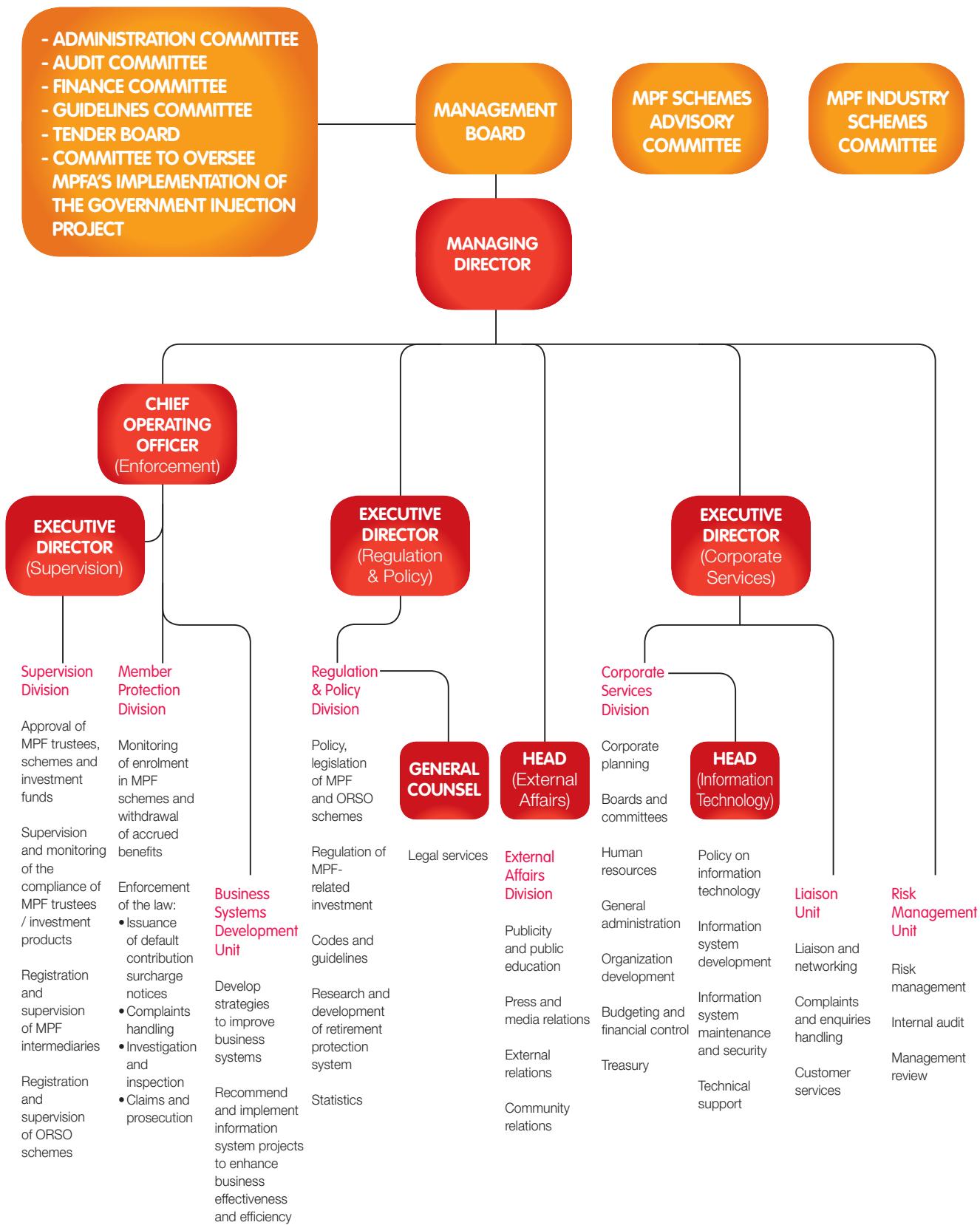


- 1 Mrs Diana Chan, *Managing Director*
- 2 Ms Hendena Yu, *Chief Operating Officer (Enforcement)*
- 3 Mr Darren McShane, *Executive Director (Regulation & Policy)*
- 4 Mr Thomas Yiu, *Executive Director (Corporate Services)*
- 5 Ms Cynthia Hui, *Executive Director (Supervision)*
- 6 Ms Ingrid Lai, *General Counsel*
- 7 Mrs Betty Chan, *Head (External Affairs)*
- 8 Mr Andy Tong, *Head (Information Technology)*

OUR ORGANIZATION AND OUR STAFF

THE ORGANIZATION STRUCTURE

(as at 31 March 2010)



OUR STAFF AND FINANCIAL RESOURCES

The MPFA relies heavily on human resources to carry out its functions. We give high priority to the recruitment, training and development of our staff, the maintenance of a congenial working environment and the nurturing of a culture of sharing and communication.

STAFFING

The approved headcount of the MPFA was 633 as at the end of the previous financial year (2008-09). During the 2009-10 financial year, new positions were created to implement enhanced supervision strategies and measures as well as to meet the anticipated short and medium-term upsurge of workload arising from a number of project initiatives, particularly the implementation of the proposal to expand employees' control over MPF investments ("Employee Choice Arrangement"). As at 31 March 2010, the MPFA had an approved headcount of 672. The staff cost to total expenditure ratio for the year was 66.8%, and the staff turnover rate was 9.8%.

REMUNERATION AND BENEFITS

The remuneration package of the MPFA comprises a fixed basic salary and a performance-linked variable pay granted at the discretion of the Management Board. The fringe benefits for staff include annual leave, medical and dental benefits, insurance coverage and MPF. With the Management Board's approval, a performance-linked variable pay for 2009-10 and an adjustment in fixed pay with effect from 1 April 2010 were granted to eligible staff subject to individual performance.

The terms and conditions of office of MPFA's directors are determined by the Chief Executive of the HKSAR. Non-executive directors are not employees of the MPFA and are not paid for their services. The remuneration of individual directors of the MPFA is disclosed in the notes to the Financial Statements on page 89.

CULTURE BUILDING

We continue with our efforts to nurture a corporate culture that fosters trust, embraces change and values teamwork. After the annual corporate plan had been finalized, communication sessions hosted by the Managing Director and Executive Directors were held to cascade the work directions, strategies and goals of the MPFA. The sessions also gave every staff member the opportunity to directly communicate with the Managing Director and Executive Directors on work-related issues. Other face-to-face communication sessions were arranged during the year for different staff groups to discuss issues of concern with the senior management in a casual setting. Team building exercises are organized regularly for different departments to foster mutual understanding, improve communication, and enhance co-operation and coping capacity of team members. During the year, team building workshops were organized for two departments. For the senior management team, team building activities were incorporated in the annual corporate planning workshop. Other social activities, such as those organized by the Staff Welfare Committee (see the section "Staff Welfare and Social Activities" below), also helped foster cohesiveness.

We continued to make use of the existing channels for regular communication across the organization, including a quarterly electronic bulletin on corporate business news, staff bulletins on human resources matters and the quarterly staff newsletter, *The Orchard*, on staff news.

TRAINING AND DEVELOPMENT

We attach great importance to staff training and development. An annual training programme plan was formulated, setting out the relevant programmes to be organized according to the needs of staff. We also nominated staff to attend or speak at seminars and conferences to facilitate both local and international exchange and widen their professional exposure and network. In 2009-10, the total attendance of staff at training programmes and seminars and conferences was 3 720. The training programmes included management development programmes, training sessions on business knowledge, technical skills (such as those related to legal, accounting and finance, information technology and risk management) and soft skills (such as communication and interpersonal skills, resilience at work and time management), and knowledge sharing sessions.

During the year, we published a Career Profile Guide to provide staff with a clear picture of career development in MPFA so that they can prepare themselves for development towards their career goals. In terms of career development opportunities, 19 staff members were promoted to more senior positions and lateral transfer was arranged for 10 staff members in 2009-10 to develop their capabilities and enhance their exposure.

STAFF RECOGNITION

We continued our corporate staff recognition programme to recognize our staff who demonstrated well the corporate core values in their work. This year, 150 staff members received recognition awards under the programme. The MPFA took on its first staff members in 1998. In 2009, we introduced a Long Service Award Scheme to show appreciation to long-serving staff members for their continuous service and dedication to the organization for 10 years or more.

The first awards were granted to 46 awardees who had completed 10 years of continuous service as at 30 November 2009.



Two staff members won the Ombudsman's Award in 2009. One of the winners shared her joy with colleagues at the award presentation ceremony.

Externally, MPFA staff members have been publicly recognized for their service excellence. In addition to commendation letters received from members of the public, an officer and an inspector of the MPFA received the Ombudsman's Award 2009 for Officers of Public Organizations in the General Nominations category and the Complaint-related Nominations category respectively. The fact that 10 members of our staff have won the award for seven consecutive years is strong affirmation and recognition of MPFA's achievements in customer service.

WORK ENVIRONMENT

In March 2010, we relocated our Central office at One International Finance Centre upon the expiry of its lease to the Nexus Building in the same district. In addition to maintaining a service outlet to the public on the Hong Kong Island, the new office also accommodates the majority of the Supervision Division staff, who previously worked at the head office in the International Commerce Centre, to cope with the Division's expansion needs.

We strive to provide a healthy and safe working environment for our staff. Precautionary measures are always in place for the protection of safety and health of our staff at work. As required by the Occupational Safety and Health legislation, we assess and re-assess the risks of

workstations to the safety and health of users, as and when necessary. 288 such assessments were conducted in 2009-10. We also took into account occupational safety and health considerations in renovating our offices.

In the year, we assessed the indoor air quality at our offices by checking the room temperature, relative humidity, and the levels of common indoor air pollutants. The results indicated that the indoor air quality of the premises assessed was good, with the above parameters reaching the Excellent Class and Good Class objectives under the Government's Indoor Air Quality Certification Scheme.

As Hong Kong has been in the shadow of an outbreak of type A influenza, we have taken a number of preventive measures to maintain office hygiene, and provided health tips to staff. Sanitary and disinfecting items were conveniently placed in office premises to help staff and visitors maintain personal hygiene.

STAFF WELFARE AND SOCIAL ACTIVITIES



Staff members spent their leisure time participating in activities organized by the Hiking Club, Soccer Club and Photo Club



The MPFA Basketball Team was first runner-up at the Joint Authorities Basketball Cup tournament

During the year, the Staff Welfare Committee organized numerous social activities, including a bowling competition, interest classes, a day-tour and an annual dinner. The interest clubs formed under the Committee, such as Basketball Club, Hiking Club, Photo Club and Parents Club, continued to organize activities for the enjoyment and relaxation of staff and their family members.

In August 2009, our basketball team took part in the first Joint Authorities National Cup tournament hosted by the Hong Kong Institute of Certified Public Accountants and came second in the match. Our soccer team also played a friendly match with the Hong Kong Federation of Journalists. These events provided opportunities for our staff to foster their team spirit, and to network with other organizations.



Management Board and committee members shared a joyful night with staff at the Annual Dinner

FINANCIAL RESOURCES

The operations of the MPFA are financed by the investment returns generated from a one-off Capital Grant of \$5 billion from the HKSAR Government and by fees and charges collected. As at 31 March 2010, the balance of the Capital Grant was \$5.44 billion. We continued to exercise stringent control over our spending and prudence in preparing the annual budget. For details of the financial position of the MPFA, please refer to the financial statements on pages 72 to 93.

CARING FOR THE COMMUNITY

Dedicated and committed to being a caring employer and a socially responsible organization, the MPFA actively implements caring programmes for its staff, practises green office management and supports environment friendly activities. With “community perspective” as one of our core values, the staff are not only mindful of the community’s needs in carrying out MPFA’s functions, they are also encouraged to show their care towards the community on a personal basis, through the organization’s participation in various charitable activities and the operation of the MPFA Volunteer Team.

MPFA – A CARING ORGANIZATION



Awarded the "Caring Organization 2005-10" logo

Since 2006-07, the MPFA has been a sponsor of the Caring Company Scheme run by the Hong Kong Council of Social Service, whose aim is to promote partnership between the business and the social welfare sectors, cultivate corporate citizenship, and encourage care towards employees, the environment and the community. Also, for our achievements in these aspects, we were awarded the Caring Organization logo under the Scheme in 2009 for the fifth year consecutively. Furthermore, with our nomination of three staff members as caring ambassadors of the MPFA for 2009-10, we have a total of seven caring ambassadors in the MPFA, who have been actively organizing and supporting our community programmes.

A brief account of our activities in protecting the environment and serving the community is given below. Measures taken to promote employee wellbeing are reported in the chapter “Our Staff and Financial Resources”.

The Environment

The MPFA embraces the concept of sustainable development¹ and upholds environmental protection principles in its daily operations.

During the year, we continued to reduce our consumption of energy, paper and stationery. Bins were placed at all office premises to collect paper, aluminum cans and plastic bottles for recycling purposes. We implemented green procurement to reduce purchasing one-off disposable items and to purchase green products such as FSC-certified paper². The use of electronic means for communication and filing was further promoted. Staff were reminded to print only when necessary, make use of double-sided printing, and reuse envelopes as far as possible. As a result, we recorded a drop in paper usage. To save energy, we installed timers to switch off office lighting automatically to avoid idle lighting at night. We called on our staff to switch off lighting and office equipment before leaving office rooms. Several rounds of random checks at night-time have revealed that all our staff keep up such good practices.

The Community

The MPFA supports and encourages staff's involvement in volunteer activities that reach out to the community to help the needy. During the year, the MPFA Volunteer Team continued to mobilize our staff, their family members and friends to participate in voluntary services. The total number of hours of services offered to the community was over 2 900 with a total participation

¹ Sustainable development is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations.

² Paper produced by members of the Forest Stewardship Council, which promotes responsible forest management. It specifies rules to protect forests from illegal harvesting to ensure the provision of shelter for rare, threatened and endangered species, and to facilitate forest regeneration and succession.



Visiting students in the Guangxi Province



Visiting the elderly



of 385. Participation has been on the rise over the years. The activities organized in 2009-10 included the following:

- Care towards the elderly – the Volunteer Team distributed festive rice dumplings and soup during visits to the elderly and organized a party for the elderly in partnership with a local social service group around the time of Mid-Autumn Festival;
- Care towards students with special needs – supported by the funds raised among MPFA staff, two outings and a Christmas party were organized for students with special needs;
- Fund-raising events – MPFA volunteers participated in flag-selling activities of two charitable organizations to raise funds to support their welfare services for the community; and
- Other volunteer programmes – MPFA staff worked as volunteers in the East Asian Games 2009 to help receive athletes from participating countries, and participated in a disaster drill in the airport at the call of the Agency for Volunteer Service.

Our volunteer service was also extended to the needy outside Hong Kong for the first time. In April 2009, the volunteers took part in a visit arranged by the China Care Fund to students of several primary and secondary schools in the Guangxi Province of the Mainland.



Posing for a photo after holding a Christmas party for students at the Hong Kong Red Cross Princess Alexandra School's hostel

During the year, staff of the MPFA took part in various fund-raising activities, including the Green Day and the Dress Special Day 2009 organized by the Community Chest. We participated in the Sowers Action Challenging 12 Hours Charity Marathon to raise funds in support of education for children in mountainous regions of the Mainland. Two teams of our staff were awarded medals of merit in the 10 km race, and we won two Bronze-Foot Awards for the amount of funds raised. Members of the MPFA Volunteer Team also supported the Marathon by manning a supplies station for participants in the event.



Participating in the Sowers Action Challenging 12 Hours Charity Marathon



INTERNATIONAL EXCHANGES

The MPFA is a member of the International Organisation of Pension Supervisors ("IOPS") under the Organisation for Economic Co-operation and Development ("OECD"). During the year, we contributed to the development and drafting of a number of guidelines, good practices and working papers relating to pension regulation and supervision. We also shared our regulatory, supervisory and enforcement experience with other IOPS members by giving presentations and participating in discussion in IOPS meetings.

From time to time, the MPFA received visitors from overseas and the Mainland, including representatives of government or non-government organizations, exchanging views as well as sharing experiences with them. Our representatives also participated in several international conferences and gave presentations on the MPF System. Highlights of these activities are given below.

**20-21 May
2009**

Executive Director (Regulation & Policy) participated as a panel member discussing the fees of pension funds at the 4th Annual Asian Investment Summit organized by Asian Investor in Hong Kong.

**1-3 June
2009**

Executive Director (Supervision) and General Counsel attended the Symposium on Public Pension Governance and Investment organized by The World Bank in Bali, Indonesia.

**17 June
2009**

At MPFA, Chief Operating Officer (Enforcement) received a delegation from the Ministry of Human Resources and Social Security, led by the Deputy Director-General, Mr Xu Yanjun. She gave the delegates a presentation on the latest developments in the MPF System.



**24 June
2009**

A delegation of the Guangdong Municipal Labour and Social Security Bureau, led by the Deputy Secretary of Party Leadership Group and Deputy Director, Ms Lin Wangping, visited the MPFA. Chief Operating Officer (Enforcement) received the delegates and briefed them on the operations of the MPF System.



**7-8 July
2009**

Executive Director (Regulation & Policy) attended the Technical Committee meeting of IOPS in Paris, France.

**23-24 July
2009**

Executive Director (Regulation & Policy) gave a speech on Establishing the Appropriate Regulatory Framework at the Forum on the Development of Private Pension Industry in Malaysia organized by the Securities Commission of Malaysia in Kuala Lumpur, Malaysia.

**14-16 October
2009**

Executive Director (Regulation & Policy) attended the Technical Committee meeting of IOPS and the Global Forum on Private Pensions organized by OECD/IOPS in Rio de Janeiro, Brazil.

**4 November
2009**



At MPFA, Executive Director (Corporate Services) met with a delegation from the Social Insurance Bureau of Hainan Province, led by Mr Deng Guanghua.



**5 November
2009**

The Director-General of the Institute of Strategic and International Studies, Malaysia, Dr Mahani Zainal Abidin, visited the MPFA and was briefed on the latest developments in the MPF System by Chief Operating Officer (Enforcement).

**9 December
2009**



A delegation from the Labor Pension Fund Supervisory Committee, Taiwan, led by the Chairman, Mr Huang Chao-hsi, visited the MPFA, and was briefed on the latest developments in the MPF System by Chief Operating Officer (Enforcement).

**20-21 January
2010**

Executive Director (Regulation & Policy), Executive Director (Supervision) and Executive Director (Corporate Services) attended the Asian Financial Forum 2010 organized by HKSAR Government and Hong Kong Trade Development Council in Hong Kong.

**22-23 February
2010**

Executive Director (Regulation & Policy) and Executive Director (Supervision) attended the Technical Committee meeting of IOPS and a Joint Meeting organized by OECD/IOPS and the Pensions Coordination Group of International Association of Insurance Supervisors in Basel, Switzerland.

**10-12 March
2010**

Executive Director (Regulation & Policy) led two MPFA staff members on a study tour to Australia to study the Australian Superannuation System. They visited the Australian Securities and Investments Commission, the Australian Prudential Regulation Authority and several industry bodies in Sydney, Australia.

**26 March
2010**

At MPFA, Executive Director (Supervision) met with Mr Taro Kono, Member of the House of Representatives, and Mr Asahiko Mihara from the Liberal Democratic Party, Japan, and briefed them on the regulatory and supervisory framework of the MPF System.

