

SIR MURRAY MACLEHOSE TRUST FUND

Trustee's Report on the administration of the Fund for the year ended 31 March 2019

The Sir Murray MacLehose Trust Fund (“the 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) (“the Ordinance”), 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 her sole discretion may direct.

2. 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 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. Since 2015, JP Morgan Chase Bank, N.A. (“JP Morgan”) has been appointed as the investment manager of the Fund. During the reporting period, JP Morgan mainly provides custodian service and the Fund’s investment matters are deliberated by the Committee and executed by the Secretariat.

4. During the reporting period, the total income of the Fund was HK\$1.49 million and the total expenditure was HK\$0.88 million. No grants had been made during the year. The Fund recorded a surplus of HK\$0.61 million for 2018-19.

5. As at 31 March 2019, the capital of the Fund was HK\$50.49 million and the accumulated surplus was HK\$35.35 million. The audited Financial Statements of the Fund for the year ended 31 March 2019 is at Appendix II.



(LAU Kong-wah)

Secretary for Home Affairs Incorporated
Trustee

MacLehose Fund

29 November 2019

SIR MURRAY MACLEHOSE TRUST FUND

**Membership of the Investment Advisory Committee
(1.4.2018 – 31.3.2019)**

Mr LEE Kwan-ho, Vincent Marshall, BBS	(Chairman, up to 30.11.2018)
Mr CHENG Kwok-fai, Sammond	(Chairman from 1.12.2018)
Dr LAM Lee G	
Ms ZEE Helen	(up to 30.11.2018)
Ms FONG Sut-sam, Rosetta	(up to 6.9.2018)
Ms CHEUNG Marn-kay, Katherine	(from 1.12.2018)
Ms WONG Ching-chi, Gigi	(from 1.12.2018)
Mr WONG Chun, Jeffrey	(from 1.12.2018)



MacLehose Fund

Financial statements for the year ended 31 March 2019

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 20, which comprise the balance sheet as at 31 March 2019, 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 2019, 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

29 November 2019

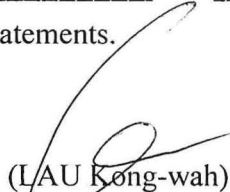
Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

MACLEHOSE FUND

BALANCE SHEET AS AT 31 MARCH 2019

	Note	2019 HK\$	2018 HK\$
NON-CURRENT ASSETS			
Debt securities measured at amortised cost	3	4,785,270	-
CURRENT ASSETS			
Financial assets measured at fair value through income and expenditure	4	47,686,966	-
Financial assets at fair value through profit or loss	4	-	16,803,296
Accounts receivable		186,757	155,870
Cash and cash equivalents	5	33,203,308	68,293,507
		81,077,031	85,252,673
CURRENT LIABILITIES			
Provision for staff gratuity	6	(7,726)	(16,560)
Provision for untaken leave		(2,933)	(1,452)
Accounts payable		-	(17)
		(10,659)	(18,029)
NET CURRENT ASSETS		81,066,372	85,234,644
NON-CURRENT LIABILITIES			
Provision for staff gratuity	6	(9,171)	-
NET ASSETS		85,842,471	85,234,644
ACCUMULATED FUND			
Capital		50,488,157	50,488,157
Accumulated surplus		35,354,314	34,746,487
		85,842,471	85,234,644

The accompanying notes 1 to 11 form part of these financial statements.


 (I/AU Kong-wah)
 Secretary for Home Affairs Incorporated
 Trustee
 MacLehose Fund
 29 November 2019

MACLEHOSE FUND

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2019**

	Note	2019 HK\$	2018 HK\$
INCOME			
Dividends		648,228	-
Interest	7	824,533	887,558
Unrealised gains on financial assets at fair value through profit or loss		-	2,024,005
Exchange gains		16,231	594,959
		<hr/> 1,488,992	<hr/> 3,506,522
EXPENDITURE			
Staff cost		(226,215)	(219,006)
Losses on disposal of financial assets measured at fair value through income and expenditure account		(298,130)	-
Losses on disposal of financial assets at fair value through profit or loss		-	(23,739)
Net revaluation losses on financial assets measured at fair value through income and expenditure account		(356,812)	-
Investment management fees and charges		-	(110,665)
Other operational expenses		(8)	(743)
		<hr/> (881,165)	<hr/> (354,153)
SURPLUS FOR THE YEAR		607,827	3,152,369
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<hr/> 607,827	<hr/> 3,152,369
		=====	=====

The accompanying notes 1 to 11 form part of these financial statements.

