

The Sir Murray MacLehose Trust Fund
Trustee's Report for the period of 1 April 2015 to 31 March 2016

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 membership of the Committee as at 31 March 2016 is at Appendix I. JP Morgan Chase Bank, N.A. has been appointed as the manager of the Fund since March 2015 and is responsible for the day-to-day investment management 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 2016. Out of the 92 approved projects, 85 have been completed, 7 have been cancelled.

5. No grants have been approved during the reporting period.

Accounts of the Fund

6. As at 31 March 2016, the capital of the fund was HK\$50,488,157 and the accumulated surplus of the fund was HK\$25,817,242. A copy of the audited Balance Sheet and Income and Expenditure Account for the year ended 31 March 2016 is at Appendix II.



(Lau Kong-wah)
Secretary for Home Affairs Incorporated
Trustee
MacLehose Fund

15 June 2017

The Sir Murray MacLehose Trust Fund

**Membership of the Investment Advisory Committee
(1.4.2015 – 31.3.2016)**

Mr LEE Kwan-ho, Vincent Marshall	Chairman
Miss CHOY Chi-ting, Eva	
Ms HO Yee-lin, Elaine	(up to 30.11.2015)
Dr LAM Lee G	(as from 1.12.2015)
Ms MA Tin-wei, Esther	(up to 30.11.2015)
Mr SZE Wine-him, Jaime, JP	
Ms ZEE Helen	(as from 1.12.2015)



MacLehose Fund

Financial Statements for the year ended 31 March 2016

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 2016, 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 2016, 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.

Emphasis of Matter

I draw attention to Note 3 to the financial statements which discloses that part of the Fund's investments, amounting to HK\$54,441,811, are not regarded as authorised by section 4 of the Trustee Ordinance (Cap. 29) and are not expressly authorised by the Chief Executive, and the actions taken by the Fund to divest those investments. My opinion is not qualified in respect of this matter.



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

15 June 2017


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

MACLEHOSE FUND

BALANCE SHEET AS AT 31 MARCH 2016

	Note	2016 HK\$	2015 HK\$
CURRENT ASSETS			
Financial assets at fair value through profit or loss	3	70,714,021	-
Cash and cash equivalents	4	5,668,014	82,522,421
		<u>76,382,035</u>	<u>82,522,421</u>
CURRENT LIABILITIES			
Provision for staff gratuity		(24,395)	(17,174)
Provision for untaken leave		(2,551)	(1,683)
Accounts payable		(49,690)	-
		<u>(76,636)</u>	<u>(18,857)</u>
		<u>76,305,399</u>	<u>82,503,564</u>
ACCUMULATED FUND			
Capital		50,488,157	50,488,157
Accumulated surplus		25,817,242	32,015,407
		<u>76,305,399</u>	<u>82,503,564</u>

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


 (Lau Kong-wah)
 Secretary for Home Affairs Incorporated
 Trustee
 MacLehose Fund
 15 June 2017

MACLEHOSE FUND

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2016**

	Note	2016 HK\$	2015 HK\$
INCOME			
Dividends		20,092	-
Interest	5	4,377	731,003
Refund of grants		-	6,604
		<hr/> 24,469	<hr/> 737,607
EXPENDITURE			
Staff cost		(223,222)	(173,111)
Losses on disposal of financial assets at fair value through profit or loss		(836,479)	-
Unrealised losses on financial assets at fair value through profit or loss		(4,439,449)	-
Investment management fees and charges		(603,408)	-
Exchange losses		(119,976)	-
Other operational expenses		(100)	(741)
		<hr/> (6,222,634)	<hr/> (173,852)
(DEFICIT)/SURPLUS FOR THE YEAR		<hr/> (6,198,165)	<hr/> 563,755
Other comprehensive income		<hr/> -	<hr/> -
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<hr/> (6,198,165) =====	<hr/> 563,755 =====

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 2016

	Capital HK\$	Accumulated surplus HK\$	Total HK\$
Balance at 1 April 2014	50,488,157	31,451,652	81,939,809
Total comprehensive income for 2014-15	-	563,755	563,755
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2015	50,488,157	32,015,407	82,503,564
Total comprehensive loss for 2015-16	-	(6,198,165)	(6,198,165)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	50,488,157	25,817,242	76,305,399
	=====	=====	=====