INDEPENDENT AUDITOR'S REPORT

To The Management Board of the Mandatory Provident Fund Schemes Authority ("The MPFA")

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

We have audited the financial statements of the MPFA set out on pages 73 to 93, which comprise the statement of financial position as at 31 March 2010, and the income and expenditure account, the statement of changes in capital and reserve and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Management Board's Responsibility for the Financial Statements

The Management Board is responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 6P(2) 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the MPFA as at 31 March 2010 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 June 2010

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2010

	NOTES	2010 HK\$	2009 HK\$
INCOME			
Fee income		9,798,732	8,403,061
Interest income on bank deposits		1,957,003	6,807,338
Net investment income / (loss)	6	641,482,733	(283,340,942)
		653,238,468	(268,130,543)
Other income	7	7,406	14,851,058
		653,245,874	(253,279,485)
EXPENDITURE			
Staff costs		237,046,555	211,963,823
Depreciation		20,125,899	17,102,400
Premises expenses		47,019,422	40,053,051
Public education and publicity expenses		10,983,788	13,672,988
Investment expenses		15,347,174	15,252,910
Other operating expenses		24,155,278	27,228,146
		354,678,116	325,273,318
SURPLUS / (DEFICIT) FOR THE YEAR		298,567,758	(578,552,803)

STATEMENT OF FINANCIAL POSITION

At 31 March 2010

	NOTES	2010 HK\$	2009 HK\$
NON-CURRENT ASSETS			
Property and equipment	12	31,941,253	49,186,921
Projects in progress	13	5,444,018	-
		37,385,271	49,186,921
CURRENT ASSETS			
Investments designated at fair value	14	4,959,348,886	4,662,928,901
Derivative financial instruments	15	7,153,426	3,973,556
Unsettled investments receivable		238,822,334	45,038,298
Debtors, deposits and prepayments		36,300,144	42,596,792
Bank deposits		255,242,745	241,512,917
Other bank balances and cash		925,044,111	578,986,372
Bank balance and debtors in connection with the Government Injection of Contributions Project	16	1,372,967	430,650,101
		6,423,284,613	6,005,686,937
CURRENT LIABILITIES			
Derivative financial instruments	15	792,260	301,792
Unsettled investments payable		966,073,931	422,736,394
Government Injection of Contributions Project fund	16	1,372,967	430,650,101
Creditors and accrued charges		51,590,123	59,192,826
Fees received in advance		4,061,900	3,781,800
		1,023,891,181	916,662,913
NET ASSETS			5,436,778,703
CAPITAL AND RESERVE			
Capital grant	17	5,000,000,000	5,000,000,000
Income and expenditure account		436,778,703	138,210,945
		5,436,778,703	5,138,210,945

The financial statements on pages 73 to 93 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 23 June 2010 and are signed on its behalf by:

Diana Chan
Managing Director

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2010

	Capital HK\$	Income and Expenditure Account HK\$	Total HK\$
At 31 March 2008	5,000,000,000	716,763,748	5,716,763,748
Deficit for the year	-	(578,552,803)	(578,552,803)
At 31 March 2009	5,000,000,000	138,210,945	5,138,210,945
Surplus for the year	-	298,567,758	298,567,758
At 31 March 2010	5,000,000,000	436,778,703	5,436,778,703

STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	2010 HK\$	2009 HK\$
OPERATING ACTIVITIES		
Surplus / (deficit) for the year	298,567,758	(578,552,803)
Adjustments for:		
Depreciation	20,125,899	17,102,400
Loss on disposals of property and equipment	584,513	575,809
Interest income on bank deposits	(1,957,003)	(6,807,338)
Interest income on investments designated at fair value	(127,033,358)	(155,309,643)
Dividends from investments designated at fair value	(27,424,696)	(28,783,634)
Net (gains) / losses on investments designated at fair value	(489,981,816)	516,533,598
Net realised losses / (gains) on derivative financial instruments	5,646,539	(38,452,013)
Net unrealised gains on derivative financial instruments	(2,689,402)	(10,647,366)
	(324,161,566)	(284,340,990)
Decrease in debtors, deposits and prepayments	6,296,648	7,395,433
Decrease in creditors and accrued charges	(5,601,669)	(10,480,560)
Increase in fees received in advance	280,100	67,250
Fund and interest received for the Government Injection of Contributions Project	107,904	8,592,048,151
Contributions and payments made for the Government Injection of Contributions Project	(250,385,038)	(8,161,398,050)
Refund made for the Government Injection of Contributions Project	(179,000,000)	-
NET CASH (USED IN) / FROM OPERATING ACTIVITIES	(752,463,621)	143,291,234
INVESTING ACTIVITIES		
Dividends received from investments designated at fair value	27,682,897	28,733,443
Interest received on bank deposits	2,537,175	7,270,961
Interest received from investments designated at fair value	129,678,270	161,428,479
Proceeds on disposals of property and equipment	-	200,780
Proceeds on disposals of investments designated at fair value	10,733,949,087	12,388,350,582
Purchase of property and equipment and projects in progress	(10,909,796)	(30,976,714)
Purchase of investments designated at fair value	(10,193,736,868)	(12,317,772,105)
(Purchase) / settlement of derivative financial instruments	(5,646,539)	38,452,013
(Increase) / decrease in bank deposits	(14,310,000)	56,400,000
Increase in bank balances held for investment purposes	(340,707,802)	(46,488,106)
NET CASH FROM INVESTING ACTIVITIES	328,536,424	285,599,333
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(423,927,197)	428,890,567
CASH AND CASH EQUIVALENTS AT 1 APRIL	437,945,744	9,055,177
CASH AND CASH EQUIVALENTS AT 31 MARCH	14,018,547	437,945,744
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balance and debtors in connection with the Government Injection of Contributions Project	1,372,967	430,650,101
Other bank balances and cash	925,044,111	578,986,372
Less : Bank balances held for investment purposes	(912,398,531)	(571,690,729)
	14,018,547	437,945,744

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2010

1. Background and Functions of The Mandatory Provident Fund Schemes Authority (“The MPFA”)

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 functions of the MPFA are stated under section 6E of the Ordinance. Its office address is Level 16, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The financial statements are presented in Hong Kong dollars (“HK dollars”), which is the same as the functional currency of the MPFA.

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

In the current year, the MPFA has applied a number of new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the financial statements for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving disclosures about financial instruments

(Amendments to HKFRS 7 financial instruments: disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The MPFA has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The MPFA has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective. The MPFA anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the financial statements.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related party disclosure ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of right issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters ³
HKFRS 2 (Amendment)	Group cash-settled share-based payments transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement ³
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ⁷

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (cont'd)

- 1 *Effective for annual periods beginning on or after 1 July 2009.*
- 2 *Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.*
- 3 *Effective for annual periods beginning on or after 1 January 2011.*
- 4 *Effective for annual periods beginning on or after 1 February 2010.*
- 5 *Effective for annual periods beginning on or after 1 January 2010.*
- 6 *Effective for annual periods beginning on or after 1 January 2013.*
- 7 *Effective for annual periods beginning on or after 1 July 2010.*

HKFRS 9 “Financial instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” to be measured at either amortised cost or fair value. Specifically, debt securities investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt and equity securities investments are measured at fair value.

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, and in accordance with HKFRSs issued by the HKICPA. The principal accounting policies adopted are as follows:

Revenue recognition

Fee income consists of application fees and annual fees arising from the occupational retirement schemes and mandatory provident fund schemes and is accounted for on an accrual basis.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

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

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the MPFA becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognised immediately in the income and expenditure account.

Financial assets

MPFA's financial assets include financial assets at fair value and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. Significant Accounting Policies (cont'd)

Effective interest method

The effective interest method is a method of calculating 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.

Financial assets at fair value

Financial assets at fair value have two subcategories, financial assets held for trading and those designated at fair value on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the MPFA's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of the contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated at fair value.

Subsequent to initial recognition, financial assets at fair value are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the income and expenditure account in the period in which they arise. The net gain or loss recognised in the income and expenditure account includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables, including debtors, deposits, unsettled investments receivable, bank deposits and bank balances, are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in the income and expenditure account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

3. Significant Accounting Policies (cont'd)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability. The MPFA's financial liabilities are generally classified as other financial liabilities.

Financial liabilities, including creditors, unsettled investments payable and Government Injection of Contributions Project fund, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating 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.

Derivative financial instruments

The MPFA uses derivative financial instruments (primarily foreign exchange contracts) to hedge its exposure against investments designated at fair value. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting, such as foreign exchange contracts, are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in the income and expenditure account.

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 MPFA has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income and expenditure account.

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

Property and equipment

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

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 and software	3 - 4 years
Office equipment and furniture	4 years
Motor vehicle	4 years

3. Significant Accounting Policies (cont'd)

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 income and expenditure account in the year in which the item is derecognised.

Projects in progress

Projects in progress consist of expenditure of capital projects not yet completed. Any internally-generated intangible asset of projects in progress arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will produce future economic benefits. The resultant asset will be capitalised as property and equipment upon completion.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the MPFA reviews the carrying amounts of its tangible and intangible 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. 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 prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statements of the MPFA, transactions in currencies other than the functional currency of the MPFA are recorded in its functional currency (that is the currency of the primary economic environment in which the MPFA operates) at the rates of exchange 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 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 income and expenditure account for the period.

Operating leases

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

4. Capital Management

The MPFA's objectives when managing capital are:

- to safeguard the MPFA'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
- to support the MPFA's stability and growth to provide benefits for stakeholders.

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

5. Financial Instruments

Categories of financial instruments

	2010 HK\$	2009 HK\$
Financial assets		
At fair value	4,966,502,312	4,666,902,457
Loans and receivables (including bank deposits, bank balances and cash)	1,454,263,226	1,336,652,561
Financial liabilities		
At fair value	792,260	301,792
Other financial liabilities	994,527,881	887,178,105

Financial Risk Management Objectives and Policies

MPFA's major financial instruments include bank deposits, bank balances and cash, unsettled investments receivable and payable, debtors and deposits, creditors, derivative financial instruments, debt and equity investments. The MPFA adopts a statistical approach for its strategic asset allocation. 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.

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.

Apart from bank deposits that are managed internally, the MPFA contracts out the management of debt and equity securities to external fund managers who make investments in accordance with the global balanced mandates. The fund managers are 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 capitalization and marketability as detailed in the Investment Guidelines. Apart from proactive contributions to stock selection, interest rate and currency risk management, each 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.

5. Financial Instruments (cont'd)

In the light of the financial turmoil in 2008, the MPFA has enhanced the monitoring of its investment and imposed a series of contingent measures relating to the exposures of certain investment instruments. Despite the persistent stability of the global financial market in 2009, the MPFA has conducted more due diligence exercises on the external fund managers' compliance and risk management process. In addition, with the enhanced management reporting process, management and the Finance Committee are kept abreast of the investment portfolios' status as well as the general financial market conditions.

Credit risk

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

The investment portfolios can only invest in debt securities that have a minimum credit rating of A- by Standard & Poor's Ratings Services ("S&P") and A3 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+/A1.

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

Credit rating	2010 HK\$	%	2009 HK\$	%
AAA ¹	1,882,761,113	48	1,950,308,486	52
AA ²	1,167,943,953	30	1,109,581,333	30
A ³	845,887,395	22	692,126,047	18
	3,896,592,461	100	3,752,015,866	100

Note

Note

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

Note A debt security investment with market value of HK\$10,221,337 at the reporting date was excluded from the above profile. The debt security was downgraded by S&P to BBB while Moody's maintained its credit rating at A3. The impact of this downgrade was minimal to the total portfolio. A similar situation was reported in the last reporting period in respect of another debt security investment of market value HK\$8,738,526

The weighted average credit rating of the total debt securities portfolio is AA/Aa2.

The MPFA does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds, including bank balances and derivative financial instruments is limited because the counterparties are banks and other financial institutions with high credit-ratings assigned by international credit rating agencies. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

5. Financial Instruments (cont'd)

The exposure to interest rate risk on bank deposits and bank balances carrying interest are limited to the impact of the interest rate fluctuations on the interest income. The MPFA adopts a sensitivity test of 10 basis points (2009: 100 basis points) movement to measure such impact. If the interest rates on the bank deposits and bank balances moved up or down by 10 basis points (2009: 100 basis points) on average throughout the year, with all other variables being held constant, income for the year would increase or decrease by HK\$1.2 million (2009: HK\$8.2 million).

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

	2010 Years	2009 Years
Benchmark duration	4.59	3.89
Portfolio duration	4.33	3.89

The MPFA 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 MPFA adopts a sensitivity test of 10 basis points (2009: 100 basis points) movements. As at the reporting date, if interest rate had fluctuated 10 basis points (2009: 100 basis points) and all other variables were held constant, the impact on the MPFA's income would be as follows.

	Increase (decrease) in the MPFA's income	
	2010 HK\$	2009 HK\$
If interest rate were 10 basis points (2009: 100 basis points) lower	16,901,545	146,149,935
If interest rate were 10 basis points (2009: 100 basis points) higher	(16,901,545)	(146,149,935)

5. Financial Instruments (cont'd)

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 portfolios are investments designated at fair value and are 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. The inclusion of cash in the benchmark portfolio further helps to control price risk. The investment performance is reported to the Finance Committee and the Management Board on a regular basis.

As at 31 March 2010, if the Equity Market^{Note} had increased or decreased by 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 been HK\$101.4 million higher or lower (2009: HK\$92.8 million).

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

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 portfolios, all MPFA's assets and liabilities are in HK dollar or US dollar and no currency risk is expected due to the linked exchange rate system in Hong Kong.

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

5. Financial Instruments (cont'd)

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

	2010						
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	Total HK\$ equivalent
Current assets							
Investments designated at fair value	1,730,511,254	35%	2,690,883,002	54%	537,954,630	11%	4,959,348,886
Derivative financial instruments	-	0%	367,563,310	99%	3,311,769	1%	370,875,079
Unsettled investments receivable	1,095,255	0%	230,991,464	97%	6,735,615	3%	238,822,334
Debtors and deposits	34,221,569	100%	-	0%	-	0%	34,221,569
Bank deposits	255,242,745	100%	-	0%	-	0%	255,242,745
Bank balances & cash	146,888,256	16%	772,963,815	83%	6,124,507	1%	925,976,578
	2,167,959,079	32%	4,062,401,591	60%	554,126,521	8%	6,784,487,191
Current liabilities							
Derivative financial instruments	-	0%	3,319,738	1%	361,194,175	99%	364,513,913
Unsettled investments payable	784,035	0%	961,321,998	100%	3,967,898	0%	966,073,931
Creditors	28,451,621	100%	2,329	0%	-	0%	28,453,950
	29,235,656	2%	964,644,065	71%	365,162,073	27%	1,359,041,794
	2,138,723,423	40%	3,097,757,526	57%	188,964,448	3%	5,425,445,397
2009							
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	Total HK\$ equivalent
Current assets							
Investments designated at fair value	1,778,354,812	38%	2,519,191,827	54%	365,382,262	8%	4,662,928,901
Derivative financial instruments	-	0%	168,443,048	93%	12,224,436	7%	180,667,484
Unsettled investments receivable	5,792,545	13%	24,569,027	54%	14,676,726	33%	45,038,298
Debtors and deposits	40,464,873	100%	-	0%	-	0%	40,464,873
Bank deposits	241,512,917	100%	-	0%	-	0%	241,512,917
Bank balances & cash	567,331,241	56%	437,085,803	43%	5,219,429	1%	1,009,636,473
	2,633,456,388	43%	3,149,289,705	51%	397,502,853	6%	6,180,248,946
Current liabilities							
Derivative financial instruments	-	0%	11,662,424	7%	165,333,296	93%	176,995,720
Unsettled investments payable	24,653	0%	412,997,091	98%	9,714,650	2%	422,736,394
Creditors	464,414,301	100%	27,410	0%	-	0%	464,441,711
	464,438,954	44%	424,686,925	40%	175,047,946	16%	1,064,173,825
	2,169,017,434	43%	2,724,602,780	53%	222,454,907	4%	5,116,075,121

5. Financial Instruments (cont'd)

Owing to the linked exchange rate system in Hong Kong, MPFA's currency risk primarily stems from the exposure to foreign currencies other than the US dollar. As most of the foreign exchange exposures are well hedged by acquiring forward currency contracts, the exposure is considered as not significant.

Liquidity risk

Liquidity risk is the potential that the MPFA 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 MPFA does not have any borrowing and therefore has no repayment liability owing to debt securities. The MPFA maintains sufficient short-term liquidity to fund its operations and runs a bank deposit portfolio to achieve reasonable return on cash. As at the reporting date, included in liabilities balance was an amount of HK\$1,372,967 (2009: HK\$430,650,101) representing the balance not yet paid to eligible members or to be returned to the Government in relation to the Government Injection of Contributions Project. The amount was not subject to liquidity risk because as disclosed in Note 16, majority of the fund of the project was maintained in a separate bank account.

The following table summarises the contractual maturity in relation to investment activities only. For non-derivative financial liabilities, the figures are undiscounted cash flows of financial liabilities based on the earliest date on which the MPFA is required to pay. The cash flows include both principal and interest. For derivative instruments requiring gross settlement, the figures represent undiscounted gross inflows or outflows on these derivatives.

	2010		2009	
	Up to 1 month HK\$	1-3 months HK\$	Up to 1 month HK\$	1-3 months HK\$
Non-derivatives financial liabilities				
Unsettled investments payable ^{Note}	966,073,931	-	422,736,394	-
Derivatives gross settlement				
Foreign currency forward contracts				
– Inflows	(193,790,357)	(177,084,722)	(135,189,844)	(45,477,640)
– Outflows	187,570,710	176,943,203	132,308,952	44,686,768
Total	(6,219,647)	(141,519)	(2,880,892)	(790,872)

Note The fund managers are not allowed to borrow money for the managed portfolios or hold a negative cash position on a trade date basis.

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 brokers' 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

5. Financial Instruments (cont'd)

Fair value measurements recognised in the statement of financial position

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.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- 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).
- 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).

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

	2010			
	Level 1 HK\$ equivalent	Level 2 HK\$ equivalent	Level 3 HK\$ equivalent	Total HK\$ equivalent
Financial assets				
Equity securities	1,052,535,088	-	-	1,052,535,088
Debt securities	3,727,437,734	179,376,064	-	3,906,813,798
Derivative financial instruments	370,875,079	-	-	370,875,079
	5,150,847,901	179,376,064	-	5,330,223,965
Financial liabilities				
Derivative financial instruments	364,513,913	-	-	364,513,913
	364,513,913	-	-	364,513,913

During the year ended 31 March 2010, no financial assets or financial liabilities were classified under Level 3.

6. Net Investment Income / (Loss)

	2010 HK\$	2009 HK\$
Interest income on investments designated at fair value	127,033,358	155,309,643
Dividends from investments designated at fair value	27,424,696	28,783,634
Net realised and unrealised gains / (losses) on investments designated at fair value ^{Note}	489,981,816	(516,533,598)
Net realised (losses) / gains on derivative financial instruments	(5,646,539)	38,452,013
Net unrealised gains on derivative financial instruments	2,689,402	10,647,366
	641,482,733	(283,340,942)

Note The amount included net realised and unrealised foreign exchange gains of HK\$34,720,211 from foreign currency securities (2009: HK\$101,049,496 losses).