MACLEHOSE FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Capital HK\$	Accumulated surplus HK\$	Total HK\$
Balance at 1 April 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
Total comprehensive income for 2018-19	-	607,827	607,827
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2019	50,488,157 =====	35,354,314 =====	85,842,471 =====

The accompanying notes 1 to 11 form part of these financial statements.

MACLEHOSE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 HK\$	2018 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		607,827	3,152,369
Adjustments for:			
Dividends		(648,228)	-
Interest		(824,533)	(887,558)
Losses on disposal of financial assets measured at fair value through income and expenditure account		298,130	-
Losses on disposal of financial assets at fair value through profit or loss		-	23,739
Net revaluation losses on financial assets measured at fair value through income and expenditure account		356,812	-
Unrealised gains on financial assets at fair value through profit or loss		-	(2,024,005)
Acquisition of financial assets measured at fair value through income and expenditure account		(33,831,569)	-
Proceeds from disposal of financial assets measured at fair value through income and expenditure account		2,292,958	-
Proceeds from disposal of financial assets at fair value through profit or loss		-	12,888,500
Increase in accounts receivable		(95,789)	-
Increase/(Decrease) in provision for staff gratuity		337	(9,258)
Increase/(Decrease) in provision for untaken leave		1,481	(1,454)
Decrease in accounts payable		(17)	(53,557)
Exchange difference		(80,486)	(591,243)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		<u>(31,923,077)</u>	<u>12,497,533</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of debt securities measured at amortised cost		(4,784,480)	-
Dividends received		648,228	-
Interest received		889,878	731,688
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		<u>(3,246,374)</u>	<u>731,688</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(35,169,451)	13,229,221
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		68,293,507	54,473,043
Effect of exchange rate changes on cash and cash equivalents		79,252	591,243
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	<u>33,203,308</u>	<u>68,293,507</u>

The accompanying notes 1 to 11 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 (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention except that financial assets measured at fair value through income and expenditure account 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) **Changes in accounting policies**

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, the Fund has adopted the requirements of HKFRS 9 “Financial Instruments” from 1 April 2018.

HKFRS 9 replaces Hong Kong Accounting Standard (HKAS) 39 “Financial Instruments: Recognition and Measurement”. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Fund has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amounts of the items at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) **Classification of financial assets and financial liabilities**

HKFRS 9 categorises financial assets into three principal classification categories: measured at (i) amortised cost; (ii) at fair value through other comprehensive income; and (iii) at fair value through profit or loss. These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the classification categories for the Fund’s financial assets under HKAS 39 and HKFRS 9.

Financial assets	Classification under HKAS 39	Classification under HKFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Accounts receivable	Loans and receivables	Financial assets at amortised cost
Investments in equity funds, bond funds and hedge funds	Financial assets at fair value through profit or loss	Financial assets measured at fair value through income and expenditure account (Note)

Note: This is equivalent to the term “fair value through profit or loss” under HKFRS 9.

The carrying amounts of the Fund’s financial assets at 1 April 2018 were the same as those at 31 March 2018.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses and impairment

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the “incurred loss” accounting model in HKAS 39. The Fund applies the new expected credit loss model to the financial assets measured at amortised cost. The initial application of the new impairment requirements had no impact on the carrying amounts of the financial assets at 1 April 2018.

(d) Financial assets and financial liabilities

(i) Initial recognition

Financial assets and financial liabilities are recognised on the date the Fund becomes party to the contractual provisions of the financial instruments. They are initially stated at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities, except for those financial instruments measured at fair value through income and expenditure account for which transaction costs are recognised directly in income and expenditure account. An explanation of how the Fund determines the fair value of financial instruments is set out in note 9. Purchases and sales of investments are recognised using trade date accounting.

