

The Sir Murray MacLehose Trust Fund
Trustee's Report for the period of 1 April 2012 to 31 March 2013

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

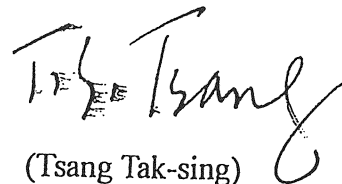
3. Under Section 5(2) of the Ordinance, an investment advisory committee (the Committee) has been appointed to give advice on the investment of the Fund. The members of the Committee as at 31 March 2013 is at Appendix I. HSBC Investments (Hong Kong) Limited has been appointed as the manager of the Fund 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 2013. Out of the 92 approved projects, 85 have been completed, 7 have been cancelled.

Accounts of the Fund

5. As at 31 March 2013, the capital of the fund was HK\$50,488,157 and the accumulated surplus of the fund was HK\$30,927,840. A copy of the audited Balance Sheet and Income and Expenditure Account for the year ended 31 March 2013 is at the Appendix II.



(Tsang Tak-sing)
Secretary for Home Affairs Incorporated
Trustee
MacLehose Fund
17 December 2013

The Sir Murray MacLehose Trust Fund

**Membership of the Investment Advisory Committee
(1.4.2012 – 31.3.2013)**

Mr MA Chiu-cheung, Andrew	Chairman (up to 30.11.2012)
Mr LEE Kwan-ho, Vincent Marshall	(as from 1.12.2012)
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 2013

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 14, which comprise the balance sheet as at 31 March 2013, 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 2013, 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

17 December 2013

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

MACLEHOSE FUND

BALANCE SHEET AS AT 31 MARCH 2013

	Note	2013 HK\$	2012 HK\$
CURRENT ASSETS			
Financial assets at fair value through profit or loss	3	77,219,868	71,871,460
Accounts receivable		350,446	439,776
Cash and cash equivalents	4	3,953,994	5,610,095
		<u>81,524,308</u>	<u>77,921,331</u>
CURRENT LIABILITIES			
Provision for staff gratuity		(13,686)	(7,094)
Provision for untaken leave		(2,097)	(996)
Accounts payable		(92,528)	(964,827)
		<u>(108,311)</u>	<u>(972,917)</u>
NET CURRENT ASSETS		<u>81,415,997</u>	<u>76,948,414</u>
ACCUMULATED FUND			
Capital		50,488,157	50,488,157
Accumulated surplus		30,927,840	26,460,257
TOTAL EQUITY		<u>81,415,997</u>	<u>76,948,414</u>

The accompanying notes 1 to 9 form part of these financial statements.



(Tsang Tak-sing)
Secretary for Home Affairs Incorporated
Trustee
MacLehose Fund
17 December 2013

MACLEHOSE FUND

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2013**

	Note	2013 HK\$	2012 HK\$
INCOME			
Dividends		1,172,723	1,200,637
Interest	5	602,783	617,319
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	-
Refund of grants		-	1,791,699
		<hr/>	<hr/>
		4,932,834	3,609,655
		<hr/>	<hr/>
EXPENDITURE			
Staff cost		(144,527)	(143,195)
Losses on disposal of financial assets at fair value through profit or loss		-	(2,197,002)
Unrealised losses on financial assets at fair value through profit or loss		-	(78,791)
Investment management fee and charges		(314,583)	(291,562)
Exchange losses		(6,141)	(14,048)
		<hr/>	<hr/>
		(465,251)	(2,724,598)
		<hr/>	<hr/>
SURPLUS FOR THE YEAR		4,467,583	885,057
Other comprehensive income		-	-
		<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,467,583	885,057
		=====	=====

The accompanying notes 1 to 9 form part of these financial statements.

MACLEHOSE FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2013

	Capital HK\$	Accumulated surplus HK\$	Total HK\$
Balance at 1 April 2011	50,488,157	25,575,200	76,063,357
Total comprehensive income for 2011-12	-	885,057	885,057
Balance at 31 March 2012	<u>50,488,157</u>	<u>26,460,257</u>	<u>76,948,414</u>
Total comprehensive income for 2012-13	-	4,467,583	4,467,583
Balance at 31 March 2013	<u>50,488,157</u> =====	<u>30,927,840</u> =====	<u>81,415,997</u> =====

The accompanying notes 1 to 9 form part of these financial statements.

