

**The Sir Murray MacLehose Trust Fund**  
**Trustee's Report for the period of 1 April 2013 to 31 March 2014**

The Sir Murray MacLehose Trust Fund was set up at the suggestion of non-official members of the then Executive and Legislative Councils to commemorate the distinguished service of Lord Murray MacLehose as Governor of Hong Kong from 1971 to 1982. The Sir Murray MacLehose Trust Fund Ordinance (Chapter 1118), enacted on 21 May 1982, provides for the establishment and administration of the Fund. Section 3 of the Ordinance stipulates that the Fund is to be used for the benefit of the people of Hong Kong in such manner as the Chief Executive in his sole discretion may direct.

2. While the Secretary for Home Affairs Incorporated is the trustee of the Fund, the accounting work is carried out by the Trust Funds and Temples Joint Secretariat. The Director of Audit is appointed by the Chief Executive under Section 7(2) of the Ordinance as the auditor of the accounts of the Fund.

**Investment of the Fund**

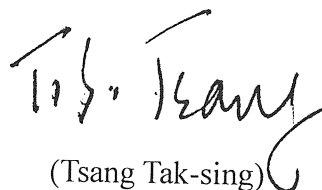
3. Under Section 5(2) of the Ordinance, an investment advisory committee (the Committee) has been appointed to give advice on the investment of the Fund. The members of the Committee as at 31 March 2014 is at Appendix I. HSBC Investments (Hong Kong) Limited has been appointed as the manager of the Fund and is responsible for the day-to-day financial arrangement of the Fund.

**Grants from the Fund**

4. Since the Fund's inception in 1982, grants have been approved for 92 projects and the total amount approved was HK\$111.13 million as at 31 March 2014. Out of the 92 approved projects, 85 have been completed, 7 have been cancelled.

**Accounts of the Fund**

5. As at 31 March 2014, the capital of the fund was HK\$50,488,157 and the accumulated surplus of the fund was HK\$31,451,652. A copy of the audited Balance Sheet and Income and Expenditure Account for the year ended 31 March 2014 is at the Appendix II.



(Tsang Tak-sing)  
Secretary for Home Affairs Incorporated  
Trustee  
MacLehose Fund  
15 December 2014

## The Sir Murray MacLehose Trust Fund

## Membership of the Investment Advisory Committee (1.4.2013 – 31.3.2014)

Mr LEE Kwan-ho, Vincent Marshall

Chairman

Miss CHOY Chi-ting, Eva

Mr SZE Wing-him, Jaime

Ms HO Yee-lin, Elaine

Ms MA Tin-wei, Esther



## MacLehose Fund

Financial Statements for the year ended 31 March 2014

# ***Report of the Director of Audit***



**Audit Commission**

**The Government of the Hong Kong Special Administrative Region**

## **Independent Audit Report**

### **To the Legislative Council**

I certify that I have audited the financial statements of the MacLehose Fund set out on pages 3 to 13, which comprise the balance sheet as at 31 March 2014, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Secretary for Home Affairs Incorporated's Responsibility for the Financial Statements**

The Secretary for Home Affairs Incorporated is responsible for the preparation of financial statements that give a true and fair view in accordance with section 7(1) of the Sir Murray MacLehose Trust Fund Ordinance (Cap. 1118) and Hong Kong Financial Reporting Standards, and for such internal control as the Secretary for Home Affairs Incorporated determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 7(2) of the Sir Murray MacLehose Trust Fund Ordinance and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 of financial statements that give a true and fair view 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 Secretary for Home Affairs Incorporated, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements give a true and fair view of the financial position of the MacLehose Fund as at 31 March 2014, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 7(1) of the Sir Murray MacLehose Trust Fund Ordinance.