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

MACLEHOSE FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016**

	Note	2016 HK\$	2015 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficit)/Surplus for the year		(6,198,165)	563,755
Adjustments for:			
Dividends		(20,092)	-
Interest		(4,377)	(731,003)
Losses on disposal of financial assets at fair value through profit or loss		836,479	-
Unrealised losses on financial assets at fair value through profit or loss		4,439,449	-
Acquisition of financial assets at fair value through profit or loss		(113,716,545)	-
Proceeds from disposal of financial assets at fair value through profit or loss		37,726,596	-
Increase/(Decrease) in provision for staff gratuity		7,221	(8,777)
Increase/(Decrease) in provision for untaken leave		868	(179)
Increase/(Decrease) in accounts payable		49,690	(22,543)
Decrease in prepayment		-	67
Exchange difference		68,143	-
NET CASH USED IN OPERATING ACTIVITIES		<u>(76,810,733)</u>	<u>(198,680)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		20,092	-
Interest received		4,377	800,029
NET CASH FROM INVESTING ACTIVITIES		<u>24,469</u>	<u>800,029</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(76,786,264)	601,349
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		82,522,421	81,921,072
Effect of exchange rate changes on cash and cash equivalents		(68,143)	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	<u><u>5,668,014</u></u>	<u><u>82,522,421</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 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, 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 and financial liabilities are carried at amortised cost using the effective interest method, less impairment losses (if any).

(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 and placements with financial institution.

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

	2016 HK\$	2015 HK\$
Equity funds		
Listed outside Hong Kong	10,928,403	-
Unlisted	20,601,522	-
	31,529,925	-
Bond funds		
Unlisted	18,344,803	-
Hedge funds		
Unlisted	18,517,845	-
Structured notes		
Unlisted	2,321,448	-
	<hr/>	<hr/>
	70,714,021	-
	=====	=====

- (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 31 March 2016, the following are not regarded as authorised by section 4 of the Trustee Ordinance:

	2016 HK\$
Equity funds	26,266,944
Bond funds	7,335,573
Hedge funds	18,517,846
Structured notes	2,321,448
	<hr/>
	54,441,811
	=====

- (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 2017, the Fund has already disposed of the majority of these unauthorised investments (all of the equity funds, bond funds and structured notes and part of the hedge funds). Divestment of the remaining unauthorised investments (part of the hedge funds) is scheduled for completion by July 2018, the valuation of which as at 31 March 2017 was HK\$12,355,038.
- (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

	2016 HK\$	2015 HK\$
Placements with financial institution	5,360,827	82,000,000
Cash at bank	307,187	522,421
	<hr/>	<hr/>
	5,668,014	82,522,421
	=====	=====

5. INTEREST

	2016 HK\$	2015 HK\$
Interest on bank deposits and cash and cash equivalents	4,377	731,003
	=====	=====

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 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 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 2016, if market prices of these investments had been 10% higher/lower, with all other variables being held constant, the deficit of the Fund for the year would decrease/increase by HK\$7,071,000 (2015: Nil).

(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 31 March 2016, the net exposure of the Fund to each foreign currency arising from financial instruments is shown below:

	2016
	HK\$
US dollar	69,775,609
Japanese yen	1,804,970
Euro	4,444,578
	<u>76,025,157</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 2016, should Japanese Yen and Euro strengthen/weaken by 10% against the Hong Kong dollar, with all other variables being held constant, the deficit of the Fund for the year would decrease/increase by HK\$625,000 (2015: Nil).

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.

	2016			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss				
Equity funds:				
Listed outside Hong Kong	10,928,403	-	-	10,928,403
Unlisted	-	20,601,522	-	20,601,522
	10,928,403	20,601,522	-	31,529,925
Bond funds:				
Unlisted	-	18,344,803	-	18,344,803
Hedge funds:				
Unlisted	-	-	18,517,845	18,517,845
Structured notes:				
Unlisted	-	-	2,321,448	2,321,448
	<u>10,928,403</u>	<u>38,946,325</u>	<u>20,839,293</u>	<u>70,714,021</u>

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

The fair value of listed equity funds classified under Level 1 is based on quoted market prices in active markets for identical assets at the balance sheet date.

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 the 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 and structured notes under Level 3, their fair values are estimated by making reference to valuation reports provided by the 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.