(ii) Categorisation and subsequent measurement from 1 April 2018

Financial instruments measured at fair value through income and expenditure account

These comprise equity securities, equity funds, bond funds and hedge funds. They are held within a business model in which they are managed and their performance is evaluated on a fair value basis. They are subsequently measured at fair value. Changes in fair value are recognised in the income and expenditure account in the period in which they arise.

Financial assets measured at amortised cost

These comprise debt securities, accounts receivable and cash and cash equivalents. They are held for the collection of contractual cash flows which represent solely payments of principal and interest. They are subsequently measured at amortised cost, net of loss allowance, if any (note 2(d)(v)).

The Fund’s debt securities are classified as non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Financial liabilities measured at amortised cost

These comprise accounts payable. They are subsequently measured at amortised cost.

(iii) Categorisation and subsequent measurement before 1 April 2018

The Fund's financial assets and financial liabilities included 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 were designated as such upon initial recognition as they were managed and their performance was evaluated on a fair value basis. Financial assets under this category were carried at fair value. Changes in fair values were recognised in the income and expenditure account in the period in which they arose. Upon disposal, the difference between the net proceeds and the carrying value was included in the income and expenditure account.

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

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, is cancelled or expires.

(v) Impairment of financial assets from 1 April 2018

For debt securities, accounts receivable and cash and cash equivalents, the Fund measures the expected credit losses to determine the loss allowance required to be recognised. Financial assets measured at fair value through income and expenditure account are not subject to the expected credit loss assessment.

Expected credit losses are a probability-weighted estimate of credit losses. They are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. They are measured on either of the following bases:

- 12-month expected credit losses (for financial instruments for which there has not been a significant increase in credit risk since initial recognition): these are losses that are expected to result from possible default events within the 12 months after the reporting date; or
- lifetime expected credit losses (for financial instruments for which there has been a significant increase in credit risk since initial recognition): these are losses that are expected to result from all possible default events over the expected life of the financial instrument.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this assessment, the Fund considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the financial asset is 90 days past due. The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(vi) Impairment of financial assets before 1 April 2018

The carrying amounts of financial assets measured at amortised cost were reviewed at each reporting date to determine whether there was objective evidence of impairment. If any such evidence existed, an impairment loss was recognised in the income and expenditure account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period, the amount of such impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the income and expenditure account. A reversal of impairment losses was limited to the asset's carrying amount that would have been determined had no impairment losses been recognised in prior years.

(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 reporting 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**

Cash and cash equivalents include cash at bank, placements with a financial institution and time deposits with original maturities of three months or less from the date of placement.

3. DEBT SECURITIES MEASURED AT AMORTISED COST

	2019 HK\$	2018 HK\$
Debt securities – at amortised cost		
Unlisted	4,785,270	-

4. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME AND EXPENDITURE ACCOUNT (2018 : FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS)

	2019 HK\$	2018 HK\$
Equity securities/equity funds		
Listed in Hong Kong	33,251,725	-
Unlisted	4,096,841	6,288,996
	37,348,566	6,288,996
Bond funds		
Unlisted	9,831,561	9,368,658
Hedge funds		
Unlisted	506,839	1,145,642
	47,686,966	16,803,296

(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 reporting date, the following are not regarded as authorised by section 4 of the Trustee Ordinance:

	2019 HK\$	2018 HK\$
Hedge funds	506,839	1,145,642

- (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 2019, the Fund has already disposed of the majority of these unauthorised investments. Divestment of the remaining unauthorised investments is scheduled for completion by 2020, the valuation of which as at 31 March 2019 was HK\$506,839.
- (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.

5. CASH AND CASH EQUIVALENTS

	2019 HK\$	2018 HK\$
Time deposits with original maturities within three months	28,139,520	67,580,252
Placements with a financial institution	100,672	597,786
Cash at bank	4,963,116	115,469
	<hr/> 33,203,308 <hr/> <hr/>	<hr/> 68,293,507 <hr/> <hr/>

6. PROVISION FOR STAFF GRATUITY

	2019 HK\$	2018 HK\$
Balance at beginning of year	16,560	25,818
Provision for the year	14,054	14,608
Payments for the year	(1,843)	(23,866)
Provision written back	(11,874)	-
	<hr/> 16,897 <hr/> <hr/>	<hr/> 16,560 <hr/> <hr/>

