

SIR MURRAY MACLEHOSE TRUST FUND

Trustee's Report on the administration of the Fund for the year ended 31 March 2018

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 secretariat and accounting work of the Fund 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 Fund's accounts.

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 membership of the Committee for the year under report is at Appendix I. JP Morgan Chase Bank, N.A. has been appointed as the investment manager of the Fund since March 2015.

4. During the reporting period, the total income of the Fund was HK\$3.51 million and the total expenditure was HK\$0.35 million. No grants had been approved during the year. The Fund recorded a surplus of HK\$3.15 million for 2017-18.

5. As at 31 March 2018, the capital of the Fund was HK\$50.49 million and the accumulated surplus was HK\$34.75 million. The audited Financial Statements of the Fund for the year ended 31 March 2018 is at Appendix II.



LAU Kong-wah

Secretary for Home Affairs Incorporated
Trustee

MacLehose Fund

19 November 2018

SIR MURRAY MACLEHOSE TRUST FUND

**Membership of the Investment Advisory Committee
(1.4.2017 – 31.3.2018)**

Mr LEE Kwan-ho, Vincent Marshall, BBS	(Chairman)
Mr CHENG Kwok-fai, Sammond	(from 1.7.2017)
Miss CHOY Chi-ting, Eva	(up to 30.6.2017)
Ms FONG Sut-sam, Rosetta	(from 1.7.2017)
Dr LAM Lee G	
Mr SZE Wine-him, Jaime, JP	(up to 30.6.2017)
Ms ZEE Helen	



MacLehose Fund

Financial statements for the year ended 31 March 2018

Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the Legislative Council

Opinion

I certify that I have audited the financial statements of the MacLehose Fund set out on pages 4 to 14, which comprise the balance sheet as at 31 March 2018, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the financial position of the MacLehose Fund as at 31 March 2018, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with section 7(1) of the Sir Murray MacLehose Trust Fund Ordinance (Cap. 1118).

Basis for opinion

I conducted my audit in accordance with section 7(2) of the Sir Murray MacLehose Trust Fund Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the MacLehose Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Secretary for Home Affairs Incorporated for the financial statements

The Secretary for Home Affairs Incorporated is responsible for the preparation of the

financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and section 7(1) of the Sir Murray MacLehose Trust Fund Ordinance, 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.

In preparing the financial statements, the Secretary for Home Affairs Incorporated is responsible for assessing the MacLehose Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MacLehose Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary for Home Affairs Incorporated;
- conclude on the appropriateness of the Secretary for Home Affairs Incorporated's

use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the MacLehose Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the MacLehose Fund to cease to continue as a going concern; and

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



LIANG Kar-lun, Ken
Principal Auditor
for Director of Audit

19 November 2018

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

MACLEHOSE FUND

BALANCE SHEET AS AT 31 MARCH 2018

	Note	2018 HK\$	2017 HK\$
CURRENT ASSETS			
Financial assets at fair value through profit or loss	3	16,803,296	27,691,530
Accounts receivable		155,870	-
Cash and cash equivalents	4	68,293,507	54,473,043
		<u>85,252,673</u>	<u>82,164,573</u>
CURRENT LIABILITIES			
Provision for staff gratuity		(16,560)	(25,818)
Provision for untaken leave		(1,452)	(2,906)
Accounts payable		(17)	(53,574)
		<u>(18,029)</u>	<u>(82,298)</u>
		<u>85,234,644</u>	<u>82,082,275</u>
ACCUMULATED FUND			
Capital		50,488,157	50,488,157
Accumulated surplus		34,746,487	31,594,118
		<u>85,234,644</u>	<u>82,082,275</u>

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



(LAU Kong-wah)
Secretary for Home Affairs Incorporated
Trustee
MacLehose Fund
19 November 2018