7. Other Income

During last reporting period, the MPFA entered into an agreement on early termination of the lease for one of its offices with a compensation of \$14.8 million from the landlord. The relocation was completed in mid 2008 and the rental compensation received was recorded as other income.

8. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the MPFA is exempt from Hong Kong Profits Tax under section 88 of the Inland Revenue Ordinance.

9. Defined Contribution Plan

The MPFA operates three Mandatory Provident Fund Schemes ("the Schemes") for all qualifying employees. The assets of the Schemes are held separately from those of the MPFA under the control of trustees.

The total expenses recognised in the income and expenditure account of HK\$15,319,003 represents contributions paid or payable to the Schemes at rates specified in the rules of the Schemes (2009: HK\$13,299,043). As at 31 March 2010, contributions of HK\$277,904 were due but not yet paid over to the Schemes (2009: HK\$3,128).

10. Directors' Emoluments

The emoluments of all directors for the years ended 31 March 2010 and 2009 are set out below:

	2010				
	Fees HK\$	Salaries and other benefits HK\$	Contributions to MPF schemes HK\$	Variable pay HK\$	Total emoluments HK\$
Executive Directors					
Diana Chan Tong Chee-ching	-	4,302,561	501,475	752,110	5,556,146
Hendena Yu	-	3,180,405	370,654	556,060	4,107,119
Cynthia Hui Wai-yee	-	2,401,055	274,408	364,000	3,039,463
Darren Mark McShane	-	3,662,087	426,360	639,480	4,727,927
Thomas Yiu Kei-chung	-	2,484,485	290,596	435,880	3,210,961
Non-Executive Directors					
Anna Wu Hung-yuk	-	-	-	-	-
Au King-chi ¹	-	-	-	-	-
K C Chan	-	-	-	-	-
Edward Chan King-sang ²	-	-	-	-	-
Matthew Cheung Kin-chung	-	-	-	-	-
Leo Kung Lin-cheng	-	-	-	-	-
Angelina Lee Wong Pui-ling	-	-	-	-	-
Andrew Leung Kwan-yuen	-	-	-	-	-
Li Fung-ying	-	-	-	-	-
David Sun Tak-kei	-	-	-	-	-
Paul Tang Kwok-wai ³	-	-	-	-	-
Wong Kwok-kin	-	-	-	-	-
Wong Ting-kwong	-	-	-	-	-
Rimsky Yuen Kwok-keung ⁴	-	-	-	-	-
Total	-	16,030,593	1,863,493	2,747,530	20,641,616

¹ Alternate to K C Chan.

² Retired as from 17 March 2010.

³ Alternate to Matthew Cheung Kin-chung.

⁴ Appointment effective from 17 March 2010.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

10. Directors' Emoluments (cont'd)

	2009				
	Fees HK\$	Salaries and other benefits HK\$	Contributions to MPF schemes HK\$	Variable pay HK\$	Total emoluments HK\$
Executive Directors					
Diana Chan Tong Chee-ching	-	4,302,973	501,475	752,110	5,556,558
Hendena Yu	-	3,180,626	370,654	556,060	4,107,340
Cynthia Hui Wai-yee	-	2,400,954	280,475	354,665	3,036,094
Darren Mark McShane	-	3,662,201	426,360	639,480	4,728,041
Thomas Yiu Kei-chung	-	2,484,927	290,596	435,880	3,211,403
Non-Executive Directors					
Anna Wu Hung-yuk ¹	-	-	-	-	-
Henry Fan Hung-ling ²	-	-	-	-	-
Au King-chi ³	-	-	-	-	-
K C Chan	-	-	-	-	-
Edward Chan King-sang	-	-	-	-	-
Matthew Cheung Kin-chung	-	-	-	-	-
Kevin Ho Chi-ming ⁴	-	-	-	-	-
Leo Kung Lin-cheng	-	-	-	-	-
Angelina Lee Wong Pui-ling	-	-	-	-	-
Andrew Leung Kwan-yuen ¹	-	-	-	-	-
Li Fung-ying	-	-	-	-	-
David Sun Tak-kei	-	-	-	-	-
Tam Yiu-chung ²	-	-	-	-	-
Paul Tang Kwok-wai ⁵	-	-	-	-	-
Kenneth Ting Woo-shou ²	-	-	-	-	-
Wong Kwok-kin ¹	-	-	-	-	-
Wong Ting-kwong	-	-	-	-	-
Total	-	16,031,681	1,869,560	2,738,195	20,639,436

¹ Appointment effective from 17 March 2009.

² Retired as from 17 March 2009.

³ Alternate to K C Chan; appointment effective from 5 January 2009.

⁴ Alternate to K C Chan; retired as from 5 January 2009.

⁵ Alternate to Matthew Cheung Kin-chung.

11. Employees' Emoluments

Of the five individuals with the highest emoluments in the MPFA, all were Executive Directors, whose emoluments are included in note 10 above. The emoluments of the five highest paid individuals were within the following bands:

	2010 No. of employees	2009 No. of employees
HK\$3,000,001 to HK\$3,500,000	2	2
HK\$3,500,001 to HK\$4,000,000	-	-
HK\$4,000,001 to HK\$4,500,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	1
HK\$5,000,001 to HK\$5,500,000	-	-
HK\$5,500,001 to HK\$6,000,000	1	1
	5	5

12. Property And Equipment

	Leasehold improvements HK\$	Computer equipment and software HK\$	Office equipment and furniture HK\$	Motor vehicle HK\$	Total HK\$
COST					
At 1 April 2008	33,780,472	82,738,388	17,610,887	802,684	134,932,431
Additions	13,521,013	13,136,422	7,147,128	824,456	34,629,019
Disposals	(20,690,491)	(6,048,423)	(1,595,858)	(802,684)	(29,137,456)
At 31 March 2009	26,610,994	89,826,387	23,162,157	824,456	140,423,994
Additions	564,626	2,547,753	352,365	-	3,464,744
Disposals	(1,645,481)	(239,138)	(992,070)	-	(2,876,689)
At 31 March 2010	25,530,139	92,135,002	22,522,452	824,456	141,012,049
DEPRECIATION					
At 1 April 2008	23,500,647	67,016,138	11,176,071	802,684	102,495,540
Charge for the year	6,387,270	7,635,975	2,890,217	188,938	17,102,400
Eliminated on disposals	(20,069,512)	(6,048,048)	(1,440,623)	(802,684)	(28,360,867)
At 31 March 2009	9,818,405	68,604,065	12,625,665	188,938	91,237,073
Charge for the year	7,426,688	8,668,170	3,824,927	206,114	20,125,899
Eliminated on disposals	(1,148,890)	(239,138)	(904,148)	-	(2,292,176)
At 31 March 2010	16,096,203	77,033,097	15,546,444	395,052	109,070,796
CARRYING AMOUNT					
At 31 March 2010	9,433,936	15,101,905	6,976,008	429,404	31,941,253
At 31 March 2009	16,792,589	21,222,322	10,536,492	635,518	49,186,921

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

13. Projects in Progress

Projects in progress consist of expenditure of capital projects not yet completed at 31 March 2010 amounting to HK\$5,444,018 (2009: Nil).

14. Investments Designated at Fair Value

	2010 HK\$	2009 HK\$
Equity securities		
Listed	1,052,535,088	902,174,509
Debt securities		
Listed	1,503,335,676	1,394,710,681
Unlisted	2,403,478,122	2,366,043,711
	3,906,813,798	3,760,754,392
Total		
Listed	2,555,870,764	2,296,885,190
Unlisted	2,403,478,122	2,366,043,711
	4,959,348,886	4,662,928,901

15. Derivative Financial Instruments

	2010		2009	
	Assets HK\$	Liabilities HK\$	Assets HK\$	Liabilities HK\$
Foreign currency forward contracts	7,153,426	792,260	3,973,556	301,792

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 2010 is HK\$364,513,913 (2009: HK\$176,995,720). The contractual maturity of these foreign exchange forward contracts is within 12 months.

16. Government Injection Of Contributions Project

The Financial Secretary of the Hong Kong Special Administrative Region announced in his 2008-09 Budget Speech that the Government would make a one-off injection of HK\$6,000 into the MPF account of a person who met the eligibility criteria. In this connection, the Government provided a sum of HK\$8,592,000,000 to the MPFA in early March 2009 for paying out the special contributions. A separate bank account was opened to handle all receipts and payments related to this Project. Interest income on balance of this bank account was recognised directly to the Project and not included as income of the MPFA. At the reporting date, the Project had a balance of HK\$1,372,967 (2009: HK\$430,650,101), representing the amount of the fund not yet paid to eligible members or to be returned to the Government.

17. 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.

18. Loans To Directors And Executives

There were no loans to directors or executives during the year and no loans were outstanding at the reporting date.

19. Capital Commitments

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

	2010 HK\$	2009 HK\$
Contracted but not provided for	2,585,992	881,520
Authorised but not contracted for	327,260	23,000
	2,913,252	904,520

20. Operating Lease Commitments

Operating lease payments represent rental payable by the MPFA for its office premises and storage space. Office leases are with terms from one year to eight years.

At the reporting date, the MPFA had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2010 HK\$	2009 HK\$
Within one year	42,388,654	35,928,268
In the second to fifth year inclusive	124,474,920	102,027,216
Over five years	25,519,820	45,935,675
	192,383,394	183,891,159

21. 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 was appointed as the administrator of the compensation fund until 31 March 2013. 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.

INDEPENDENT AUDITOR'S REPORT

To the Administrator of the Mandatory Provident Fund Schemes Compensation Fund ("The Fund")

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

We have audited the financial statements of the Fund set out on pages 95 to 106, which comprise the statement of financial position as at 31 March 2010, and the income and expenditure account, the statement of changes in capital and reserve and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Administrator's Responsibility for the Financial Statements

The Administrator is responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 184(3)(a) 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and true and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the administrator, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2010 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 June 2010

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2010

	NOTE	2010 HK\$	2009 HK\$
INCOME			
Levy fee		101,488,374	62,682,144
Interest income on bank deposits		10,455,525	21,710,856
Net investment income / (loss)	6	24,548,168	(10,190,229)
		136,492,067	74,202,771
EXPENDITURE			
Auditor's remuneration		65,000	65,000
Investment expenses		70,264	63,746
Other operating expenses		4,983	545
		140,247	129,291
SURPLUS FOR THE YEAR		136,351,820	74,073,480

STATEMENT OF FINANCIAL POSITION

At 31 March 2010

	NOTES	2010 HK\$	2009 HK\$
CURRENT ASSETS			
Investments designated at fair value	8	317,543,027	275,249,836
Levy fees receivable		94,148,002	62,185,159
Bank deposits		975,979,572	913,922,654
Bank balances		307,256	267,435
		1,387,977,857	1,251,625,084
CURRENT LIABILITIES			
Creditors and accrued charges		79,625	78,672
NET ASSETS		1,387,898,232	1,251,546,412
CAPITAL AND RESERVE			
Seed money	9	600,000,000	600,000,000
Income and expenditure account		787,898,232	651,546,412
		1,387,898,232	1,251,546,412

The financial statements on pages 95 to 106 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 23 June 2010 and signed on its behalf by:

Diana Chan
Managing Director

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2010

	Seed Money HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2008	600,000,000	577,472,932	1,177,472,932
Surplus for the year	-	74,073,480	74,073,480
At 31 March 2009	600,000,000	651,546,412	1,251,546,412
Surplus for the year	-	136,351,820	136,351,820
At 31 March 2010	600,000,000	787,898,232	1,387,898,232

STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	2010 HK\$	2009 HK\$
OPERATING ACTIVITIES		
Surplus for the year	136,351,820	74,073,480
Adjustments for:		
Interest income on bank deposits	(10,455,525)	(21,710,856)
Interest income on investments designated at fair value	(7,710,208)	(7,356,445)
Dividends from investments designated at fair value	(1,481,760)	(1,291,320)
Net (gains) / losses on investments designated at fair value	(15,356,200)	18,837,994
Operating cash flows before movements in working capital	101,348,127	62,552,853
(Increase) / decrease in levy fees receivable	(31,962,843)	13,689,399
Increase / (decrease) in creditors and accrued charges	953	(2,233)
NET CASH FROM OPERATING ACTIVITIES	69,386,237	76,240,019
INVESTING ACTIVITIES		
Dividends received from investments designated at fair value	1,481,760	1,291,320
Interest received on bank deposits	17,987,914	19,307,929
Interest received from investments designated at fair value	7,688,467	9,009,114
Proceeds on disposals of investments designated at fair value	672,065,450	555,854,050
Purchase of investments designated at fair value	(698,980,700)	(581,123,150)
Increase in bank deposits	(69,589,307)	(80,619,642)
NET CASH USED IN INVESTING ACTIVITIES	(69,346,416)	(76,280,379)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	39,821	(40,360)
CASH AND CASH EQUIVALENTS AT 1 APRIL	217,435	257,795
CASH AND CASH EQUIVALENTS AT 31 MARCH	257,256	217,435
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances	307,256	267,435
Less : Bank balances held for investment purposes	(50,000)	(50,000)
	257,256	217,435

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2010

1. Purpose and Claim for Payment

The Mandatory Provident Fund Schemes Compensation Fund ("the Fund") is established for the purpose of compensating members of registered Mandatory Provident Fund schemes and other persons who have beneficial interests in those schemes for losses of accrued benefits that are attributable to misfeasance or illegal conduct committed by the approved trustees of those schemes or by other persons concerned with the administration of those schemes.

The application for compensation from the Fund has to be made to a court of law in accordance with the Hong Kong Mandatory Provident Fund Schemes Ordinance ("the Ordinance"). The administrator shall then make the compensation fund payment pursuant to the decisions of the court. During the year, the Mandatory Provident Fund Schemes Authority ("the MPFA") was the administrator of the Fund. The MPFA has not charged any administration fee to the Fund during the year. The MPFA's office address is Level 16, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

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

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

In the current year, the Fund has applied a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the financial statements of the Fund for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving disclosures about financial instruments

(Amendments to HKFRS 7 financial instruments: disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Fund has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Fund has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective. The Fund anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (cont'd)

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related party disclosure ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of right issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters ³
HKFRS 2 (Amendment)	Group cash-settled share-based payments transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement ³
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ⁷

¹ Effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 January 2010.

⁶ Effective for annual periods beginning on or after 1 January 2013.

⁷ Effective for annual periods beginning on or after 1 July 2010.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt securities investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt and equity securities investments are measured at fair value.

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, and in accordance with HKFRSs issued by the HKICPA. The principal accounting policies adopted are as follows:

Revenue recognition

Levy fee consists of fees charged to the approved trustees of registered Mandatory Provident Fund schemes and is accounted for on an accrual basis.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

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

3. Significant Accounting Policies (cont'd)

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Fund becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognised immediately in the income and expenditure account.

Financial assets

The Fund's financial assets include financial assets at fair value and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating 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.

Financial assets at fair value

Financial assets at fair value have two subcategories, financial assets held for trading and those designated at fair value on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of the contract containing one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated at fair value.

Subsequent to initial recognition, financial assets at fair value are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the income and expenditure account in the period in which they arise. The net gain or loss recognised in the income and expenditure account includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables, including levy fees receivable, bank deposits and bank balances, are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

3. Significant Accounting Policies (cont'd)**Impairment of financial assets**

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in the income and expenditure account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating 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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, when the financial assets are transferred and the Fund has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income and expenditure account.

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

4. Capital Management

The Fund's objectives when managing capital are:

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

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

5. Financial Instruments

Categories of financial instruments

	2010 HK\$	2009 HK\$
Financial assets		
At fair value	317,543,027	275,249,836
Loans and receivables (including bank deposits and bank balances)	1,070,434,830	976,375,248

Financial Risk Management Objectives and Policies

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

The Fund maintains a fairly high percentage of cash investment, i.e. HK dollar deposits. Debt securities investments are of short maturity and therefore are subject to relatively low price risk. The investment in equities accounted for less than 5% 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.

Credit risk

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

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

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

	2010 HK\$	%	2009 HK\$	%
Credit rating				
AA ^{Note}	258,684,227	100	237,382,636	100

Note AA means between AA- and AA+ by Standard & Poor's Ratings Services and Aa3 and Aa1 by Moody's Investors Services, Inc.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

5. Financial Instruments (cont'd)

Interest rate risk

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

The exposure to interest rate risk on bank deposits and bank balances carrying interest are limited to the impact of the interest rate fluctuations on the interest income. The Fund adopts a sensitivity test of 10 basis points (2009: 100 basis points) movement to measure such impact. If the interest rates on the bank deposits and bank balances moved up or down by 10 basis points (2009: 100 basis points) on average throughout the year, with all other variables being held constant, income for the year would increase or decrease by HK\$1.0 million (2009: HK\$9.0 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 of up to two years' maturity.

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

	2010 Years	2009 Years
Portfolio duration	1.29	1.32

The Fund measures the interest rate risks through Price Value of Basis Point ("PVBP"). PVBP is a sensitivity test to measure the fluctuation of potential gain or loss on interest rate positions upon a basis point movement.

The Fund adopts a sensitivity test of 10 basis points (2009: 100 basis points) movements. As at the reporting date, if interest rate had fluctuated 10 basis points (2009: 100 basis points) and all other variables were held constant, the impact on the Fund's income would be as follows.

	Increase (decrease) in the Fund's income	
	2010 HK\$	2009 HK\$
If interest rate were 10 basis points (2009: 100 basis points) lower	333,279	3,139,730
If interest rate were 10 basis points (2009: 100 basis points) higher	(333,279)	(3,139,730)

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 price risk, and non-systematic risk, which can be largely eliminated by diversification in accordance with the Investment Guidelines.

As at 31 March 2010, if the Hong Kong stock market had increased or decreased by 10% with all other variables held constant and all the equity instruments move according to the historical relationship with the Hong Kong stock market, income for the year would have been HK\$5.8 million higher or lower (2009: HK\$3.8 million).

5. Financial Instruments (cont'd)

Currency risk

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

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.

At the reporting date, the Fund maintained a substantial amount of short-term liquidity and therefore liquidity risk is considered to be minimal.

Fair Values

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

The fair values of listed investments with standard terms and conditions are determined by reference to bid prices quoted in active markets.

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

Fair value measurements recognised in the statement of financial position

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.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- 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).
- 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).

	2010 HK\$
Level 1	
Financial assets measured at fair value:	
Equity securities	58,858,800
Debt securities	258,684,227
	317,543,027

During the year ended 31 March 2010, no financial assets were classified under levels 2 and 3.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 March 2010

6. Net Investment Income / (Loss)

	2010 HK\$	2009 HK\$
Interest income on investments designated at fair value	7,710,208	7,356,445
Dividends from investments designated at fair value	1,481,760	1,291,320
Net realised and unrealised gains / (losses) on investments designated at fair value	15,356,200	(18,837,994)
	24,548,168	(10,190,229)

7. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Fund is exempt from Hong Kong Profits Tax under section 88 of the Inland Revenue Ordinance.