Frederick T C WONG  
Principal Auditor  
for Director of Audit

15 December 2014

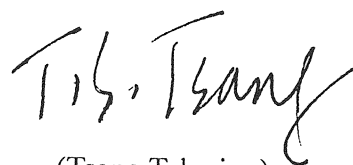
Audit Commission  
26th Floor  
Immigration Tower  
7 Gloucester Road  
Wanchai, Hong Kong

# MACLEHOSE FUND

## BALANCE SHEET AS AT 31 MARCH 2014

	Note	2014 HK\$	2013 HK\$
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	3	-	77,219,868
Accounts receivable		69,026	350,446
Prepayment		67	-
Time deposits with original maturity within 3 months		81,800,000	-
Cash at banks	4	121,072	3,953,994
		<u>81,990,165</u>	<u>81,524,308</u>
<b>CURRENT LIABILITIES</b>			
Provision for staff gratuity		(25,951)	(13,686)
Provision for untaken leave		(1,862)	(2,097)
Accounts payable		(22,543)	(92,528)
		<u>(50,356)</u>	<u>(108,311)</u>
		<u>81,939,809</u>	<u>81,415,997</u>
<b>ACCUMULATED FUND</b>			
Capital		50,488,157	50,488,157
Accumulated surplus		31,451,652	30,927,840
		<u>81,939,809</u>	<u>81,415,997</u>

The accompanying notes 1 to 8 form part of these financial statements.



(Tsang Tak-sing)  
Secretary for Home Affairs Incorporated  
Trustee  
MacLehose Fund  
15 December 2014

**MACLEHOSE FUND**

**INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 HK\$	2013 HK\$
<b>INCOME</b>			
Dividends		1,406,480	1,172,723
Interest	5	476,351	602,783
Gains on disposal of financial assets at fair value through profit or loss		-	396,753
Unrealised gains on financial assets at fair value through profit or loss		-	2,760,575
		<hr/> 1,882,831 <hr/>	<hr/> 4,932,834 <hr/>
<b>EXPENDITURE</b>			
Staff cost		(162,295)	(144,527)
Losses on disposal of financial assets at fair value through profit or loss		(896,010)	-
Investment management fee and charges		(300,700)	(314,583)
Exchange losses		(14)	(6,141)
		<hr/> (1,359,019) <hr/>	<hr/> (465,251) <hr/>
<b>SURPLUS FOR THE YEAR</b>		523,812	4,467,583
Other comprehensive income		<hr/> -	<hr/> -
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		523,812 =====	4,467,583 =====

The accompanying notes 1 to 8 form part of these financial statements.

**MACLEHOSE FUND**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2014**

	<b>Capital HK\$</b>	<b>Accumulated surplus HK\$</b>	<b>Total HK\$</b>
Balance at 1 April 2012	50,488,157	26,460,257	76,948,414
Total comprehensive income for 2012-13	-	4,467,583	4,467,583
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2013	50,488,157	30,927,840	81,415,997
Total comprehensive income for 2013-14	-	523,812	523,812
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2014	50,488,157 =====	31,451,652 =====	81,939,809 =====

The accompanying notes 1 to 8 form part of these financial statements.

**MACLEHOSE FUND**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2014**

	<b>2014 HK\$</b>	<b>2013 HK\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus for the year	523,812	4,467,583
Dividends	(1,406,480)	(1,172,723)
Interest income	(476,351)	(602,783)
Losses/(Gains) on disposal of financial assets at fair value through profit or loss	896,010	(396,753)
Unrealised gains on financial assets at fair value through profit or loss	-	(2,760,575)
Increase in provision for staff gratuity	12,265	6,592
(Decrease)/Increase in provision for untaken leave	(235)	1,101
Decrease in accounts payable	(69,985)	(872,299)
Decrease in accounts receivable	100,358	96,974
Increase in prepayment	(67)	-
Exchange losses	1,140	6,141
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(419,533)</u>	<u>(1,226,742)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through profit or loss	(9,025,331)	(30,446,597)
Proceeds from disposal of financial assets at fair value through profit or loss	85,348,041	28,255,517
Dividends received	1,443,343	1,163,280
Interest received	620,558	604,518
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES</b>	<u>78,386,611</u>	<u>(423,282)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	77,967,078	(1,650,024)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	3,953,994	5,610,095
Effect of exchange rate changes on cash and cash equivalents	-	(6,077)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>81,921,072</u></u>	<u><u>3,953,994</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Time deposits with original maturity within 3 months	81,800,000	3,953,994
Cash at banks	121,072	-
	<u><u>81,921,072</u></u>	<u><u>3,953,994</u></u>

The accompanying notes 1 to 8 form part of these financial statements.