MACLEHOSE FUND

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 HK\$	2017 HK\$
INCOME			
Dividends		-	38,581
Interest	5	887,558	21,612
Gains on disposal of financial assets at fair value through profit or loss		-	4,435,742
Unrealised gains on financial assets at fair value through profit or loss		2,024,005	2,097,772
Exchange gains		594,959	-
		3,506,522	6,593,707
EXPENDITURE			
Staff cost		(219,006)	(203,493)
Losses on disposal of financial assets at fair value through profit or loss		(23,739)	-
Investment management fees and charges		(110,665)	(606,196)
Exchange losses		-	(6,492)
Other operational expenses		(743)	(650)
		(354,153)	(816,831)
SURPLUS FOR THE YEAR		3,152,369	5,776,876
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,152,369	5,776,876

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 2018

	Capital HK\$	Accumulated surplus HK\$	Total HK\$
Balance at 1 April 2016	50,488,157	25,817,242	76,305,399
Total comprehensive income for 2016-17	-	5,776,876	5,776,876
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2017	50,488,157	31,594,118	82,082,275
Total comprehensive income for 2017-18	-	3,152,369	3,152,369
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2018	50,488,157 =====	34,746,487 =====	85,234,644 =====

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

MACLEHOSE FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 HK\$	2017 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		3,152,369	5,776,876
Adjustments for:			
Dividends		-	(38,581)
Interest		(887,558)	(21,612)
Losses / (Gains) on disposal of financial assets at fair value through profit or loss		23,739	(4,435,742)
Unrealised gains on financial assets at fair value through profit or loss		(2,024,005)	(2,097,772)
Acquisition of financial assets at fair value through profit or loss		-	(45,429,475)
Proceeds from disposal of financial assets at fair value through profit or loss		12,888,500	94,985,480
(Decrease)/Increase in provision for staff gratuity		(9,258)	1,423
(Decrease)/Increase in provision for untaken leave		(1,454)	355
(Decrease)/Increase in accounts payable		(53,557)	3,884
Exchange difference		(591,243)	(46,246)
NET CASH FROM OPERATING ACTIVITIES		12,497,533	48,698,590
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		-	38,581
Interest received		731,688	21,612
NET CASH FROM INVESTING ACTIVITIES		731,688	60,193
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,229,221	48,758,783
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		54,473,043	5,668,014
Effect of exchange rate changes on cash and cash equivalents		591,243	46,246
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	68,293,507	54,473,043

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 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.

(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 and financial liabilities

The Fund's financial assets and financial liabilities include financial assets at fair value through profit or loss, accounts receivable, cash and cash equivalents and accounts payable.

Financial assets at fair value through profit or loss are designated as such upon initial recognition as they are managed and their performance is evaluated on a fair value basis. Financial assets under this category are carried at fair value. 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.

Other financial assets are carried at amortised cost using the effective interest method, less impairment losses (if any). Financial liabilities are carried at amortised cost using the effective interest method.

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

(g) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank, placements with a financial institution and time deposits with original maturity within three months.

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

	2018 HK\$	2017 HK\$
Equity funds		
Unlisted	6,288,996	4,812,894
Bond funds		
Unlisted	9,368,658	8,955,848
Hedge funds		
Unlisted	1,145,642	13,922,788
	16,803,296	27,691,530
	16,803,296	27,691,530

- (a) Under section 5 of the Sir Murray MacLehose Trust Fund Ordinance, the Trustee of the Fund may invest any moneys of the Fund in such investments as the Chief Executive may direct, whether or not such investments are investments authorised by section 4 of the Trustee Ordinance (Cap. 29). Among the investments of the Fund as at the balance sheet date, the following are not regarded as authorised by section 4 of the Trustee Ordinance:

	2018 HK\$	2017 HK\$
Hedge funds	1,145,642	13,922,788
	1,145,642	13,922,788

- (b) For the purpose of advising the Chief Executive on investments of the Fund, an investment advisory committee (IAC) has been appointed by the Secretary for Home Affairs under delegated authority from the Chief Executive. All investments of the Fund, including those not regarded as authorised under the Trustee Ordinance, are deliberated and approved by the IAC at meetings with the presence of the representative of the Secretary for Home Affairs Incorporated (SHAI). This notwithstanding, there is no expressed delegation from the Chief Executive to SHAI to act on the advice of the IAC for investments which are not authorised by section 4 of the Trustee Ordinance. Hence the investments as set out in (a) above are not expressly authorised by the Chief Executive.
- (c) Actions have been taken by the Fund to divest investments which are not expressly authorised by the Chief Executive. To this end, by 31 March 2018, the Fund has already disposed of the majority of these unauthorised investments. Divestment of the remaining unauthorised investments is scheduled for completion by 2019, the valuation of which as at 31 March 2018 was HK\$1,145,642.