8. Investments Designated at Fair Value

	2010 HK\$	2009 HK\$
Equity securities		
Listed	58,858,800	37,867,200
Debt securities		
Listed	258,684,227	237,382,636
Total-Listed	317,543,027	275,249,836

9. Seed Money

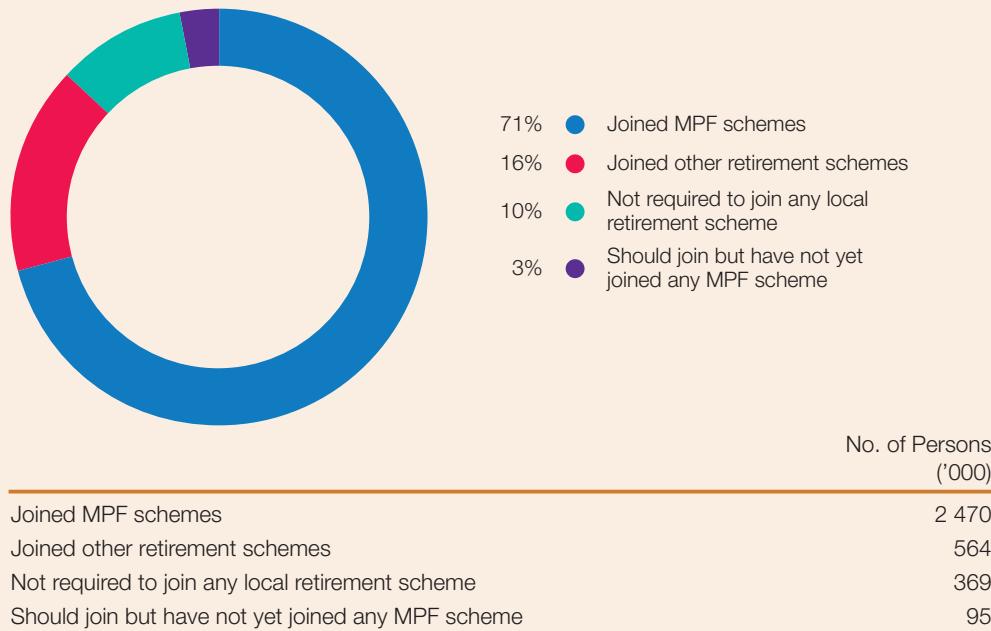
On 12 March 1999, an amount of HK\$600 million was injected from the Government of the Hong Kong Special Administrative Region as the seed money of the Fund.

STATISTICS

PART A – MPF SCHEME MEMBERS

1. Employed Population by Type of Retirement Schemes Enrolled

(as at 31.3.2010)



2. The MPF Universe

Employers under the MPF System

	('000)
Number of main businesses ¹	313
Add	
– Number of owners' corporations with employee(s) that are not covered in the Central Register of Establishments (CRE) ²	4
– Number of employers engaged in other industries that are not covered in the CRE	6
Less	
– Number of businesses with no employees ³	83
Number of employers under the MPF System*	240

* Figures may not sum up to the total due to rounding.

The figures were estimated on the basis of:

- 1 Statistics obtained from the Central Register of Establishments and the Survey of Employment and Vacancies by the Census and Statistics Department.
- 2 Figures provided by the Land Registry.
- 3 Statistics obtained from the Survey of Employment and Vacancies by the Census and Statistics Department.

STATISTICS

PART A – MPF SCHEME MEMBERS (cont'd)

2. The MPF Universe

Relevant Employees under the MPF System

	('000)
Number of employees (excluding employees aged below 18 or above 65) ¹	3 077
Less	
– Number of civil servants who are covered by the Civil Service Pension System ²	134
– Number of teachers who are covered by the Grant Schools or Subsidized Schools Provident Fund ³	38
– Number of employees who choose to remain as members of MPF exempted ORSO registered schemes ⁴	391
– Number of domestic employees ¹	251
– Number of expatriates who do not have the right of abode in Hong Kong and are covered by overseas retirement schemes or who work in Hong Kong for not more than 13 months ⁵	38
– Number of employees who are employed for less than 60 days, excluding employees participating in construction and catering industries ⁶	14
Number of relevant employees under the MPF System*	2 210

* Figures may not sum up to the total due to rounding.

The figures were estimated on the basis of:

- 1 Statistics obtained from the General Household Survey by the Census and Statistics Department.
- 2 Figures published by the Civil Service Bureau.
- 3 Figures published by the Education Bureau.
- 4 Figures reported by employers of MPF exempted ORSO registered schemes.
- 5 Figures published by the Immigration Department.
- 6 Figures obtained from a special topic enquiry conducted via the General Household Survey in Q2 2005 by the Census and Statistics Department.

Self-employed Persons (SEPs) under the MPF System

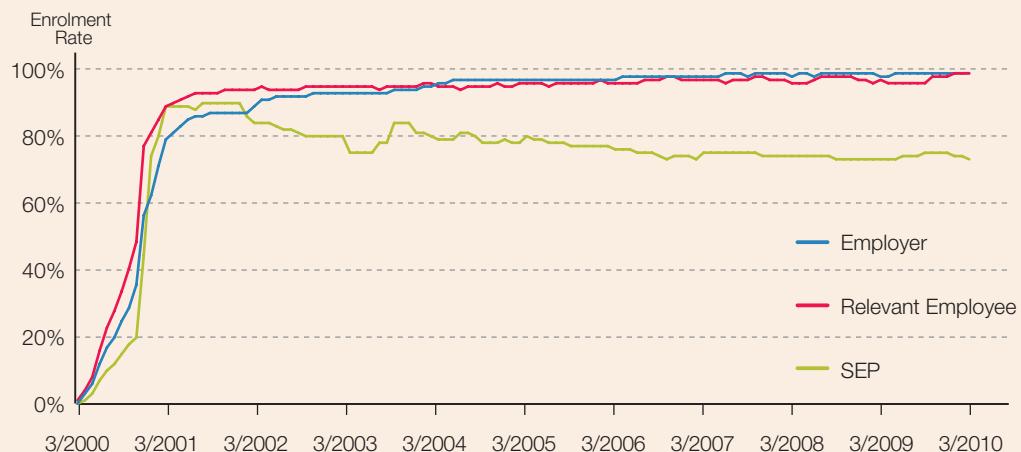
	('000)
Number of SEPs (excluding SEPs aged below 18 or above 65) ¹	359
Less	
– Number of SEPs who are licensed hawkers ² (excluding licensed hawkers aged below 18 or above 65)	4
Number of SEPs under the MPF System*	355

* Figures may not sum up to the total due to rounding.

The figures were estimated on the basis of:

- 1 Statistics obtained from the General Household Survey by the Census and Statistics Department. SEPs under the MPF System include both "self-employed persons" and "employers" as defined in the Quarterly Report on General Household Survey.
- 2 Statistics obtained from the General Household Survey by the Census and Statistics Department.

3. Enrolment in MPF Schemes



4. Number of Participating Members and Enrolment Rates

As at	Employer		Relevant Employee		SEP		No. of Preserved Accounts ('000)
	Participating Employers ¹ ('000)	Enrolment Rate (%)	Participating Members ¹ ('000)	Enrolment Rate (%)	Participating Members ¹ ('000)	Enrolment Rate (%)	
31.03.2009	237	99.3	2 202	97.3	266	74.1	3 077
30.06.2009	239	99.9	2 191	97.3	265	75.3	3 157
30.09.2009	239	99.9	2 196	98.7	265	76.3	3 221
31.12.2009	238	99.9	2 209	99.9	263	75.5	3 296
31.03.2010	239	99.6	2 207	99.9	263	74.0	3 366

¹ As the MPF System is an employment-based system, some employers and members may be participating in more than one scheme. Adjustments have been made for employers and members who are participating in more than one scheme in the same capacity.

5A. Contributions Received and Benefits Paid – MPF Schemes

(1.4.2009-31.3.2010)

(HK\$ million)

Quarter	Contributions Received				Benefits Paid			
	Mandatory	Voluntary	Special Voluntary ¹	Total ²	Mandatory	Voluntary	Special Voluntary ¹	Total ²
Q2 2009 ³	7,765	1,077	128	8,969	1,273	385	51	1,710
Q3 2009 ³	7,465	1,033	137	8,635	1,458	441	66	1,965
Q4 2009 ³	7,651	1,077	201	8,929	1,319	502	82	1,903
Q1 2010 ³	8,051	1,243	184	9,478	1,345	490	106	1,941
Total ²	30,932	4,430	650	36,011	5,395	1,819	304	7,518

¹ "Special Voluntary Contributions" refers to voluntary contributions paid directly by a relevant employee to the trustee. Unlike general voluntary contributions, these contributions are non-employment related, i.e. contributions do not go through their employer, withdrawal of accrued benefits is neither tied to employment nor subject to preservation requirements.

² Figures may not sum up to the total due to rounding.

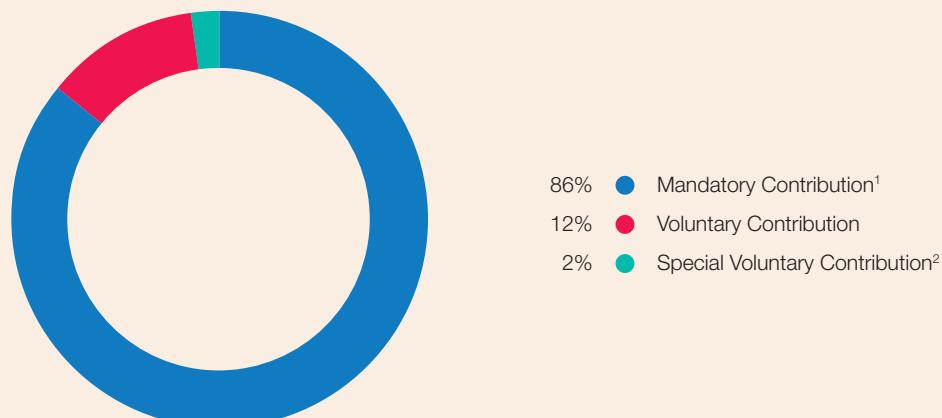
³ Includes \$250 million of net special contributions paid by the Government to the eligible MPF/ORSO scheme members in the financial year of 2009/10.

STATISTICS

PART A – MPF SCHEME MEMBERS (cont'd)

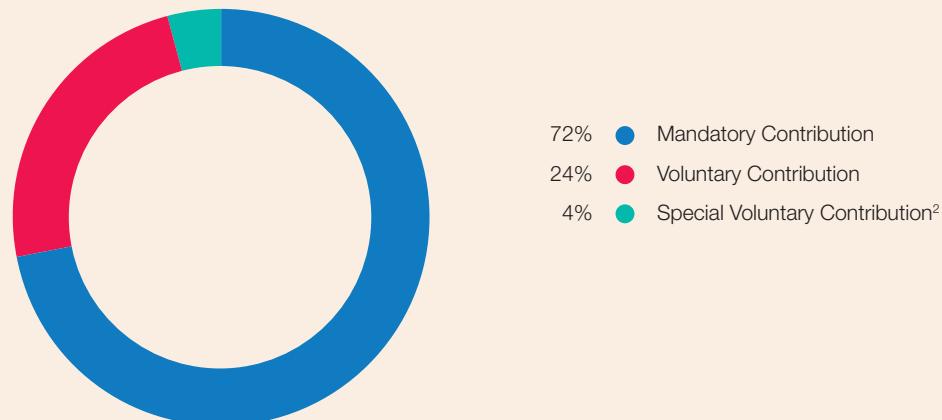
5B. Percentage Share of Contributions Received by Contribution Type

(1.4.2009-31.3.2010)



5C. Percentage Share of Benefits Paid by Contribution Type

(1.4.2009-31.3.2010)



¹ Includes \$250 million of net special contributions paid by the Government to the eligible MPF/ORSO scheme members in the financial year of 2009/10.

² "Special Voluntary Contributions" refers to voluntary contributions paid directly by a relevant employee to the trustee. Unlike general voluntary contributions, these contributions are non-employment related, i.e. contributions do not go through their employer, withdrawal of accrued benefits is neither tied to employment nor subject to preservation requirements.

1A. Net Asset Values of Approved Constituent Funds by Scheme Type

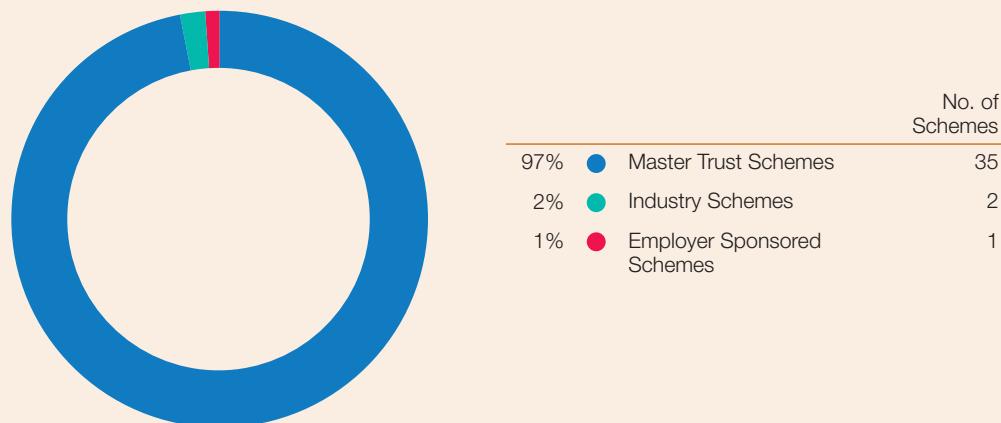
(HK\$ million)

As at	Type of MPF Schemes			Total ¹
	Master Trust Schemes	Industry Schemes	Employer Sponsored Schemes	
31.03.2009	211,432	4,644	1,664	217,741
30.06.2009	252,556	5,197	1,956	259,709
30.09.2009	283,856	5,674	2,197	291,726
31.12.2009	300,675	5,909	2,287	308,870
31.03.2010	308,879	6,052	2,380	317,310

¹ Figures may not sum up to the total due to rounding.

1B. Percentage Share of Net Asset Values and Number of Approved Constituent Funds by Scheme Type

(as at 31.3.2010)



2A. Net Asset Values¹ of Approved Constituent Funds by Fund Type

(HK\$ million)

As at	Type of Approved Constituent Funds						Total ⁴
	Mixed Assets Fund	Equity Fund	MPF Conservative Fund ²	Guaranteed Fund	Bond Fund	Money Market Fund and Others ³	
31.03.2009	95,638	52,852	36,565	27,425	3,964	1,296	217,741
30.06.2009	115,228	71,572	38,342	28,941	4,287	1,340	259,709
30.09.2009	131,327	85,573	38,722	30,035	4,715	1,354	291,726
31.12.2009	137,344	95,408	39,100	30,683	4,958	1,378	308,870
31.03.2010	140,815	100,029	38,971	31,091	5,033	1,372	317,310

¹ As reported by trustees. The figures include assets transferred from ORSO schemes.

² Capital Preservation Fund has been renamed as MPF Conservative Fund.

³ Include Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

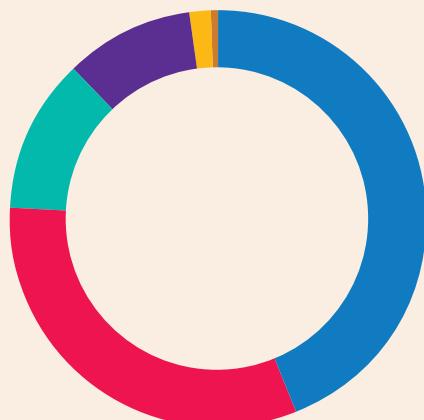
⁴ Figures may not sum up to the total due to rounding.

STATISTICS

PART B – MPF PRODUCTS (cont'd)

2B. Percentage Share of Net Asset Values and Number of Approved Constituent Funds by Fund Type

(as at 31.3.2010)



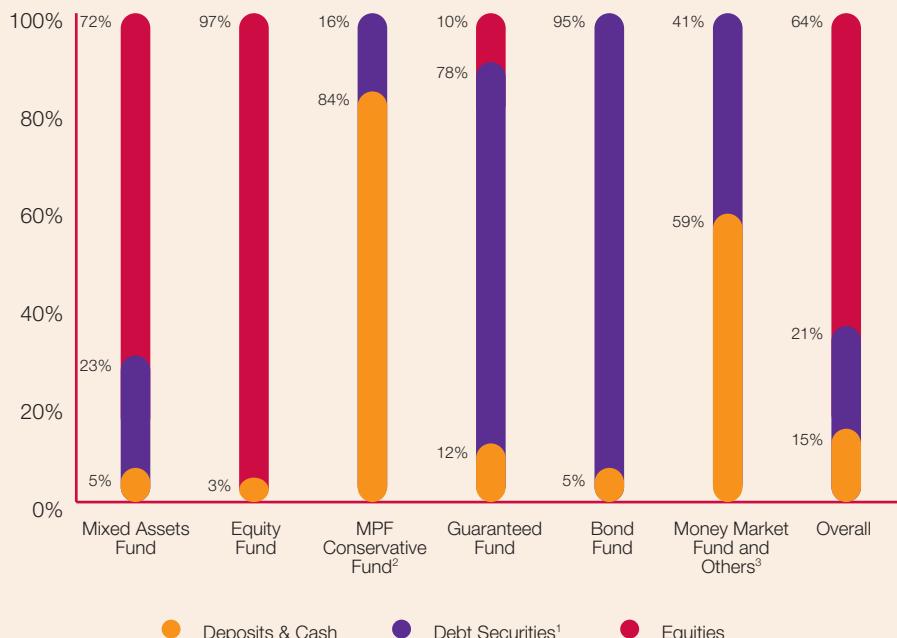
	No. of Funds
Mixed Assets Fund	156
Equity Fund	113
MPF Conservative Fund ¹	38
Guaranteed Fund	28
Bond Fund	26
Money Market Fund and Others ²	4

¹ Capital Preservation Fund has been renamed as MPF Conservative Fund.

² Include Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

3. Asset Allocation of Approved Constituent Funds by Asset Class

(as at 31.3.2010)

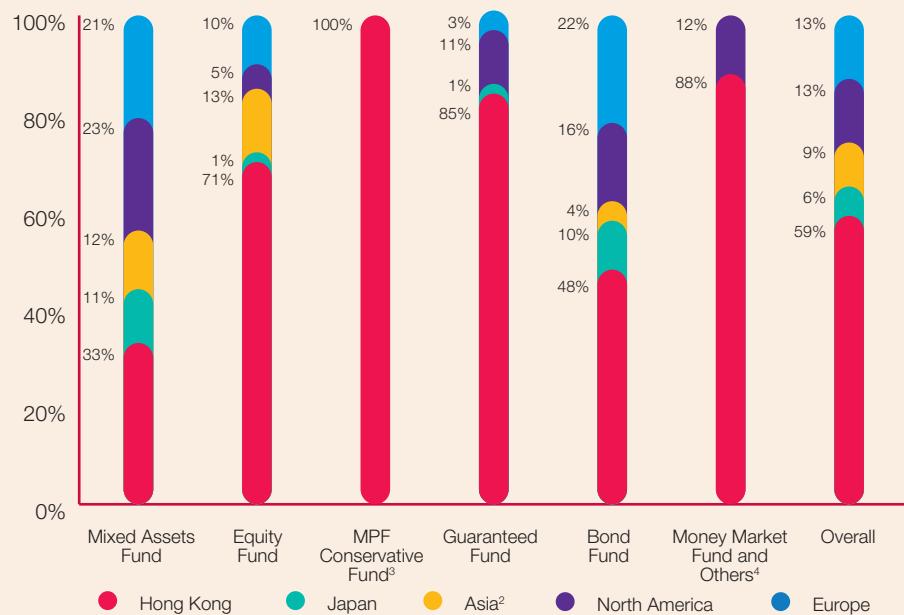


¹ Include convertible debt securities.

