

# SIR MURRAY MACLEHOSE TRUST FUND

## Trustee's Report on the administration of the Fund for the year ended 31 March 2021

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. During the reporting period, 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 (before gain on investment) was HK\$2.07 million. The gain on investment was HK\$6.69 million. The total expenditure was HK\$0.24 million. No grants had been made during the year. The Fund recorded a surplus of HK\$8.52 million for 2020-21.

5. As at 31 March 2021, the capital of the Fund was HK\$50.49 million and the accumulated surplus was HK\$34.80 million. The audited Financial Statements of the Fund for the year ended 31 March 2021 is at Appendix II.



(Caspar Ying-wai TSUI)

The Secretary for Home Affairs Incorporated  
Trustee

MacLehose Fund

17 September 2021

**SIR MURRAY MACLEHOSE TRUST FUND**

**Membership of the Investment Advisory Committee  
(1.4.2020 – 31.3.2021)**

Mr CHENG Kwok-fai, Sammond Chairman

Dr LAM Lee G, BBS

Ms CHEUNG Marn-kay, Katherine

Ms WONG Ching-chi, Gigi

Mr WONG Chun, Jeffrey



## MacLehose Fund

Financial statements for the year ended 31 March 2021

# 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 19, which comprise the balance sheet as at 31 March 2021, 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 2021, 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*

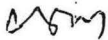
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that 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.



S. M. CHOI  
Principal Auditor  
for Director of Audit

17 September 2021

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

**MACLEHOSE FUND**

**BALANCE SHEET AS AT 31 MARCH 2021**

	Note	2021 HK\$	2020 HK\$
<b>NON-CURRENT ASSETS</b>			
Debt securities measured at amortised cost	3	4,700,774	4,707,608
<b>CURRENT ASSETS</b>			
Financial assets measured at fair value through income and expenditure account	4	31,972,009	34,933,102
Accounts receivable		283,056	83,686
Time deposits with original maturities over three months		34,166,833	23,007,850
Cash and cash equivalents	5	14,190,734	14,068,358
		80,612,632	72,092,996
<b>CURRENT LIABILITIES</b>			
Provision for staff gratuity	6	(5,879)	(19,307)
Provision for untaken leave		(4,546)	(2,871)
Accounts payable		-	(8,517)
		(10,425)	(30,695)
<b>NET CURRENT ASSETS</b>		80,602,207	72,062,301
<b>NON-CURRENT LIABILITIES</b>			
Provision for staff gratuity	6	(14,081)	(3,354)
<b>NET ASSETS</b>		85,288,900	76,766,555
<b>ACCUMULATED FUND</b>			
Capital		50,488,157	50,488,157
Accumulated surplus		34,800,743	26,278,398
		85,288,900	76,766,555

The accompanying notes 1 to 10 form part of these financial statements.



(Caspar Ying-wai TSUI)  
The Secretary for Home Affairs Incorporated  
Trustee  
MacLehose Fund  
17 September 2021

**MACLEHOSE FUND**

**INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2021**

	<b>Note</b>	<b>2021 HK\$</b>	<b>2020 HK\$</b>
<b>INCOME</b>			
Dividends		1,149,066	1,116,253
Interest	7	924,122	750,538
Net realised and revaluation gains/(losses) on financial assets measured at fair value through income and expenditure account		5,133,145	(9,674,262)
Net exchange gains/(losses)		1,558,507	(1,025,292)
Other income		337	-
		<hr/>	<hr/>
		8,765,177	(8,832,763)
		<hr/>	<hr/>
<b>EXPENDITURE</b>			
Staff costs		(242,733)	(243,153)
Other operating expenses		(99)	-
		<hr/>	<hr/>
		(242,832)	(243,153)
		<hr/>	<hr/>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		8,522,345	(9,075,916)
<b>OTHER COMPREHENSIVE INCOME</b>		-	-
		<hr/>	<hr/>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		8,522,345	(9,075,916)
		=====	=====

The accompanying notes 1 to 10 form part of these financial statements.