- (d) Unless with the authorisation of the Chief Executive or authorisation under his delegated authority, the Fund will only make investments that are authorised by section 4 of the Trustee Ordinance.

4. CASH AND CASH EQUIVALENTS

	2018 HK\$	2017 HK\$
Time deposits with original maturity within three months	67,580,252	-
Placements with a financial institution	597,786	54,127,766
Cash at bank	115,469	345,277
	<hr/>	<hr/>
	68,293,507	54,473,043
	=====	=====

5. INTEREST

	2018 HK\$	2017 HK\$
Interest on bank deposits and cash and cash equivalents	887,558	21,612
	=====	=====

6. FINANCIAL RISK MANAGEMENT

The major risks associated with the Fund's financial instruments are set out below.

(a) 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. The Fund's credit risk is primarily attributable to cash and cash equivalents. To minimise the credit risk, all placements of cash are made with reputable financial institutions.

The maximum exposure to credit risk as at the balance sheet date in relation to cash and cash equivalents is the carrying amount of those assets as stated in the balance sheet.

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations.

(c) Market risk

The Fund maintains a diversified portfolio of investments. 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 its market risk.

(i) Price risk

The Fund is exposed to financial risk arising from changes in market prices of financial assets at fair value through profit or loss. It was estimated that as at 31 March 2018, if market prices of these investments had been 10% higher/lower, with all other variables being held constant, the surplus of the Fund for the year would increase/decrease by HK\$1,680,000 (2017: HK\$2,769,000) and the accumulated surplus would increase/decrease by HK\$1,680,000 (2017: HK\$2,769,000).

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in currency exchange rates. The Fund's financial instruments denominated in currencies other than the Hong Kong dollar are exposed to currency risk.

As at the balance sheet date, the net exposure of the Fund to the US dollar arising from financial instruments was HK\$85,137,204 (2017: HK\$81,765,788). As the Hong Kong dollar is pegged to the US dollar within a narrow range, it is considered that the Fund has no significant exposure to foreign exchange risk relating to the US dollar.

7. FAIR VALUE MEASUREMENT

(a) Fair value hierarchy

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.

	2018			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss				
Equity funds				
Unlisted	-	6,288,996	-	6,288,996
Bond funds				
Unlisted	-	9,368,658	-	9,368,658
Hedge funds				
Unlisted	-	-	1,145,642	1,145,642
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	-	15,657,654	1,145,642	16,803,296
	=====	=====	=====	=====

	2017			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss				
Equity funds				
Unlisted	-	4,812,894	-	4,812,894
Bond funds				
Unlisted	-	8,955,848	-	8,955,848
Hedge funds				
Unlisted	-	-	13,922,788	13,922,788
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	-	13,768,742	13,922,788	27,691,530
	=====	=====	=====	=====

The three levels of the fair value hierarchy are:

Level 1: fair values are quoted prices (unadjusted) in active markets for identical financial instruments at the measurement date;

Level 2: fair values are determined with inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair values are determined with inputs that are not based on observable market data (unobservable inputs).

(b) Valuation techniques and key inputs

In the absence of quoted market prices in active markets, the fair value of unlisted equity and bond funds under Level 2 is estimated by making reference to valuation reports provided by a fund manager. Key inputs used to value these financial instruments include quoted market price or broker quotes for similar instruments.

For investments in unlisted hedge funds under Level 3, their fair values are estimated by making reference to valuation reports provided by a fund manager. It is not practicable to quote a range of key unobservable inputs.

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

8. 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.