² Capital Preservation Fund has been renamed as MPF Conservative Fund.

³ Include Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

4. Asset Allocation of Approved Constituent Funds by Geographical Region¹ (as at 31.3.2010)



¹ For deposits, cash and debt securities, "Geographical Region" reflects the currency of denomination of the respective accounts and debt securities.

For equities, "Geographical Region" reflects the country of primary listing of the equities.

² Exclude Japan and Hong Kong but include Australia, New Zealand and India.

³ Capital Preservation Fund has been renamed as MPF Conservative Fund.

⁴ Include Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

5. Asset Allocation of Approved Constituent Funds by Asset Class and Geographical Region¹

(as at 31.3.2010)

	Deposits & Cash	Debt Securities ²	Equities	Overall
Hong Kong	15%	10%	34%	59%
Japan	§	2%	4%	6%
Asia ³	§	§	9%	9%
North America	§	5%	8%	13%
Europe	§	4%	9%	13%
Overall	15%	21%	64%	100%

¹ For deposits, cash and debt securities, "Geographical Region" reflects the currency of denomination of the respective accounts and debt securities.

For equities, "Geographical Region" reflects the country of primary listing of the equities.

² Include convertible debt securities.

³ Exclude Japan and Hong Kong but include Australia, New Zealand and India.

§ Less than 0.5%.

STATISTICS

PART B – MPF PRODUCTS (cont'd)

6. Annualized Internal Rate of Return¹ of the MPF System by Period

Period	Net Asset Values					(HK\$ million)
	Period-Beginning (a)	Period-End (b)	Total Net Contributions during the Period ² (c)	Net Investment Return ³ during the Period (b)–(a)–(c)	Annualized Internal Rate of Return ³	
1.12.2000 – 31.3.2002	–	42,125	43,878	- 1,753	-4.9%	
1.4.2002 – 31.3.2003	42,125	59,305	23,016	- 5,837	-10.7%	
1.4.2003 – 31.3.2004	59,305	97,041	22,133	15,604	22.0%	
1.4.2004 – 31.3.2005	97,041	124,316	22,205	5,070	4.7%	
1.4.2005 – 31.3.2006	124,316	164,613	23,435	16,862	12.3%	
1.4.2006 – 31.3.2007	164,613	211,199	24,684	21,901	12.4%	
1.4.2007 – 31.3.2008	211,199	248,247	26,844	10,205	4.5%	
1.4.2008 – 31.3.2009	248,247	217,741	38,503 ⁴	-69,010	-25.9%	
1.4.2009 – 31.3.2010	217,741	317,310	29,484⁴	70,086	30.1%	
Since Inception of the MPF System						
1.12.2000 – 31.3.2010	–	317,310	254,182⁴	63,128	4.8%	

1 The return of the MPF System was calculated by way of the internal rate of return ("IRR"), a method commonly known as dollar-weighted return. The IRR method, which takes into account the amount and timing of contributions into and benefits withdrawn from the MPF System, was used as it could better reflect the feature of cash inflow and outflow of the MPF System. The annualized IRR was calculated by raising the monthly IRR to the power of 12.

2 "Total Net Contributions during the Period" refers to the net contribution inflow after deducting the amount of benefits paid during the period.

3 Return figures are net of fees and charges.

4 Includes \$8.41 billion of net special contributions paid by the Government to the eligible MPF/ORSO scheme members in the period of March 2009 – March 2010.

7. Annualized Return¹ of Approved Constituent Funds by Fund Type and Period (as at 31.3.2010)

Type of Approved Constituent Funds	Past 1 year	Past 3 years	Past 5 years	Since 1.12.2000
Mixed Assets Fund	37.0%	-0.1%	5.6%	4.4%
Equity Fund	58.0%	1.2%	8.9%	5.0%
MPF Conservative Fund ²	0.0%	1.1%	1.6%	1.3%
Guaranteed Fund	5.9%	1.2%	2.2%	1.5%
Bond Fund	7.0%	4.5%	3.0%	3.8%
Money Market Fund and Others ³	0.3%	0.4%	1.3%	0.9%

Change of the Consumer Price Index ("CPI") for the Same Periods

Annualized Composite CPI % Change ⁴	2.0%	2.4%	2.3%	0.5%
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1 Return figures are net of fees and charges. Returns of different types of constituent funds were calculated by way of time-weighted method. This time-weighted method takes into account the unit price and asset size of each constituent fund at different points in time. Unlike the IRR method, it does not capture the impact of the contributions into and benefits withdrawn from the constituent funds. The annualized return was calculated by raising the average monthly return to the power of 12.

2 Capital Preservation Fund has been renamed as MPF Conservative Fund.

3 Include Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

4 Calculated on the basis of the Composite CPI compiled by the Census and Statistics Department.

8. Average, Highest and Lowest Fund Expense Ratios (FER) of All Constituent Funds¹

Fund Type	No. of Funds	Average FER	Highest FER	Lowest FER
Mixed Assets Fund	194	2.03%	3.38%	1.26%
Bond Fund	31	1.92%	2.57%	1.24%
Equity Fund	136	1.95%	3.21%	0.88%
Guaranteed Fund	30	2.36%	4.03%	1.34%
Money Market Fund – MPF Conservative Fund	47	1.13%	2.43%	0.54%
Money Market Fund – non MPF Conservative Fund	1	1.10%	1.10%	1.10%
Others	6	1.55%	1.59%	1.35%
Overall	445²	1.92%	4.03%	0.54%

1 The FER figures in the table are related to individual constituent funds of MPF registered schemes with financial year end dates falling within the period from 1 July 2008 to 30 June 2009.

2 A constituent fund may comprise different fund classes. For the purpose of calculating the FER, each fund class of a constituent fund is in effect treated as a separate investment fund. As a result, the total number of funds shown here may be larger than the actual number of constituent funds.

9. Published Prescribed Savings Rates¹

(1.12.2000 – 31.3.2010)



1 The prescribed savings rates are prescribed by the MPFA pursuant to section 37(8) of the Mandatory Provident Fund Schemes (General) Regulation for the operation of MPF Conservative Funds.

STATISTICS

PART C INTERMEDIARIES

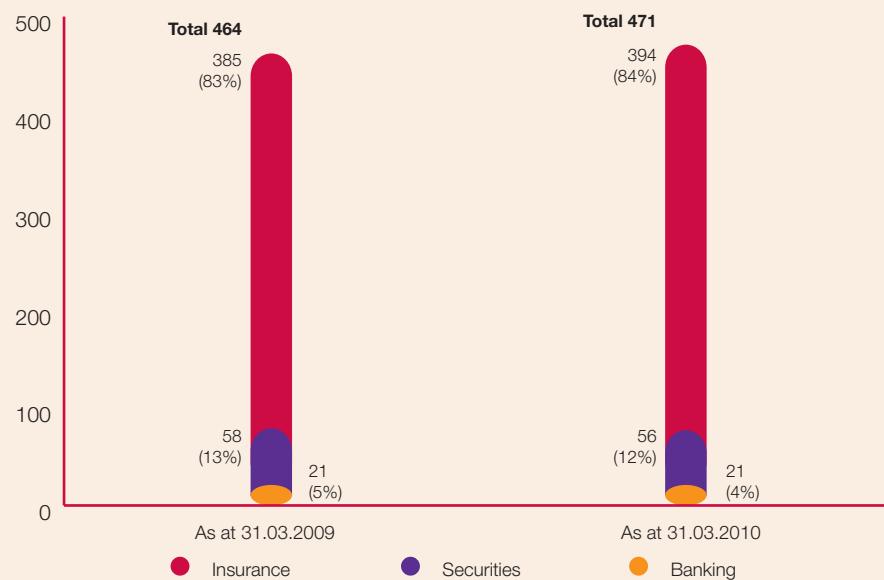
1. Number of Registered MPF Intermediaries

(as at 31.3.2010)

Number of registered MPF intermediaries	27 712
Corporate intermediaries	471
Individual intermediaries	27 241
Permitted to advise on insurance policies	16 518
Permitted to advise on securities	5 102
Permitted to advise on both securities and insurance policies	4 782
Permitted to sell MPF schemes without rendering specific investment advice	839

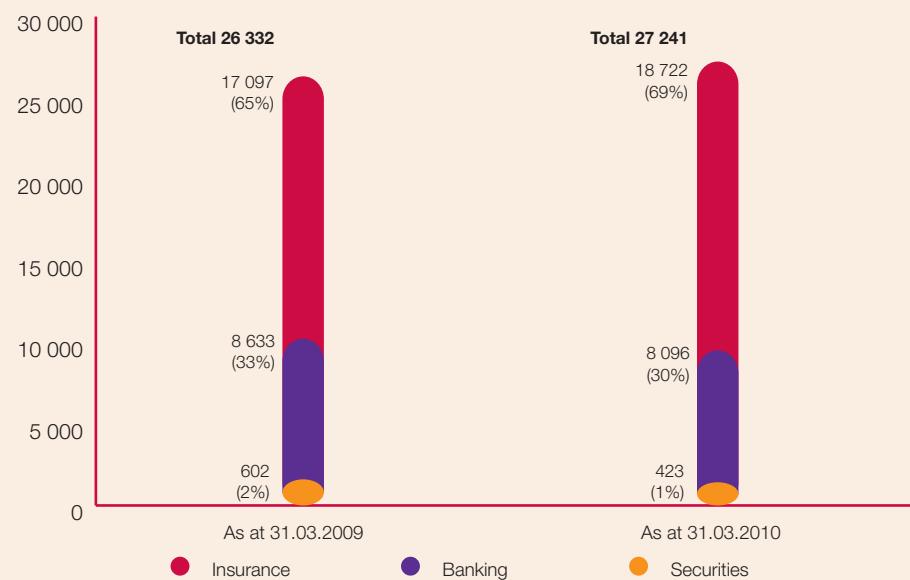
2. Number of MPF Corporate Intermediaries – by Industry

(two year comparison)



3. Number of MPF Individual Intermediaries – by Industry

(two year comparison)



ORSO Schemes

1. Number of ORSO Schemes – By Benefit Type (two year comparison)



2. Number of ORSO Schemes – By Benefit Type (as at 31.3.2010)

Scheme Type	Benefit Type					
	Defined Contribution		Defined Benefit		Total	
	No. of Schemes	%	No. of Schemes	%	No. of Schemes	%
Registered Scheme						
– MPF exempted	3 838	68	246	20	4 084	59
– Non-MPF exempted	742	13	29	2	771	11
	4 580	81	275	22	4 855	70
Exempted Scheme						
– MPF exempted	176	3	132	11	308	5
– Non-MPF exempted	903	16	836	67	1 739	25
	1 079	19	968	78	2 047	30
Total	5 659	100	1 243	100	6 902	100

STATISTICS

PART D – ORSO SCHEMES (cont'd)

MPF Exempted ORSO Schemes

3. Number of MPF Exempted ORSO Schemes (as at 31.3.2010)

		ORSO Registered Schemes	ORSO Exempted Schemes	Total
(a)	Number of MPF Exempted ORSO Schemes approved as at 31 March 2009	4 261	321	4 582
(b)	Number of new applications approved during the period from 1 April 2009 to 31 March 2010 ¹	14	0	14
(c)	Number of withdrawals of MPF Exemption Certificates during the period from 1 April 2009 to 31 March 2010	191	13	204
(d)	Number of MPF Exempted ORSO Schemes as at 31 March 2010 [i.e. (d) = (a) + (b) - (c)]	4 084	308	4 392

¹ This refers to the application for MPF exemption in respect of newly established ORSO registered schemes whereby all or a substantial portion of the members and assets of the schemes were transferred from one or more MPF exempted ORSO schemes as a result of scheme restructuring or bona fide business transactions.

ORSO Registered Schemes

4. Number of Members Covered by ORSO Registered Schemes – By Benefit Type (two year comparison)



* Figures may not sum up to the total due to rounding.

5. Number of Members Covered By ORSO Registered Schemes – By Benefit Type
(as at 31.3.2010)

Scheme Type	Benefit Type					
	Defined Contribution ('000)	%	Defined Benefit ('000)	%	Total* ('000)	%
MPF exempted	260	65	140	35	400	100
Non-MPF exempted	39	84	7	16	47	100
Total	299	67	147	33	447	100

* Figures may not sum up to the total due to rounding.

Contribution Amount

6. Annual Contribution Amount to ORSO Registered Schemes – By Employers and Employees

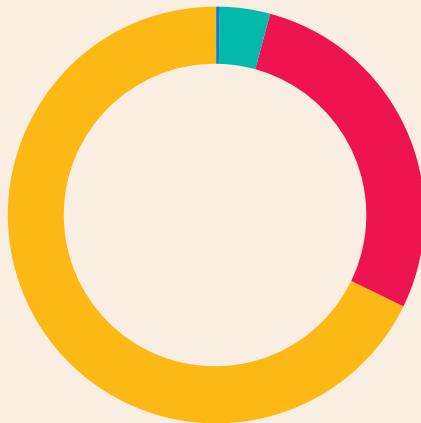
	MPF Exempted (HK\$ million)	Non-MPF Exempted (HK\$ million)	Total (HK\$ million)
Employer's Contributions			
– Ordinary	11,608 (74%)	488 (70%)	12,096 (74%)
– Initial/Special	420 (3%)	43 (6%)	463 (3%)
Sub-total	12,028 (77%)	531 (76%)	12,559 (77%)
Employee's Contributions	3,573 (23%)	170 (24%)	3,743 (23%)
Total Contributions	15,601 (100%)	701 (100%)	16,302 (100%)

Source: The latest annual returns in respect of 4 775 ORSO registered schemes

STATISTICS

PART D – ORSO SCHEMES (cont'd)

7. Annual Contribution Amount to ORSO Registered Schemes – By Benefit Type



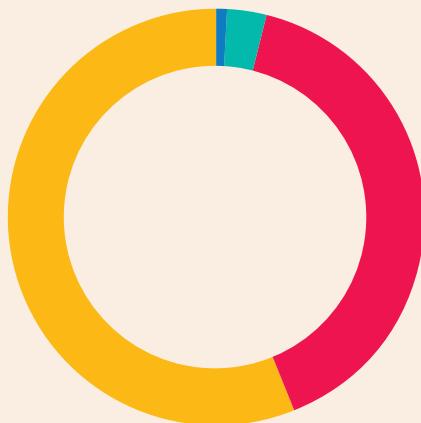
Non-MPF Exempted		\$701M
0.4%	Defined Benefit	\$70M
4%	Defined Contribution	\$631M
MPF Exempted		\$15,601M
28%	Defined Benefit	\$4,590M
67.6%	Defined Contribution	\$11,011M

Contribution Amount: \$16,302 million

Source: The latest annual returns in respect of 4 775 ORSO registered schemes

8. Asset Size Of ORSO Registered Schemes – By Benefit Type

(as at 31.3.2010)



Non-MPF Exempted		\$9,531M
1%	Defined Benefit	\$2,352M
3%	Defined Contribution	\$7,179M
MPF Exempted		\$199,006M
40%	Defined Benefit	\$83,265M
56%	Defined Contribution	\$115,741M

Asset Size: \$208,537 million

Source: The latest annual returns in respect of 4 775 ORSO registered schemes

STATISTICS

PART E ENQUIRIES AND COMPLAINTS

1. Enquiries Received by Nature

(1.4.2009 – 31.3.2010)



22%	Transfer/Withdrawal of Benefits
19%	Contribution Arrangement
16%	Services Provided by MPFA
14%	Enrolment Arrangement
7%	Surcharge Notices
6%	Default Contributions
4%	Trustee and Investment
2%	Enforcement
2%	ORSO
2%	SEP: Enrolment and Contributions
6%	Others

Total number of enquiries received: 180 947

2. Complaints Received by Target Industry

(1.4.2009 – 31.3.2010)



Employers	No. of Complaints
21% Catering	1 469
14% Wholesale/Retail/Import & Export Trades	1 019
11% Construction	797
9% Financing/Insurance/Real Estate/Business Services	698
9% Cleaning	630
6% Transport	423
6% Manufacturing	399
5% Community/Social/Personal Services	358
5% Security Guard	328
4% Hairdressing and Beauty	288
4% Others	313
Non-Employers	
6% Trustees & Service Providers	402

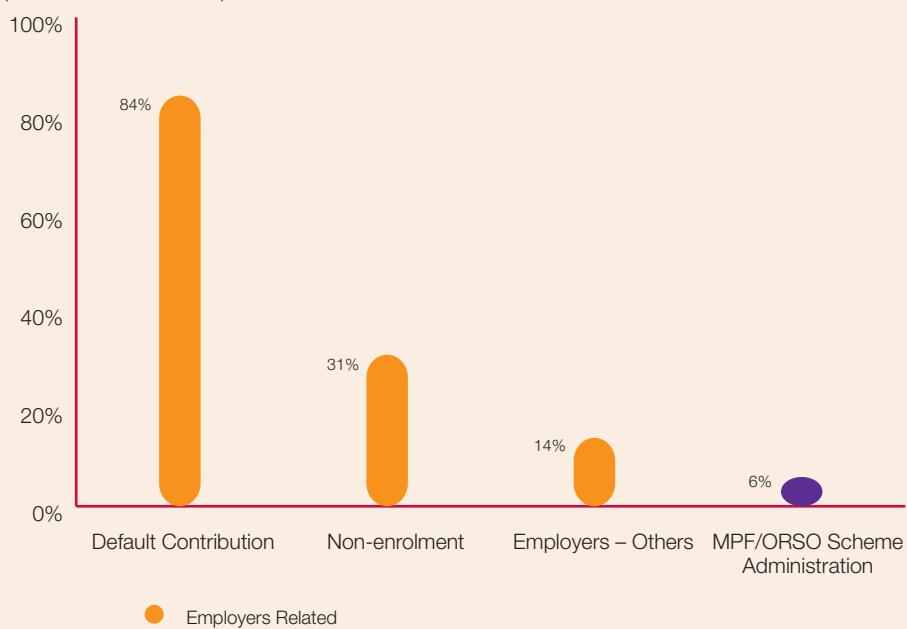
Total number of complaints received: 7 124

STATISTICS

PART E ENQUIRIES AND COMPLAINTS (cont'd)

3. Complaints Received by Nature¹

(1.4.2009 – 31.3.2010)



¹ Multiple selection of complaint categories allowed.