MACLEHOSE FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2013**

	Note	2013 HK\$	2012 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		4,467,583	885,057
Dividends		(1,172,723)	(1,200,637)
Interest income		(602,783)	(617,319)
(Gains)/Losses on disposal of financial assets at fair value through profit or loss		(396,753)	2,197,002
Unrealised (gains)/losses on financial assets at fair value through profit or loss		(2,760,575)	78,791
Increase /(Decrease) in provision for staff gratuity		6,592	(8,720)
Increase /(Decrease) in provision for untaken leave		1,101	(733)
(Decrease)/Increase in accounts payable		(872,299)	514,516
Decrease/(Increase) in accounts receivable		96,974	(52,942)
Exchange losses		6,141	14,048
		<u>(1,226,742)</u>	<u>1,809,063</u>
NET CASH (USED IN)/FROM OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through profit or loss		(30,446,597)	(54,420,214)
Proceeds from disposal of financial assets at fair value through profit or loss		28,255,517	46,585,995
Dividends received		1,163,280	1,197,598
Interest received		604,518	616,169
		<u>(423,282)</u>	<u>(6,020,452)</u>
NET CASH USED IN INVESTING ACTIVITIES			
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(1,650,024)	(4,211,389)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		5,610,095	9,835,520
Effect of exchange rate changes on cash and cash equivalents		(6,077)	(14,036)
		<u>3,953,994</u>	<u>5,610,095</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	<u><u>3,953,994</u></u>	<u><u>5,610,095</u></u>

The accompanying notes 1 to 9 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 34th 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/revised HKFRSs

The Fund has adopted all new/revised HKFRSs which are effective and relevant to the Fund for the current accounting period.

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

	2013 HK\$	2012 HK\$
(a) Equity investments – at fair value		
Equity funds		
- Unlisted	6,807,157	7,553,460
- Listed outside Hong Kong	2,515,411	1,699,272
Equity securities		
- Listed in Hong Kong	18,886,164	18,590,322
- Listed outside Hong Kong	-	149,142
	<u>28,208,732</u>	<u>27,992,196</u>
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(b) Debt investments – at fair value		
Bond funds		
- Unlisted	29,125,246	23,879,828
- Listed outside Hong Kong	6,655,675	6,587,651
Debt securities		
- Listed outside Hong Kong	8,434,246	8,627,623
- Listed in Hong Kong	2,068,987	1,954,384
- Unlisted	2,726,982	2,829,778
	<u>49,011,136</u>	<u>43,879,264</u>
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	<u>77,219,868</u>	<u>71,871,460</u>
	=====	=====

4. CASH AND CASH EQUIVALENTS

	2013 HK\$	2012 HK\$
Overnight deposits	3,953,994	5,610,095
	=====	=====

5. INTEREST

	2013 HK\$	2012 HK\$
Interest on bank deposits	10,453	20,255
Interest on debt securities	592,330	597,064
	<u>602,783</u>	<u>617,319</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:

	2013	2012
	HK\$	HK\$
Bond funds by credit rating		
Aaa to Aa3/AAA to AA-	20,528,838	19,814,787
Baa1 to Baa3/BBB+ to BBB-	<u>15,252,083</u>	<u>10,652,692</u>
	<u>35,780,921</u>	<u>30,467,479</u>
Debt securities by credit rating		
Aaa to Aa3/AAA to AA-	<u>13,230,215</u>	<u>13,411,785</u>
	<u>49,011,136</u>	<u>43,879,264</u>

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% (2012: 5%) higher/lower, the surplus of the Fund for the year would have increased/decreased by about HK\$1,410,000 (2012: HK\$1,400,000). 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 2013, a general increase/decrease of 25 basis points (2012: 25 basis points) in interest rates, with all other variables held constant, would decrease/increase the Fund's surplus for the year by approximately HK\$551,000 (2012: HK\$487,000). 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.

The Fund's exposure to interest rate risk, based on the major interest-bearing assets stated at carrying amounts at the balance sheet date and categorised by the earlier of contractual repricing dates or maturity dates, is shown below:

Repricing Period

	Up to 3 months HK\$	Over 3 months to 1 year HK\$	Over 1 year to 5 years HK\$	Over 5 years HK\$	Total HK\$
2013					
Debt securities	2,726,982	-	8,434,246	2,068,987	13,230,215
	=====	=====	=====	=====	=====
2012					
Debt securities	-	-	11,457,401	1,954,384	13,411,785
	=====	=====	=====	=====	=====

(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 according to the fair value hierarchy defined in HKFRS 7 Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement.

	Level 1 HK\$	2013 Level 2 HK\$	Total HK\$
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
	<u>38,560,483</u>	<u>38,659,385</u>	<u>77,219,868</u>

	Level 1 HK\$	2012 Level 2 HK\$	Total HK\$
Equity funds	1,699,272	7,553,460	9,252,732
Equity securities	18,739,464	-	18,739,464
Bond funds	6,587,651	23,879,828	30,467,479
Bonds	10,582,007	2,829,778	13,411,785
	<u>37,608,394</u>	<u>34,263,066</u>	<u>71,871,460</u>

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

The three levels of the fair value hierarchy are:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

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.

9. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.