## **MACLEHOSE FUND**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **1. GENERAL**

The MacLehose Fund (the Fund) was established in 1982 for the benefit of the people of Hong Kong and is applied in such manner as the Chief Executive in his sole discretion may direct in accordance with section 3 of the Sir Murray MacLehose Trust Fund Ordinance (Cap. 1118). The address of the Fund's principal place of business is 34<sup>th</sup> Floor, Wu Chung House, 213 Queen's Road East, Wan Chai, Hong Kong.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Statement of compliance**

The financial statements have been prepared in accordance with section 7(1) of the Sir Murray MacLehose Trust Fund Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

##### **(b) Basis of preparation**

The financial statements have been prepared on an accrual basis and under the historical cost convention except that financial assets at fair value through profit or loss are stated at fair value as explained in the accounting policy set out in note 2(d) below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

**(c) Adoption of new HKFRSs**

The Fund has adopted the following new HKFRS for the first time which is applicable to the Fund and effective for the current accounting period:

- HKFRS 13 “Fair Value Measurement”

The adoption of the new HKFRS has had no significant impact on the reported results and the financial position of the Fund.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund’s result of operations and financial position.

**(d) Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets under this category are carried at fair value based on their quoted market prices at the balance sheet date. Changes in fair values are recognised in the income and expenditure account in the period in which they arise. Upon disposal, the difference between the net proceeds and the carrying value is included in the income and expenditure account.

**(e) Foreign currency translation**

Hong Kong dollar is the currency of the primary economic environment in which the Fund operates. Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income and expenditure account.

**(f) Revenue recognition**

Interest income is recognised as it accrues using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the 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, when appropriate, a shorter period to the net carrying amount of the financial asset.

Dividend income is recognised when the Fund’s right to receive payment is established.

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and other

short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

### 3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 HK\$	2013 HK\$
<b>(a) Equity investments – at fair value</b>		
Equity funds		
- Unlisted	-	6,807,157
- Listed outside Hong Kong	-	2,515,411
Equity securities		
- Listed in Hong Kong	-	18,886,164
- Listed outside Hong Kong	-	-
	<hr/>	<hr/>
	-	28,208,732
	<hr/>	<hr/>
<b>(b) Debt investments – at fair value</b>		
Bond funds		
- Unlisted	-	29,125,246
- Listed outside Hong Kong	-	6,655,675
Debt securities		
- Listed outside Hong Kong	-	8,434,246
- Listed in Hong Kong	-	2,068,987
- Unlisted	-	2,726,982
	<hr/>	<hr/>
	-	49,011,136
	<hr/>	<hr/>
	-	77,219,868
	<hr/>	<hr/>

### 4. CASH AT BANKS

	2014 HK\$	2013 HK\$
Overnight deposits	-	3,953,994
Current accounts	121,072	-
	<hr/>	<hr/>
	121,072	3,953,994
	<hr/>	<hr/>

## 5. INTEREST

	2014 HK\$	2013 HK\$
Interest on bank deposits	78,267	10,453
Interest on debt securities	398,084	592,330
	<u>476,351</u>	<u>602,783</u>
	=====	=====

## 6. FINANCIAL RISK MANAGEMENT

- (a) The Fund's major financial instruments include financial assets at fair value through profit or loss and bank deposits. The major risks associated with these financial instruments are set out below.