Complaint Nature	No. of Complaints
Default Contribution	5 965
Non-enrolment	2 197
Employers – Others	1 005
MPF/ORSO Scheme Administration	402
Total number of complaints received	7 124

1. Number of Payment Notices Issued in Respect of Default Contribution

(1.4.2009 – 31.3.2010)

Month	Number of payment notices issued
Apr - 09	23 300
May - 09	22 900
Jun - 09	24 000
Jul - 09	23 600
Aug - 09	24 300
Sep - 09	23 700
Oct - 09	24 000
Nov - 09	23 000
Dec - 09	22 800
Jan - 10	24 200
Feb - 10	22 700
Mar - 10	25 000
Total	283 500

2. Number of Cases Investigated (Including Complaint Cases and Cases Reported by Trustees) by Type of Alleged Offences

(1.4.2009 – 31.3.2010)

Alleged Offences	Number
Default contribution	20 466
Non-enrolment	2 197
Forced change to SEP	56
Others [#]	949
Total*	21 143

Others include failure to notify trustees of termination of employment, evading MPF contributions by setting aside and labelling part of the employee's salary as housing allowance, failure to issue monthly pay record, etc.

* As one case may be related to several types of alleged offences, figures may not sum up to the total.

STATISTICS

PART F ENFORCEMENT (cont'd)

3. Number of Summons Applications Referred to the Police – by Nature of Offences Committed and Results

(1.4.2009 – 31.3.2010)

Prosecution Status as at 31.3.2010

Nature of Offences	Guilty	Acquitted	Not yet available	Withdrawn*	Total Number of Summons Applied
Contributions in arrears	525	0	454	41	1 020
Non-enrolment of employee	45	3	30	2	80
False statement	38	0	64	0	102
Total	608	3	548	43	1 202

* Summons could not be effectively served by Police or Bailiff, as the defendants had moved away, closed, become untraceable, wound up or became bankrupt.

4. Number of Applications Lodged with Small Claims Tribunal, District Court, High Court, Bailiff and Liquidator

(1.4.2009 – 31.3.2010)

	No. of Cases	Related no. of Employees
Lodged with the Small Claims Tribunal	794	3 517
Lodged with the District Court	128	4 626
Lodged with the High Court	2	2 407
Lodged with Bailiff	503	5 776
Lodged with Liquidators	461	6 533

5. Number of Garnishee Orders Applied

231

(1.4.2009 – 31.3.2010)

Breach	No. of Financial Penalty Notices Issued	Amount of Financial Penalty (HK\$)
Breach of section 7A(8) of the MPFSO (Failure to pay MPF contributions in respect of an employee to the approved trustee within the prescribed period)	41	644,482

STATISTICS

PART G GOVERNMENT'S INJECTION PROJECT

1. Payment of Special Contribution

Total number of recipients of special contribution	1 401 965
Total sum paid out	\$8,411,790,000

2. Number of Enquiries and Complaints

Total number of enquiries	106 823
Total number of grievance cases	2 386
Total number of complaints against employers, MPF trustees, ORSO administrators	202

3. Number of Requests for Review of Eligibility

Total number of requests for review of eligibility	9 614
Individuals who did not receive the injection but considered themselves eligible	8 738
Individuals who received the injection but were not sure they were eligible	876
Number of individuals who turned eligible	6 179
Number of individuals who turned ineligible	425

4. Number of Appeals Against MPFA's Decision on Requests for Review

Total number of appeals received	144
Number of appellants who were ruled eligible	10

APPENDIX 1

MEMBERSHIP LISTS OF BOARDS AND COMMITTEES

(As at 31 March 2010)

Management Board

Chairman

The Hon Anna Wu Hung-yuk, SBS, JP

Deputy Chairman

Mrs Diana Chan Tong Chee-ching, JP

Members

Mr Leo Kung Lin-cheng, JP
Mrs Angelina Lee Wong Pui-ling, JP
Mr David Sun Tak-kei, BBS, JP
The Hon Wong Ting-kwong, BBS, JP
The Hon Li Fung-ying, BBS, JP
The Hon Andrew Leung Kwan-yuen, SBS, JP
The Hon Wong Kwok-kin, BBS
Mr Rimsky Yuen Kwok-keung, SC
(from 17 Mar 2010)
Mr Edward Chan King-sang, SC, JP
(until 16 Mar 2010)
Prof the Hon K C Chan, SBS, JP
Alternate: Permanent Secretary for Financial Services and the Treasury (Financial Services)
The Hon Matthew Cheung Kin-chung, GBS, JP
Alternate: Permanent Secretary for Labour and Welfare
Ms Hendena Yu, JP
Mr Darren Mark McShane
Mr Thomas Yiu Kei-chung
Ms Cynthia Hui Wai-yee

Mandatory Provident Fund Schemes Advisory Committee

Chairman

Mr Lee Kai-ming, SBS, JP

Deputy Chairman

Mrs Diana Chan Tong Chee-ching, JP

Members

The Hon Chan Kin-por, JP
Mr Bob Chong Hot-hoi, BBS
The Hon Albert Ho Chun-yan
Mr Lam Yim-nam
Mr Leung Fu-wah, MH, JP
Mr Alvin Wong Tak-wai
The Hon V-Nee Yeh, JP
Mr Stanley Lau Chin-ho, BBS, MH, JP
Ms Ng Wai-yee, MH

MPF Industry Schemes Committee

Chairman

The Hon Wong Ting-kwong, BBS, JP

Members

Mr Chung Wai-ping
Mr Hiew Chin, BBS, MH
Mr Thomas Ho On-sing
Mr Tsang Peng-sun
Mr Yuen Fuk-wo
Mr Ng Kwok-kwan
Mr Suen Long-tai
Mr Conrad Wong Tin-cheung, JP
Mr Adrian Li Man-kiu, JP
Mr Ivan Liu Sin-keung
Mr Thomas Yiu Kei-chung

Administration Committee

Chairman

The Hon Wong Ting-kwong, BBS, JP

Members

The Hon Anna Wu Hung-yuk, SBS, JP
The Hon Li Fung-ying, BBS, JP
Mrs Diana Chan Tong Chee-ching, JP
Mr Thomas Yiu Kei-chung

Finance Committee

Chairman

Mr David Sun Tak-kei, BBS, JP

Members

The Hon Anna Wu Hung-yuk, SBS, JP
Mr Leo Kung Lin-cheng, JP
Mrs Diana Chan Tong Chee-ching, JP
Mr Thomas Yiu Kei-chung

Audit Committee

Chairman

Mrs Angelina Lee Wong Pui-ling, JP

Members

Mr David Sun Tak-kei, BBS, JP
The Hon Wong Ting-kwong, BBS, JP
The Hon Wong Kwok-kin, BBS

Tender Board

Chairman

Mr Leo Kung Lin-cheng, JP

Members

The Hon Andrew Leung Kwan-yuen, SBS, JP
Mr Thomas Yiu Kei-chung
One other executive director or head responsible
for the subject under consideration

Guidelines Committee

Chairman

Mr Edward Chan King-sang, SC, JP

Members

Mrs Angelina Lee Wong Pui-ling, JP
Mr Rimsky Yuen Kwok-keung, SC
(from 19 Mar 2010)
Mr Alex Chu
Ms Kerry Ching
(from 7 Oct 2009)
Ms Cynthia Chung
Mr Bonn Liu
Ms Lau Ka-shi
Mr Duncan Abate
Mr Darren Mark McShane
Mr Desmond Ng
(until 6 Oct 2009)

Committee to Oversee MPFA's Implementation of The Government Injection Project

Chairman

Mr David Sun Tak-kei, BBS, JP

Members

Mr Leo Kung Lin-cheng, JP
The Hon Wong Ting-kwong, BBS, JP
The Hon Li Fung-ying, BBS, JP

Appeal Panel to Handle Appeals Relating to the Government Injection Project

Chairman

Mr Lee Kai-ming, SBS, JP

Panel Members

(to attend Panel meetings by rotation)
The Hon Anna Wu Hung-yuk, SBS, JP
Mr Leo Kung Lin-cheng, JP
Mrs Angelina Lee Wong Pui-ling, JP
Mr David Sun Tak-kei, BBS, JP
The Hon Wong Ting-kwong, BBS, JP
The Hon Li Fung-ying, BBS, JP
The Hon Andrew Leung Kwan-yuen, SBS, JP
The Hon Wong Kwok-kin, BBS
Mr Edward Chan King-sang, SC, JP
(until 16 Mar 2010)

Mandatory Provident Fund Schemes Appeal Board

Chairman

Mr Joseph Paul Fok, SC, JP

Deputy Chairman

Mr Paul Tan Chuen-yan

Panel Members

Ms Chan Ching-chu
Mr Paul Shieh Wing-tai, SC
Mr Carlson Tong, JP
Dr Stella Cho Lung Pui-lan
(from 25 Oct 2009)
Ms Benita Yu Ka-po
(from 25 Oct 2009)
Mr Adrian Wong Koon-man, MH, JP
(until 24 Oct 2009)
Ms Maria Xuereb
(until 24 Oct 2009)

APPENDIX 1**MEMBERSHIP LISTS OF BOARDS AND COMMITTEES (cont'd)**

(As at 31 March 2010)

**Occupational Retirement Schemes
Appeal Board****Chairman**

Mr Joseph Paul Fok, SC, JP

Deputy Chairman

Mr Paul Tan Chuen-yan

Panel Members

Ms Chan Ching-chu

Mr Paul Shieh Wing-tai, SC

Mr Carlson Tong, JP

Mr Adrian Wong Koon-man, MH, JP

Ms Maria Xuereb

Industry Schemes Selection Panel**Chairman**

The Hon Wong Ting-kwong, BBS, JP

Members

Mr Bob Chong Hot-hoi, BBS

Mr Alvin Wong Tak-wai

Mr Hiew Chin, BBS, MH

Mr Thomas Ho On-sing

Mr Yuen Fuk-wo

Mr Suen Long-tai

**The Working Group on Regulation of
Sales and Marketing of MPF Products****Chairman**

Mr Edward Chan King-sang, SC, JP

Members

Mr Leo Kung Lin-cheng, JP

Mrs Angelina Lee Wong Pui-ling, JP

Mr Rimsky Yuen Kwok-keung, SC

LIST OF APPROVED MPF TRUSTEES AND THEIR BACKGROUND

(As at 31 March 2010)

American International Assurance Company (Trustee) Limited

American International Assurance Company (Trustee) Limited is a member of the AIA Group. The AIA Group is a well established life insurance organization in Asia Pacific that traces its roots in the region back more than 90 years. It provides individuals and businesses with products and services for life insurance, retirement planning, accident and health insurance as well as wealth management solutions.

AXA China Region Trustees Limited

AXA China Region Trustees Limited is a member of the global AXA Group, a worldwide organization in financial protection and wealth management. AXA has a history dating back to the early 19th century and commenced business in Hong Kong in 1986, offers a wide range of products and services in insurance, retirement, savings and investments.

AXA Financial Services Trustees Limited

AXA Financial Services Trustees Limited is a member of the global AXA Group, a worldwide organization in financial protection and wealth management. AXA has a history dating back to the early 19th century and commenced business in Hong Kong in 1986, offers a wide range of products and services in insurance, retirement, savings and investments.

Bank Consortium Trust Company Limited

Bank Consortium Trust Company Limited ("BCT") is a trust company set up in 1999 by eight local financial institutions. It is the sponsor of a variety of pension products including MPF master trust scheme, industry scheme and pooled ORSO plan. Besides being the trustee, administrator and custodian for its own pension products, BCT has also been providing third-party trustee / administration / custodian services for other MPF / individual ORSO schemes and international pension plans as well as investment funds.

Bank of Communications Trustee Limited

Bank of Communications Trustee Limited is a wholly owned subsidiary of Bank of Communications Co., Ltd, providing MPF and ORSO administration, trustee, custodian, and estate administration services and other financial services. It aims at providing products and services to meet the financial and retirement needs of its clients.

Bank of East Asia (Trustees) Limited

Bank of East Asia (Trustees) Limited is a wholly-owned subsidiary of The Bank of East Asia ("BEA"). BEA delivers comprehensive retail and commercial banking services through its Personal Banking, Corporate Banking, Wealth Management, Investment Banking, China, and International divisions. Products and services include deposit-taking, foreign currency savings, retail investment and wealth management services, mortgage loans, consumer loans, credit cards, Cyberbanking, bancassurance, Mandatory Provident Fund services, trade finance, syndication loans, remittances, and foreign exchange margin trading.

APPENDIX 2

LIST OF APPROVED MPF TRUSTEES AND THEIR BACKGROUND (cont'd)

(As at 31 March 2010)

BOCI-Prudential Trustee Limited

BOCI-Prudential Trustee Limited is a joint-venture company founded between the subsidiaries of Bank of China Limited and the Prudential plc. The business activities of Bank of China Limited are principally corporate banking, retail banking, investment banking, insurance and other financial services. The Prudential plc provides a broad range of financial and insurance services as well as engages in fund management business.

China Life Trustees Limited

China Life Trustees Limited is a subsidiary of China Life Insurance (Overseas) Company Limited which is a member of China Life Insurance (Group) Company. The business activities of China Life Insurance (Overseas) Company Limited are principally life insurance, provident fund, retirement scheme and other related financial operations.

Cititrust Limited

Cititrust Limited is a member of Citigroup Inc. As a global financial services group, Citigroup Inc and its subsidiaries, provide a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management to consumers, corporations, governments and institutions.

Fortis Trustees (HK) Limited

Fortis Trustees (HK) Limited is a wholly-owned subsidiary of Fortis Asia Holdings Limited which, together with its other subsidiaries, is principally engaged in individual life insurance, group insurance and general insurance business.

HSBC Institutional Trust Services (Asia) Limited

HSBC Institutional Trust Services (Asia) Limited is a wholly owned subsidiary of the Hongkong and Shanghai Banking Corporation Limited, which is one of the commercial banks in Hong Kong. HSBC Institutional Trust Services (Asia) Limited is also trustee or administrator of ORSO Schemes.

HSBC Provident Fund Trustee (Hong Kong) Limited

HSBC Provident Fund Trustee (Hong Kong) Limited is a wholly owned subsidiary of the Hongkong and Shanghai Banking Corporation Limited, which is one of the commercial banks in Hong Kong. HSBC Provident Fund Trustee (Hong Kong) Limited is also trustee or administrator of ORSO Schemes.

ING Pension Trust Limited

ING Pension Trust Limited is a member of ING Group, which is a global integrated financial service provider active in the fields of banking, investments, life insurance and retirement services. ING Pension Trust Limited provides pension trust services to corporate customers.

Manulife Provident Funds Trust Company Limited

Manulife Provident Funds Trust Company Limited is a member of the Manulife Financial group of companies, which provide a diverse range of financial protection products and wealth management services to individuals, families, business and groups in 22 countries and territories worldwide.

MassMutual Trustees Limited

MassMutual Trustees Limited is a member of the MassMutual Financial Group. The Group serves 13 million clients worldwide with a broad-based portfolio of financial products and services, including life insurance, annuities, disability income insurance, long-term care insurance, mutual funds, retirement planning products, money management, trust services and other financial products and services. MassMutual Financial Group is a marketing designation for the Massachusetts Mutual Life Insurance Company and its affiliates.

Principal Trust Company (Asia) Limited

Principal Trust Company (Asia) Limited, a member of the Principal Financial Group® based in the United States, provides one-stop shop services on pension fund management including corporate trustee, fund administration and scheme administration services. In addition, the Company is engaged in the provision of mutual fund administration and registration services to mutual fund investors.

RBC Dexia Trust Services Hong Kong Limited

RBC Dexia Trust Services Hong Kong Limited provides trustee, fund administration, pension administration, custody and transfer agency services. It is a subsidiary of RBC Dexia Investor Services Limited, a UK company which is a joint venture between the Royal Bank of Canada and Dexia S.A.

Royal Bank of Canada Trust Company (Asia) Limited

Royal Bank of Canada Trust Company (Asia) Limited is a wholly owned subsidiary of Royal Bank of Canada, a financial services organization providing personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis.

Sun Life Trustee Company Limited

Sun Life Trustee Company Limited is a member of the Sun Life Financial group of companies, which is an international financial services organization providing a diverse range of wealth accumulation and protection products and services to individuals and corporate customers worldwide.

APPENDIX 3

LIST OF REGISTERED MPF SCHEMES AND CONSTITUENT FUNDS

(As at 31 March 2010)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
American International Assurance Company (Trustee) Limited	AIA-JF Comprehensive Retirement Benefit MPF Scheme	1 Guaranteed Portfolio 2 MPF Conservative Fund
American International Assurance Company (Trustee) Limited	AIA-JF Mandatory Provident Fund Scheme	1 Asian Equity Fund 2 Balanced Portfolio 3 Capital Stable Portfolio 4 European Equity Fund 5 Global Bond Fund 6 Greater China Equity Fund 7 Green Fund 8 Growth Portfolio 9 Guaranteed Portfolio 10 Hong Kong Equity Fund 11 Japan Equity Fund 12 Manager's Choice Fund 13 MPF Conservative Fund 14 North American Equity Fund 15 RCM Capital Stable Fund 16 RCM Growth Fund 17 RCM Stable Growth Fund 18 World Equity Fund
American International Assurance Company (Trustee) Limited	AIA-JF Premium MPF Scheme	1 Asian Equity Fund 2 Balanced Portfolio 3 Capital Stable Portfolio 4 European Equity Fund 5 Global Bond Fund 6 Greater China Equity Fund 7 Green Fund 8 Growth Portfolio 9 Guaranteed Portfolio 10 Hong Kong Equity Fund 11 Japan Equity Fund 12 Manager's Choice Fund 13 MPF Conservative Fund 14 North American Equity Fund 15 RCM Capital Stable Fund 16 RCM Growth Fund 17 RCM Stable Growth Fund 18 World Equity Fund

Name of Trustee	MPF Scheme	Underlying Constituent Funds
Bank Consortium Trust Company Limited	AMTD MPF Scheme	1 AMTD Invesco Asia Fund 2 AMTD Invesco Europe Fund 3 AMTD Invesco Global Bond Fund 4 AMTD Invesco Hong Kong and China Fund 5 AMTD Invesco MPF Conservative Fund 6 AMTD Invesco Target 2018 Retirement Fund 7 AMTD Invesco Target 2028 Retirement Fund 8 AMTD Invesco Target 2038 Retirement Fund 9 AMTD Invesco Target 2048 Retirement Fund 10 AMTD RCM Balanced Fund 11 AMTD RCM Capital Stable Fund 12 AMTD RCM Dynamic Allocation Fund 13 AMTD RCM Growth Fund 14 AMTD RCM Stable Growth Fund
Bank Consortium Trust Company Limited	Bank Consortium Industry Plan	1 BCT Absolute Return Fund 2 BCT Asian Equity Fund 3 BCT E30 Mixed Asset Fund 4 BCT E50 Mixed Asset Fund 5 BCT E70 Mixed Asset Fund 6 BCT Global Bond Fund 7 BCT Global Equity Fund 8 BCT Hong Kong Equity Fund 9 BCT MPF Conservative Fund
Bank Consortium Trust Company Limited	Bank Consortium MPF Plan	1 Bank Consortium Absolute Return Fund 2 Bank Consortium Asian Equity Fund 3 Bank Consortium China and Hong Kong Equity Fund 4 Bank Consortium E30 Mixed Asset Fund 5 Bank Consortium E50 Mixed Asset Fund 6 Bank Consortium E70 Mixed Asset Fund 7 Bank Consortium E90 Mixed Asset Fund 8 Bank Consortium European Equity Fund 9 Bank Consortium Global Bond Fund 10 Bank Consortium Global Equity Fund 11 Bank Consortium Hang Seng Index Tracking Fund 12 Bank Consortium Hong Kong Dollar Bond Fund 13 Bank Consortium Hong Kong Equity Fund 14 Bank Consortium International Equity Fund 15 Bank Consortium MPF Conservative Fund 16 Bank Consortium SaveEasy 2020 Fund 17 Bank Consortium SaveEasy 2025 Fund 18 Bank Consortium SaveEasy 2030 Fund 19 Bank Consortium SaveEasy 2035 Fund 20 Bank Consortium SaveEasy 2040 Fund