	2019 HK\$	2018 HK\$
Classified as:		
Current liability	7,726	16,560
Non-current liability	9,171	-
	<u>16,897</u>	<u>16,560</u>
	=====	=====

7. INTEREST

	2019 HK\$	2018 HK\$
Interest on bank deposits and cash and cash equivalents	820,775	887,558
Interest on debt securities	3,758	-
	<u>824,533</u>	<u>887,558</u>
	=====	=====

8. 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 debt securities and cash and cash equivalents. The maximum exposure to credit risk as at the reporting date in relation to each class of financial assets is the carrying amount of those assets as stated in the balance sheet.

To minimise the credit risk arising from cash and cash equivalents, all placements of cash are made with reputable financial institutions and all bank deposits are placed with reputable licensed banks in Hong Kong. To minimise the credit risks arising from investments in debt securities, the Fund only invests in those classified under the investment grade by Moody's or Standard & Poor's. Hence, the credit risk associated with these financial instruments is considered to be low. As such, the credit risk on these financial instruments is assessed as not having increased significantly since initial recognition and the Fund determines the loss allowance required to be recognised based on 12-month expected credit losses. The Fund has estimated that 12-month expected credit losses on these financial instruments are immaterial and consider that no loss allowance is required.

The credit quality of cash and cash equivalents, analysed by the ratings designated by Moody's, at the reporting date is shown below:

	2019 HK\$	2018 HK\$
Cash and cash equivalents, by credit rating		
Aa1 to Aa3	6,503,787	713,256
A1 to A3	26,699,521	67,580,251
	<u>33,203,308</u>	<u>68,293,507</u>
	=====	=====

At the reporting date, the credit quality of investments in debt securities, analysed by the ratings designated by Moody's, was as follows:

	2019 HK\$	2018 HK\$
Debt securities, by credit rating		
A1 to A3	4,785,270	-
	=====	=====

(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 measured at fair value through income and expenditure account. It was estimated that as at 31 March 2019, if market prices of these investments had been 10% (2018: 10%) higher/lower, with all other variables being held constant, the surplus of the Fund for the year would increase/decrease by HK\$4,769,000 (2018: HK\$1,680,000) and the accumulated surplus would increase/decrease by HK\$4,769,000 (2018: HK\$1,680,000).

(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. Since the Fund's debt securities and bank deposits bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus and equity.

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 because interest income from financial instruments bearing interest at a floating rate is not significant.

(iii) 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 31 March 2019, the net exposure of the Fund to each foreign currency arising from financial instruments is shown below:

	2019 HK\$	2018 HK\$
US dollar	24,359,787	85,137,204
Renminbi	11,853,767	-
	<u>36,213,554</u>	<u>85,137,204</u>
	=====	=====

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. It was estimated that as at 31 March 2019, should Renminbi strengthen/weaken by 10% (2018: Nil) against the Hong Kong dollar, with all other variables being held constant, the surplus of the Fund for the year would increase/decrease by HK\$1,185,000 (2018: Nil) and the accumulated surplus would increase/decrease by HK\$1,185,000 (2018: Nil).

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the reporting date and for financial instruments in existence at that date. The 10% (2018: Nil) strengthening/weakening in foreign currencies represents the assessment by the Fund of a reasonable possible change in foreign exchange rate over the period until the end of next year.

9. FAIR VALUE MEASUREMENT

(a) Fair value hierarchy

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

	2019			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets measured at fair value through income and expenditure account				
Equity securities/equity funds				
Listed in Hong Kong	33,251,725	-	-	33,251,725
Unlisted	-	4,096,841	-	4,096,841
	33,251,725	4,096,841	-	37,348,566
Bond funds				
Unlisted	-	9,831,561	-	9,831,561
Hedge funds				
Unlisted	-	-	506,839	506,839
	33,251,725	13,928,402	506,839	47,686,966
	=====	=====	=====	=====
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
	-	15,657,654	1,145,642	16,803,296
	=====	=====	=====	=====

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 financial institution. 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 financial institution. 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.

10. 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.

11. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2019

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 and which have not been early adopted in the financial statements. The Fund is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's financial performance and financial position.