### (I) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To minimise the credit risks arising from bank deposits, all deposits are placed with reputable licensed banks in Hong Kong. To minimise credit risks arising from investments in bond funds, only those classified under the investment grade by Moody's or Standard & Poor's are considered. At the balance sheet date, the overall credit quality of investments in bond funds and bonds, analysed by the lower of ratings designated by Moody's or Standard & Poor's, was as follows:

	2014 HK\$	2013 HK\$
Bond funds by credit rating	-	
Aaa to Aa3/AAA to AA-	-	20,528,838
Baa1 to Baa3/BBB+ to BBB-	-	15,252,083
	<u>-</u>	<u>35,780,921</u>
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Debt securities by credit rating		
Aaa to Aa3/AAA to AA-	-	13,230,215
	<u>-</u>	<u>49,011,136</u>
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The maximum exposure to credit risk as at the balance sheet date in relation to each class of financial assets is the carrying amount of those assets as stated in the balance sheet.

## **(II) Market risk**

### **(i) Equity price risk**

The Fund maintains a diversified portfolio of investments managed by a professional fund manager. The Investment Advisory Committee, appointed under section 5(2) of the Sir Murray MacLehose Trust Fund Ordinance, monitors the performance of the portfolio and regularly reviews the investment strategy of the Fund in order to manage equity price risk. It is estimated that, as at the balance sheet date, if the market prices of the respective equity securities had been 5% (2013: 5%) higher/lower, the surplus of the Fund for the year would not have changed (2013: increase/decrease by approximately HK\$1,410,000). The sensitivity analysis was based on the carrying amounts of equity investments held by the Fund at the balance sheet date and on the assumption that all other variables were held constant.

### **(ii) Interest rate risk**

Interest rate risk is the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund's debt investments are exposed to fair value interest rate risk because their fair values will generally fall when market interest rates increase.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's exposure to cash flow interest rate risk is small as it has no major floating-rate investments.

It is estimated that, as at 31 March 2014, a general increase/decrease of 25 basis points (2013: 25 basis points) in interest rates, with all other variables held constant, would not affect the Fund's surplus for the year (2013: decrease/increase the surplus by approximately HK\$551,000). The sensitivity analysis was determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to debt investments in existence at that date. The 25 basis points increase/decrease represents the Fund's assessment of a reasonably possible change in interest rates over the period until the next balance sheet date.

As regards the bank deposits, since they are stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus and equity.

(iii) Exchange rate risk

The Fund's investment policy allows the Fund to have US dollar foreign exchange exposure. As the HK dollar is pegged with the US dollar, the Fund considers that the foreign exchange risk is not significant.

**(III) Liquidity risk**

In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations.

**(b) Fair value hierarchy of financial instruments**

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement".

	<b>Level 1 HK\$</b>	<b>2014 Level 2 HK\$</b>	<b>Total HK\$</b>
Equity funds	-	-	-
Equity securities	-	-	-
Bond funds	-	-	-
Bonds	-	-	-
	<hr/>	<hr/>	<hr/>
	-	-	-
	=====	=====	=====

	<b>Level 1 HK\$</b>	<b>2013 Level 2 HK\$</b>	<b>Total HK\$</b>
Equity funds	2,515,411	6,807,157	9,322,568
Equity securities	18,886,164	-	18,886,164
Bond funds	6,655,675	29,125,246	35,780,921
Bonds	10,503,233	2,726,982	13,230,215
	<hr/>	<hr/>	<hr/>
	38,560,483	38,659,385	77,219,868
	=====	=====	=====

No financial instruments were classified under Level 3. During the year, there were no transfers between instruments in Level 1 and Level 2.

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows:

Level 1 valuations: fair value measured using only unadjusted quoted prices in active markets for identical financial instruments at the measurement date.

Level 2 valuations: fair value measured using observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: fair value measured using significant unobservable inputs.

## **7. CAPITAL MANAGEMENT**

The capital structure of the Fund consists of capital and accumulated surplus. The Fund's objectives when managing capital are:

- (a) to comply with the Sir Murray MacLehose Trust Fund Ordinance; and
- (b) to maintain a strong capital base for carrying out the purpose of the Fund as stated in note 1 above.

The Fund manages capital to ensure that its level is sufficient to fund future grants and expenditure, taking into account its projected cash flow requirements, future financial obligations and commitments.

## **8. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

All financial assets and liabilities are stated in the balance sheet at amounts equal to or not materially different from their fair values.