APPENDIX 3**LIST OF REGISTERED MPF SCHEMES AND CONSTITUENT FUNDS (cont'd)**

(As at 31 March 2010)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
Bank of Communications Trustee Limited	BCOM Joyful Retirement MPF Scheme	1 BCOM Asian Dynamic Equity (CF) Fund 2 BCOM Balanced (CF) Fund 3 BCOM China Dynamic Equity (CF) Fund 4 BCOM Dynamic Growth (CF) Fund 5 BCOM Guaranteed (CF) Fund 6 BCOM Hong Kong Dynamic Equity (CF) Fund 7 BCOM HSI Tracking (CF) Fund 8 BCOM MPF Conservative Fund 9 BCOM Stable Growth (CF) Fund
Bank of East Asia (Trustees) Limited	BEA (MPF) Industry Scheme	1 BEA (Industry Scheme) Balanced Fund 2 BEA (Industry Scheme) Greater China Growth Fund 3 BEA (Industry Scheme) Growth Fund 4 BEA (Industry Scheme) Hong Kong Growth Fund 5 BEA (Industry Scheme) MPF Conservative Fund 6 BEA (Industry Scheme) Stable Fund
Bank of East Asia (Trustees) Limited	BEA (MPF) Master Trust Scheme	1 BEA (MPF) Asian Growth Fund 2 BEA (MPF) Balanced Fund 3 BEA (MPF) Conservative Fund 4 BEA (MPF) European Equity Fund 5 BEA (MPF) Global Bond Fund 6 BEA (MPF) Global Equity Fund 7 BEA (MPF) Greater China Growth Fund 8 BEA (MPF) Growth Fund 9 BEA (MPF) Hong Kong Growth Fund 10 BEA (MPF) Japan Growth Fund 11 BEA (MPF) Long Term Guaranteed Fund 12 BEA (MPF) Stable Fund
BOCI-Prudential Trustee Limited	BOC-Prudential Easy-Choice Mandatory Provident Fund Scheme	1 BOC – Prudential Asia Equity Fund 2 BOC – Prudential Balanced Fund 3 BOC – Prudential Bond Fund 4 BOC – Prudential China Equity Fund 5 BOC – Prudential Global Equity Fund 6 BOC – Prudential Growth Fund 7 BOC – Prudential Hong Kong Equity Fund 8 BOC – Prudential Japan Equity Fund 9 BOC – Prudential MPF Conservative Fund 10 BOC – Prudential Stable Fund
China Life Trustees Limited	China Life MPF Master Trust Scheme	1 China Life Balanced Fund 2 China Life Growth Fund 3 China Life Guaranteed Return Fund 4 China Life MPF Conservative Fund 5 China Life Retire – Easy Balanced Fund 6 China Life Retire – Easy Capital Stable Fund 7 China Life Retire – Easy Global Equity Fund 8 China Life Retire – Easy Guarantee Fund

Name of Trustee	MPF Scheme	Underlying Constituent Funds
AXA China Region Trustees Limited	Double Easy Mandatory Provident Fund	1 Double Easy Balanced Fund 2 Double Easy Cash Fund 3 Double Easy Growth Fund 4 Double Easy Guaranteed Fund 5 Double Easy MPF Conservative Fund 6 Double Easy Stable Fund 7 Double Easy Top Select Fund
AXA China Region Trustees Limited	Elite Mandatory Provident Fund	1 MPF Conservative Fund 2 Multi – Manager Asia Pacific (Ex-Japan) Equity Fund 3 Multi – Manager Balanced Fund 4 Multi – Manager Global Bond Fund 5 Multi – Manager Global Equity Fund 6 Multi – Manager Growth Fund 7 Multi – Manager Hong Kong Equity Fund 8 Multi – Manager Japan Equity Fund 9 Multi – Manager Stable Fund
HSBC Institutional Trust Services (Asia) Limited	Fidelity Retirement Master Trust	1 Asia Pacific Equity Fund 2 Balanced Fund 3 Capital Stable Fund 4 Fidelity SaveEasy 2020 Fund 5 Fidelity SaveEasy 2025 Fund 6 Fidelity SaveEasy 2030 Fund 7 Fidelity SaveEasy 2035 Fund 8 Fidelity SaveEasy 2040 Fund 9 Global Equity Fund 10 Growth Fund 11 Hong Kong Bond Fund 12 Hong Kong Equity Fund 13 MPF Conservative Fund 14 Stable Growth Fund 15 World Bond Fund
Fortis Trustees (HK) Limited	Fortis Master Trust MPF Scheme	1 Fortis Global Balanced Fund 2 Fortis Hong Kong Fund 3 Fortis MPF Conservative Fund
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – SimpleChoice	1 Global Bond Fund 2 Global Equity Fund 3 MPF Conservative Fund
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – SuperTrust	1 Balanced Fund 2 Growth Fund 3 Guaranteed Fund 4 Hang Seng Index Tracking Fund 5 MPF Conservative Fund

APPENDIX 3**LIST OF REGISTERED MPF SCHEMES AND CONSTITUENT FUNDS (cont'd)**

(As at 31 March 2010)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – SuperTrust Plus	1 Asia Pacific Equity Fund 2 Balanced Fund 3 Chinese Equity Fund 4 European Equity Fund 5 Flexi – Managed Fund 6 Global Bond Fund 7 Growth Fund 8 Guaranteed Fund 9 Hang Seng Index Tracking Fund 10 Hong Kong and Chinese Equity Fund 11 MPF Conservative Fund 12 North American Equity Fund 13 Stable Fund 14 Stable Growth Fund
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – SimpleChoice	1 Global Bond Fund 2 Global Equity Fund 3 MPF Conservative Fund
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – SuperTrust	1 Balanced Fund 2 Growth Fund 3 Guaranteed Fund 4 Hang Seng Index Tracking Fund 5 MPF Conservative Fund
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – SuperTrust Plus	1 Asia Pacific Equity Fund 2 Balanced Fund 3 Chinese Equity Fund 4 European Equity Fund 5 Flexi – Managed Fund 6 Global Bond Fund 7 Growth Fund 8 Guaranteed Fund 9 Hang Seng Index Tracking Fund 10 Hong Kong and Chinese Equity Fund 11 MPF Conservative Fund 12 North American Equity Fund 13 Stable Fund 14 Stable Growth Fund
ING Pension Trust Limited	ING MPF Master Trust Basic Scheme	1 ING MPF Basic Scheme Balanced Growth Portfolio 2 ING MPF Basic Scheme Capital Guaranteed Portfolio 3 ING MPF Basic Scheme Hong Kong Equity Portfolio 4 ING MPF Basic Scheme International Equity Portfolio 5 ING MPF Basic Scheme MPF Conservative Portfolio 6 ING MPF Basic Scheme Stable Growth Portfolio

Name of Trustee	MPF Scheme	Underlying Constituent Funds
ING Pension Trust Limited	ING MPF Master Trust Comprehensive Scheme	1 ING MPF Comprehensive Scheme Asian Equity Portfolio 2 ING MPF Comprehensive Scheme Balanced Growth Portfolio 3 ING MPF Comprehensive Scheme Capital Guaranteed Portfolio 4 ING MPF Comprehensive Scheme Growth Portfolio 5 ING MPF Comprehensive Scheme Hong Kong Equity Portfolio 6 ING MPF Comprehensive Scheme International Equity Portfolio 7 ING MPF Comprehensive Scheme MPF Conservative Portfolio 8 ING MPF Comprehensive Scheme Stable Growth Portfolio 9 ING MPF Comprehensive Scheme Stable Portfolio
Bank Consortium Trust Company Limited	Invesco Strategic MPF Scheme	1 Asian Equity Fund 2 Balanced Fund 3 Capital Stable Fund 4 Global Bond Fund 5 Growth Fund 6 Guaranteed Fund 7 Hong Kong and China Equity Fund 8 MPF Conservative Fund
Manulife Provident Funds Trust Company Limited	Manulife Global Select (MPF) Scheme	1 Manulife MPF Aggressive Fund 2 Manulife MPF China Value Fund 3 Manulife MPF Conservative Fund 4 Manulife MPF European Equity Fund 5 Manulife MPF Fidelity Growth Fund 6 Manulife MPF Fidelity Stable Growth Fund 7 Manulife MPF Growth Fund 8 Manulife MPF Healthcare Fund 9 Manulife MPF Hong Kong Bond Fund 10 Manulife MPF Hong Kong Equity Fund 11 Manulife MPF Interest Fund 12 Manulife MPF International Bond Fund 13 Manulife MPF International Equity Fund 14 Manulife MPF Japan Equity Fund 15 Manulife MPF North American Equity Fund 16 Manulife MPF Pacific Asia Equity Fund 17 Manulife MPF Stable Fund
Manulife Provident Funds Trust Company Limited	Manu-Lifestyle (MPF) Scheme	1 Manulife MPF Aggressive Fund 2 Manulife MPF Conservative Fund 3 Manulife MPF Growth Fund 4 Manulife MPF Interest Fund 5 Manulife MPF Stable Fund

APPENDIX 3**LIST OF REGISTERED MPF SCHEMES AND CONSTITUENT FUNDS (cont'd)**

(As at 31 March 2010)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
MassMutual Trustees Limited	Mass Mandatory Provident Fund Scheme	1 Asian Balanced Fund 2 Asian Pacific Equity Fund 3 European Equity Fund 4 Global Bond Fund 5 Global Equity Fund 6 Global Growth Fund 7 Global Stable Fund 8 Guaranteed Fund 9 Hong Kong Equities Fund 10 Japan Equity Fund 11 MPF Conservative Fund 12 US Equity Fund
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 500	1 Aggressive Growth Fund 2 Balanced Growth Fund 3 Guaranteed Fund 4 MPF Conservative Fund 5 Stable Growth Fund
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 600	1 Principal Global Growth Fund 2 Principal HK Dollar Savings Fund 3 Principal Long Term Accumulation Fund 4 Principal Long Term Guaranteed Fund 5 Principal MPF Conservative Fund
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 800	1 Principal Asian Equity Fund 2 Principal Capital Guaranteed Fund 3 Principal China Equity Fund 4 Principal Global Growth Fund 5 Principal HK Dollar Savings Fund 6 Principal Hong Kong Equity Fund 7 Principal International Bond Fund 8 Principal International Equity Fund 9 Principal Long Term Accumulation Fund 10 Principal Long Term Guaranteed Fund 11 Principal MPF Conservative Fund 12 Principal Stable Yield Fund 13 Principal US Dollar Savings Fund 14 Principal US Equity Fund
AXA Financial Services Trustees Limited	Prosperity MPF Master Trust Scheme	1 Prosperity Balanced Fund 2 Prosperity Growth Fund 3 Prosperity MPF Conservative Fund 4 Prosperity Templeton Global Equity Fund
Bank Consortium Trust Company Limited	RCM MPF Plan	1 RCM Absolute Return Fund 2 RCM Asian Fund 3 RCM Balanced Fund 4 RCM Capital Stable Fund 5 RCM Growth Fund 6 RCM Hong Kong Fund 7 RCM MPF Conservative Fund 8 RCM Stable Growth Fund

Name of Trustee	MPF Scheme	Underlying Constituent Funds
HSBC Provident Fund Trustee (Hong Kong) Limited	Schroder MPF Master Trust	1 Schroder MPF Asian Portfolio 2 Schroder MPF Balanced Investment Portfolio 3 Schroder MPF Capital Guaranteed Portfolio 4 Schroder MPF Capital Stable Portfolio 5 Schroder MPF Conservative Portfolio 6 Schroder MPF Growth Portfolio 7 Schroder MPF HK Dollar Fixed Income Portfolio 8 Schroder MPF Hong Kong Portfolio 9 Schroder MPF International Portfolio 10 Schroder MPF Stable Growth Portfolio
RBC Dexia Trust Services Hong Kong Limited	SHKP MPF Employer Sponsored Scheme	1 Fidelity Balanced Fund 2 Fidelity Stable Growth Fund 3 HSBC Capital Stable Fund 4 New-Alliance Global Balanced Fund 5 RCM Balanced Fund 6 RCM Stable Growth Fund 7 SHKP MPF Fund 8 Standard Chartered Career Average Guaranteed Fund – SHKP 9 Standard Chartered MPF Conservative Fund – SHKP
RBC Dexia Trust Services Hong Kong Limited	Standard Chartered MPF Plan – Advanced	1 Fidelity Global Investment Fund – Balanced Fund 2 Fidelity Global Investment Fund – Capital Stable Fund 3 Fidelity Global Investment Fund – Growth Fund 4 HSBC MPF "A" – Balanced Fund 5 HSBC MPF "A" – Hong Kong and Chinese Equity Fund 6 HSBC MPF "A" – Stable Fund 7 Invesco Global Balanced Fund 8 Invesco Global Equities Fund 9 Invesco MPF Bond Fund 10 Legg Mason Balanced Fund 11 Legg Mason Hong Kong Equities Fund 12 Legg Mason Stable Growth Fund 13 RCM Balanced Fund 14 RCM Capital Stable Fund 15 RCM Growth Fund 16 Schroder MPF Asian Fund 17 Schroder MPF Balanced Investment Fund 18 Schroder MPF HK Dollar Fixed Income Fund 19 Standard Chartered Balanced Fund – Advanced 20 Standard Chartered Career Average Guaranteed Fund – Advanced 21 Standard Chartered Growth Fund – Advanced 22 Standard Chartered MPF Conservative Fund – Advanced 23 Standard Chartered Stable Fund – Advanced 24 Templeton MPF Asian Balanced Fund 25 Templeton MPF Global Bond Fund 26 Templeton MPF Global Equity Fund

APPENDIX 3**LIST OF REGISTERED MPF SCHEMES AND CONSTITUENT FUNDS (cont'd)**

(As at 31 March 2010)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
RBC Dexia Trust Services Hong Kong Limited	Standard Chartered MPF Plan – Basic	1 Standard Chartered Balanced Fund – Basic 2 Standard Chartered Career Average Guaranteed Fund – Basic 3 Standard Chartered Growth Fund – Basic 4 Standard Chartered MPF Conservative Fund – Basic 5 Standard Chartered Stable Fund – Basic
Sun Life Trustee Company Limited	Sun Life Rainbow MPF Scheme	1 Sun Life First State MPF Balanced Portfolio Fund 2 Sun Life First State MPF Conservative Fund 3 Sun Life First State MPF Fixed Income Fund 4 Sun Life First State MPF Global Bond Fund 5 Sun Life First State MPF Hong Kong Equity Fund 6 Sun Life First State MPF Progressive Growth Fund 7 Sun Life First State MPF Stable Income Fund 8 Sun Life Invesco MPF Global Equities Fund 9 Sun Life Invesco MPF Hong Kong and China Equity Fund 10 Sun Life RCM MPF Asian Equity Fund 11 Sun Life RCM MPF Balanced Fund 12 Sun Life RCM MPF Capital Stable Fund 13 Sun Life RCM MPF Stable Growth Fund
HSBC Institutional Trust Services (Asia) Limited	Taifook MPF Retirement Fund	1 Taifook Asia Pacific (excluding HK) Fund 2 Taifook Global Diversification Fund 3 Taifook Hong Kong SAR Fund 4 Taifook Korea Fund 5 Taifook MPF Conservative Fund

APPENDIX 4

**LIST OF RECOGNIZED INSTITUTIONS/PROFESSIONAL BODIES
PROVIDING CORE CPD ACTIVITIES FOR MPF INTERMEDIARIES**

(As at 31 March 2010)

Caritas Adult & Higher Education Service
Hong Kong Securities Institute
Management and Executive Development Centre of the Hong Kong Polytechnic University
Hong Kong Retirement Schemes Association
School of Professional and Continuing Education of the University of Hong Kong
Institute of Professional Education and Knowledge of Vocational Training Council
LexisNexis
Institute of Financial Planners of Hong Kong

LIST OF CORPORATE ADMINISTRATORS WHO ADMINISTER POOLING AGREEMENTS FOR ORSO SCHEMES

(As at 31 March 2010)

Authorized Insurers

American International Assurance Company (Bermuda) Limited
American International Assurance Company, Limited
China Life Insurance (Overseas) Company Limited
Sun Life Hong Kong Limited
Hang Seng Insurance Company Limited
HSBC Life (International) Limited
ING Life Insurance Company (Bermuda) Limited
Manufacturers Life Insurance Company – The
Manulife (International) Limited
Fortis Insurance Company (Asia) Limited
Prudential Assurance Company Limited – The

Corporate Trust Companies

AIA Pension And Trustee Co. Ltd.
American International Assurance Company (Trustee) Limited
AXA China Region (Bermuda) Limited
AXA China Region Trustees Limited
Bank Consortium Trust Company Limited
Bank of Communications Trustee Limited
BOC Group Trustee Company Limited
China Life Trustees Limited
Sun Life Trustee Company Limited
RBC Dexia Trust Services Hong Kong Limited
HSBC International Trustee Limited
HSBC Trustee (Hong Kong) Limited
ING Pension Trust Limited
Manulife Provident Funds Trust Company Limited
Principal Trust Company (Asia) Limited
Shanghai Commercial Bank Trustee Limited
AzureTrustees Limited

WORK OF THE MPFA AS THE REGISTRAR OF OCCUPATIONAL RETIREMENT SCHEMES

Registrar of Occupational Retirement Schemes

Monitoring of ORSO Registered Schemes including examination of Annual Returns and Audited Financial Statements (5 031 annual returns processed)

Monitoring of ORSO Exempted Schemes including examination of Compliance Certificates and Membership Statements (25 overseas compliance certificates and 702 membership statements processed)

Processing of Applications for ORSO Registration and Exemption (39 schemes registered and 17 schemes exempted)

Processing of Termination of ORSO Registered and Exempted Schemes (240 registered schemes and 59 exempted schemes)

Granting Consent for Changes of Pooling Agreements (33 ORSO registered schemes processed)

Processing of Applications for MPF Exemption (14 ORSO registered schemes) and Withdrawal of MPF Exemption (191 ORSO registered schemes and 13 ORSO exempted schemes)

Processing of Changes of Trustees for MPF Exempted ORSO Registered Schemes (78 applications processed)

Processing of Notifications of Changes in relation to scheme name, administrator, address, and employer (1 080 notifications of changes processed)

Note: Figures denote workload for the year ended 31 March 2010

Other major work includes recovery of default contribution, collection of periodic fee, complaint and enquiry handling, and maintenance of the ORSO public register.

LIST OF MAJOR PUBLIC EDUCATION AND PUBLICITY ACTIVITIES

(April 2009 – March 2010)

Investment Education Programmes – To Educate the Public on MPF Investment

Apr – Jun 2009	To continue the efforts in investment education, the second burst of the thematic campaign on risk management for MPF investments was rolled out. Messages were published in the form of small advertisement boxes in a free tabloid newspaper and seat-back advertisement in buses. A series of 30-second sound bites extracted from the campaign's radio promotional segments, episodes of a previous TV series and the five 15-second Announcements in the Public Interest (APIs), each featuring one type of MPF fund, were broadcast to disseminate MPF investment education messages to the general public.
Jul 2009 – Mar 2010	With the aim to educate and equip scheme members with the knowledge to make informed choices in their MPF investment decision-making process, communication activities for the MPF Investment Education Campaign 2009-10 were organized. A total of 138 briefing sessions were conducted to disseminate related messages to various stakeholders.
	A series of three publications and a multi-media kit on MPF investment decision-making targeting scheme members with different information needs were produced and distributed to various stakeholders and members of the public. A PowerPoint presentation with narration together with these publications were also uploaded on the MPFA website for public access.
Oct – Dec 2009 Jan 2010	To publicize the renaming of “Capital Preservation Fund” to “MPF Conservative Fund”, a series of activities was rolled out. The TV APIs featuring the five types of MPF funds were broadcast on all local free and pay TV channels and out-of-home media like outdoor video walls, television panels at MTR stations and RoadShow Media on buses. Brand-new print advertisements highlighting the characteristics of these MPF funds and proper MPF portfolio management concepts were published in two free newspapers and magazine, and four pay newspapers and magazines. Other publicity included seat-back advertisement in buses, banner advertisement on the homepage of a popular web portal and promotional stickers inside train compartments.
Feb – Mar 2010	The TV APIs highlighting the five major types of MPF funds continued to be broadcast on all local free and pay TV channels to sustain the publicity on MPF fund features.

Outreach Programmes – To Disseminate MPF Investment Messages at the Community Level

Apr 2009 – Mar 2010	In partnership with political parties, the MPFA organized 32 MPF district carnivals and tea gatherings in various districts to disseminate MPF messages at the community level. The MPFA also participated in 15 dinner gatherings and activities organized by labour unions and associations to reach out to members of the general public.
Apr 2009 – Mar 2010	A total of 27 talks were organized for different target groups including labour unions, community groups, civil servants, labour relations officers, professionals, visitors from Mainland China, students of tertiary institutions and members of the general public to enhance their understanding of the MPF System and MPF investment.

Youth Education Programmes – To Educate the Younger Generation on the Need for Early Financial Planning

Apr 2009	An “Inter-University Competition for Creating a Radio Programme” was launched in partnership with a radio station in 2008-09 to enhance university students’ knowledge of the MPF System and MPF investment and to prepare them for joining the System. Subsequent to the prize presentation ceremony, the winning entry was produced as a radio drama and broadcast on the radio station.
Jan – Mar 2010	Another round of “Inter-University Competition for Creating a Radio Programme” for 2009-10 was organized with a radio station. Roving exhibitions and recruitment briefings to promote the competition and disseminate MPF messages were staged at all nine local universities. A fan page on a popular online social networking platform and a thematic webpage were also developed to augment the publicity effect.
May – Jun 2009, Nov 2009 – Mar 2010	In respect of senior secondary school students, the Skit Programme continued, through an interactive drama, to disseminate the messages of the benefits of early planning for retirement as well as the merits of MPF and compounding effect of MPF investment. The skit was performed in a total of 70 schools in this financial year, i.e. a total of 60 performances were staged during the 2009-10 academic year.
Jun 2009, Jan 2010	With the aim to incorporate the concept of financial planning and MPF knowledge into the curriculum of the New Senior Secondary Liberal Studies, two training workshops namely “Financial Planning and Personal Development” for secondary school teachers were co-organized with the Education Bureau and the Hong Kong Teachers’ Centre respectively, to introduce to teachers the application of the topics to their teaching. The importance of financial management skills and early planning for MPF investment to adolescents’ personal development was presented. A teaching kit was also produced to encourage and help teachers to incorporate the relevant concepts in their teaching.

APPENDIX 7**LIST OF MAJOR PUBLIC EDUCATION AND PUBLICITY ACTIVITIES (cont'd)**

(April 2009 – March 2010)

Aug 2009	A contribution article on the MPF System and MPF investment was published in the Prospect Guide of Hok Yau Club which was distributed to Form Five graduates.
Feb 2010	An MPF youth booklet was distributed to all Form Five and Form Seven school leavers through the Careers Section of local secondary schools to disseminate MPF messages, and to prepare them for joining the MPF System when taking part-time jobs or working full-time after graduation.
Nov 2009 – Jan 2010	A “Parenting Creative Drawing Competition for Kindergarten Kids” 2009-10 was organized in partnership with a magazine group. The programme was supported by the Education Bureau. A storybook was developed to educate kindergarten kids about the concept of saving for the future. Meanwhile, MPF messages were incorporated in the storybook as part of money management knowledge for parents and teachers. A teaching kit was also produced to facilitate in-class teaching. A fun event which comprised games, a seminar and a prize presentation ceremony was held to wrap up the programme.
Nov 2009 – Jan 2010	A recognition programme for primary school students was organized in partnership with a media organization with the objectives to educate primary school children about the proper attitudes to and basic skills in money management, and to disseminate MPF messages to their parents. The programme was supported by the Education Bureau. A task book was published for children to put the knowledge acquired from the book into action by completing a series of tasks on money management. A Game Day which comprised games, a workshop, a seminar for parents and a prize presentation ceremony was held to further disseminate money management concepts and MPF messages to the children and parents.
Apr - Oct 2009	Selected winning entries of the “Book Report Competition for Kindergarten Kids” 2008-09 were displayed at the Community Art Gallery of MTR stations to encourage youngsters to form the good habit of saving for the future.
Feb 2010	Selected winning entries of the “Parenting Creative Drawing Competition for Kindergarten Kids” 2009-10 were displayed at the Community Art Gallery of various MTR stations to encourage youngsters to cultivate the good habit of saving for the future.
Mar 2010	The MPFA was invited to participate in a careers fair held by a university to disseminate MPF messages to their students.
Apr 2009 – Mar 2010	A series of talks for students of universities, tertiary institutions and youth centres were organized during the year. A total of 23 talks were conducted to provide MPF information to the students to prepare them for joining the workforce and to draw their attention to the merits of early planning for retirement.

Other Education and Publicity activities – To Disseminate MPF-Related Information to the Public

Apr 2009	A flyer containing details of the MPF Schemes (Amendment) (No. 2) Ordinance 2008 (relating to increased penalties for MPF offences) was sent with payment notices to employers as a reminder.
Apr, May, Jul, Sep 2009	Publicity and communication programmes continued to promote various aspects of the Government's injection of \$6,000 into the MPF accounts of eligible MPF/ORSO scheme members, including print announcements, APIs, poster, online web banner and briefing sessions.
May - Aug 2009	To enhance scheme members' understanding of MPF preserved account and to educate them on how to manage their accrued benefits after changing jobs, a thematic campaign on preserved account was organized. A series of media publicity promotion was rolled out. These included enclosing a leaflet on preserved account as cover wrapper on a free recruitment magazine, publishing basic information and management tips on preserved account on a free tabloid newspaper and placing a promotional banner on a recruitment website. The MPFA also participated in a careers fair organized by Hong Kong Employment Development Service to disseminate MPF messages to the participants. Besides, the MPF Preserved Account leaflet was distributed to around 160 youth and employment centres.
Nov 2009	A focused publicity campaign was launched to remind scheme members to regularly check their employers' MPF contributions. The initiatives included advertising boxes in a free newspaper, banner advertisement on the homepage of a popular web portal and a calendar card printed with the number of the Contribution Enquiry Line. A flyer was also published to facilitate members' understanding of the differences between ORSO and MPF Schemes.
Nov - Dec 2009	A thematic publicity campaign for Self-Employed Persons ("SEPs") was launched to enhance their understanding of their obligations under the MPF System. In partnership with minibus and taxi drivers associations, two outreach activities were held for their members. The MPFA also co-organized a seminar cum dinner with relevant labour unions for drivers of the construction industry.
Dec 2009	Two outreach activities were organized for Industry Schemes workers in the catering and construction industries. The MPFA also participated in two seminars cum dinners for the construction and catering industries to publicize the Industry Schemes.
Feb 2010	The MPFA participated in the "Education and Careers Expo 2010" organized by the Hong Kong Trade Development Council. An exhibition booth was staged to enhance the understanding of the workforce, scheme members in particular, on the MPF System and MPF investment, and to introduce the six major decision points in their lifelong "MPF Investment Journey". A seminar on how to manage MPF accrued benefits when changing jobs was conducted during the Expo.
Feb 2010	A Chinese New Year thematic publicity campaign was organized to show festive goodwill to the public and to publicize the slogans of the six major decision points in a member's lifelong MPF investment process. Souvenirs, including a series of specially designed Fai Chun (Chinese New Year couplet) cum paper figurines of the "JJ Five Band", each representing one type of MPF fund, and a "fortune bag" together with a tips card, were distributed to the general public via a newspaper, labour unions and community organizations.
Apr 2009 – Mar 2010	More than 380 articles and press releases were issued on the MPFA's enforcement actions and other MPF topics. The articles were carried in newspapers, magazines as well as newsletters of trustees and labour unions.

DEFINITION OF TERMS

(a) ORSO Schemes

Defined benefit scheme	Means an occupational retirement scheme which is not a defined contribution scheme.
Defined contribution scheme	Means an occupational retirement scheme which provides that the amount of a benefit under the scheme is to be an amount determined solely by reference to: a) the contributions to the scheme's funds by or in respect of the member concerned and any declared return in respect of such contributions (where such return may be subject to a minimum guaranteed rate but is otherwise unascertainable before it is declared); and b) where appropriate, the qualifying service and age of the employee.
Insurance arrangement	Means an agreement or arrangement: a) made in respect of an occupational retirement scheme with an authorized insurer under which the insurer is responsible for managing the scheme; and b) which is of a class or description specified in rules made by the Registrar of Occupational Retirement Schemes.
Member	Includes, in relation to an occupational retirement scheme, an individual who is entitled or prospectively entitled to benefits under the scheme by virtue of: a) his employment by the relevant employer (whether past or present) of the scheme; or b) an agreement made between the relevant employer of the first-mentioned scheme and the relevant employer of another occupational retirement scheme of which such individual was formerly a member, whether or not such individual is a party to the agreement, and where appropriate, "member" also includes the estate of a deceased member.
MPF exempted ORSO scheme	Means an occupational retirement scheme in respect of which an exemption has been granted under section 5 of the MPFSO. Members, or a class of members, of such a scheme and their employer are exempted from the operation of all, or any specified provisions of the MPFSO.
Occupational retirement scheme	Means subject to section 2(6) of the ORSO any scheme, not being a contract of insurance under which benefits are payable only upon the death or disability of the insured, which: a) is comprised in one or more instruments or agreements; and b) has or is capable of having effect in relation to one or more descriptions or categories of employment so as to provide benefits, in the form of pensions, allowances, gratuities or other payments, payable on termination of service, death or retirement, to or in respect of persons gainfully employed (whether in Hong Kong or elsewhere) under a contract of service in any employment, and includes, where the context admits, a proposed such scheme.
ORSO exempted scheme	Means: a) an occupational retirement scheme for which the Registrar of Occupational Retirement Schemes has issued an exemption certificate under section 7 of the ORSO and any withdrawal under section 12 of the ORSO has not come into effect; or b) an occupational retirement scheme within the meaning of the ORSO where the employer of the scheme is the government of a place outside Hong Kong or an agency or undertaking of or by such a government which is not operated for the purpose of gain.

ORSO registered scheme	Means an occupational retirement scheme which is registered under section 18 of the ORSO.
ORSO scheme administrator	Means: a) in the case of a scheme or pooling agreement governed by a trust, the trustee concerned; b) in the case of a scheme or pooling agreement which is the subject of or regulated by an insurance arrangement, the insurer concerned; c) in any other case, the person who is principally responsible for the management of the scheme and its assets otherwise than as a person who is solely concerned with the investment or custody of the assets.
Pooling agreement	Means an agreement or arrangement: a) which is: i) governed by a single trust; or ii) the subject of or regulated by an insurance arrangement including a series of insurance arrangements which are of the same class or description; b) which applies to 2 or more individual occupational retirement schemes each of which is: i) governed by such trust; or ii) (where appropriate) the subject of or regulated by such insurance arrangement, by virtue of such application; c) under which, in the case of an agreement or arrangement governed by such trust, the assets of its participating schemes are vested with the administrator of the agreement or arrangement, as the case may be; d) which is managed, in the case of an agreement or arrangement governed by such trust, by a registered trust company; e) in relation to which, and its participating schemes, proper accounts and records are kept; and f) under which the value of the assets attributable to, and the liabilities of, each of its participating schemes are readily determinable from such accounts and records.
Registrar of Occupational Retirement Schemes	Means the Mandatory Provident Fund Schemes Authority.
Relevant employer	Means, in relation to an occupational retirement scheme, the employer who provides the employment which entitles or enables the employee to be a member of the scheme.
Top-up scheme	Means an occupational retirement scheme which provides benefits supplementary to those provided under an MPF scheme.

DEFINITION OF TERMS (cont'd)

(b) MPF Schemes

Accrued benefits	In relation to a registered scheme, means the amount of each scheme member's beneficial interest in the registered scheme at any time, including sums derived from the contributions made by or in respect of that scheme member, together with the income or profits arising from any investments thereof, but taking into account any losses in respect thereof.
Approved pooled investment fund	An investment fund which is an insurance policy, authorized unit trust or authorized mutual fund that: a) complies with the requirements set out in section 17(2) of Schedule 1 to the General Regulation; and b) is approved by the MPFA.
Approved trustee	Means a company or a natural person approved by the MPFA as a trustee in accordance with section 20 of the MPFSO.
Casual employee	Means a relevant employee who is declared by an order made under section 2(2) of the MPFSO to be a casual employee for the purposes of the MPFSO. Section 2(2) of the MPFSO provides that if relevant employees: a) are engaged in an industry for which a provident fund scheme is registered as an industry scheme; and b) employed in that industry by an employer on a day to day basis or for a fixed period of less than 60 days, the MPFA may, by order published in the Gazette, declare those employees to be casual employees for the purposes of the MPFSO.
Constituent fund	In relation to a registered scheme, means the fund that constitutes a registered scheme, or a fund that forms part of the scheme, and complies with the requirements set out in section 36 of the General Regulation.
Employer sponsored scheme	Means a registered scheme membership of which is: a) in the case of an employer who is not a company, open only to the employees of that employer; or b) in the case of an employer that is a company, open only to the employees of that company or an associated company.
Industry scheme	Means a provident fund scheme registered under section 21A of the MPFSO as an industry scheme. Such a scheme may be for the persons engaged (whether as employees or as self-employed persons) in a particular industry or a particular class of industries or in 2 or more industries or classes of industries.
Mandatory contribution	Means a) an amount that is required to be paid as a contribution to a registered scheme under section 7A or 7C of the MPFSO; b) an amount that is required to be paid as a contribution to the MPFA under section 7AA of the MPFSO; c) an amount that is payable to the MPFA under section 7AE of the MPFSO; or d) minimum MPF benefits, to which section 5(1) of Schedule 2 to the Exemption Regulation applies, that have been transferred to a registered scheme.
Master trust scheme	Means a registered scheme membership of which is open to: a) the employees of more than one employer; and b) self-employed persons and former self-employed persons; and c) persons who, having benefits in an ORSO exempted scheme, or an ORSO registered scheme, within the meaning of section 2(1) of the Exemption Regulation, wish to have those benefits transferred to the first-mentioned scheme, but does not include an industry scheme.

Provident fund scheme	Means a scheme governed by a trust: a) the terms of which are set out in one or more documents; and b) that: i) provides for the payment of pecuniary benefits to the members of the scheme when they reach the retirement age, or any other prescribed event occurs in relation to them; or ii) in the case of members who die before reaching that age or before the occurrence of such an event, provides for the payment of those benefits to the personal representatives or beneficiaries of the estates of those members, and includes a proposed provident fund scheme.
Registered scheme	Means a provident fund scheme registered under section 21 of the MPFSO as an employer sponsored scheme or a master trust scheme or registered under section 21A of the MPFSO as an industry scheme. The term "Registered scheme" is usually used interchangeably with the term "MPF scheme".
Relevant employee	Means an employee of 18 years of age or over and below retirement age.
Relevant income	Means: a) in the case of a relevant employee, any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, expressed in monetary terms, paid or payable by an employer (directly or indirectly) to that relevant employee in consideration of his employment under that contract, but does not include severance payments or long service payments under the Employment Ordinance (Cap. 57); b) in the case of a self-employed person, income of that person as ascertained in accordance with the regulations made under section 46 of the MPFSO and in force.
Retirement age	In relation to an employee or a self-employed person, means 65 years of age or, if the regulations prescribe an earlier age, that earlier age.
Scheme member	In relation to a registered scheme, means a person who has a beneficial interest in the registered scheme.
Self-employed person	Means a person whose relevant income (otherwise than in the capacity as an employee) derives from his production (in whole or in part) of goods or services in Hong Kong, or his trade in goods or services in or from Hong Kong.
Service provider	In relation to a provident fund scheme, means an investment manager, custodian of scheme assets or other person appointed or engaged by the trustee of the scheme to provide services for the purposes of the scheme, and includes a person to whom the provision of those services is delegated by such a manager, custodian or other person, but does not include a person appointed or so engaged as an auditor, solicitor or actuary.
Voluntary contribution	Means a contribution paid to a registered scheme in accordance with section 11 of the MPFSO.

DEFINITION OF TERMS (cont'd)

(c) Abbreviations

APIF	stands for	Approved pooled investment funds
CPD	stands for	Continuing Professional Development
Exemption Regulation	stands for	Mandatory Provident Fund Schemes (Exemption) Regulation
General Regulation	stands for	Mandatory Provident Fund Schemes (General) Regulation
The Government's Injection Project	stands for	The project to implement the HKSAR Government's initiative to inject \$6,000 into the account of each eligible MPF/ORSO scheme member
The Government's Injection Project Committee	stands for	Committee to Oversee MPFA's Implementation of the Government Injection Project
HKSAR	stands for	Hong Kong Special Administrative Region
ISC	stands for	MPF Industry Schemes Committee
MPF	stands for	Mandatory Provident Fund
MPFA	stands for	Mandatory Provident Fund Schemes Authority
MPFSAC	stands for	Mandatory Provident Fund Schemes Advisory Committee
MPFSO	stands for	Mandatory Provident Fund Schemes Ordinance
ORSO	stands for	Occupational Retirement Schemes Ordinance
SEP	stands for	Self-employed person

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