## MACLEHOSE FUND

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	<b>Capital HK\$</b>	<b>Accumulated surplus HK\$</b>	<b>Total HK\$</b>
Balance at 1 April 2019	50,488,157	35,354,314	85,842,471
Total comprehensive loss for 2019-20	-	(9,075,916)	(9,075,916)
Balance at 31 March 2020	50,488,157	26,278,398	76,766,555
Total comprehensive income for 2020-21	-	8,522,345	8,522,345
Balance at 31 March 2021	50,488,157	34,800,743	85,288,900

The accompanying notes 1 to 10 form part of these financial statements.

**MACLEHOSE FUND****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2021**

	Note	2021 HK\$	2020 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus/(Deficit) for the year		8,522,345	(9,075,916)
Adjustments for:			
Dividends		(1,149,066)	(1,116,253)
Interest		(924,122)	(750,538)
Net realised and revaluation (gains)/losses on financial assets measured at fair value through income and expenditure account		(5,133,145)	9,674,262
Acquisition of financial assets measured at fair value through income and expenditure account		(16,590,182)	(14,281,991)
Proceeds from disposal of financial assets measured at fair value through income and expenditure account		24,684,420	17,361,593
Decrease in accounts receivable		3,205	92,098
(Decrease)/Increase in provision for staff gratuity		(2,701)	5,764
Increase/(Decrease) in provision for untaken leave		1,675	(62)
(Decrease)/Increase in accounts payable		(8,517)	8,517
Exchange difference		(873,338)	507,624
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<u>8,530,574</u>	<u>2,425,098</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net increase in time deposits with original maturities over three months		(10,711,888)	(23,445,776)
Dividends received		1,149,066	1,116,253
Interest received		741,544	780,935
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(8,821,278)</u>	<u>(21,548,588)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(290,704)	(19,123,490)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		14,068,358	33,203,308
Effect of exchange rate changes on cash and cash equivalents		413,080	(11,460)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	5	<u><u>14,190,734</u></u>	<u><u>14,068,358</u></u>

The accompanying notes 1 to 10 form part of these financial statements.

# MACLEHOSE FUND

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The financial statements have been prepared in accordance with section 7(1) of the Sir Murray MacLehose Trust Fund Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). A summary of the significant accounting policies adopted by the Fund is set out below.

#### (b) Basis of preparation of the financial statements

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 policies 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.

Certain comparative figures for 2020 have been reclassified to conform with the current year's presentation of the Fund's financial statements.

**(c) Impact of new and revised HKFRSs**

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period. There have been no changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

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 results of operations and financial position.

**(d) Financial assets and financial liabilities**

**(i) Initial recognition and measurement**

Financial assets and financial liabilities are recognised on the date the Fund becomes a party to the contractual provisions of the financial instrument. 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 the 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 financial instruments are recognised on trade date, the date on which the Fund commits to purchase or sell the instruments.

**(ii) Classification and subsequent measurement**

*Financial assets measured at fair value through income and expenditure account*

These comprise equity securities 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, time deposits 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 using the effective interest method. The measurement of loss allowances for these financial assets is based on the expected credit loss model as described in note 2(d)(iv).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows by considering all contractual terms of the financial instrument but does not consider the expected credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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 using the effective interest method.

(iii) 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.

(iv) Impairment of financial assets

For debt securities, accounts receivable, time deposits 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.

For a financial asset with lifetime expected credit losses recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime expected credit losses to 12-month expected credit losses.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**(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 comprise cash at banks, deposits with banks and other financial institutions and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

**(h) Employee benefits**

Contract gratuities, salaries and annual leave entitlements are accrued and recognised as expenditure in the year in which associated services are rendered by the staff. Staff on-costs, including pension and housing benefits provided to the staff by the Government, are charged as expenditure in the year in which the services are rendered.

**3. DEBT SECURITIES MEASURED AT AMORTISED COST**

	<b>2021 HK\$</b>	<b>2020 HK\$</b>
Debt securities – at amortised cost		
Unlisted	4,700,774	4,707,608
	=====	=====

**4. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME AND EXPENDITURE ACCOUNT**

	<b>2021 HK\$</b>	<b>2020 HK\$</b>
Equity securities – at fair value		
Listed in Hong Kong	31,732,091	34,655,497
Hedge funds – at fair value		
Unlisted	239,918	277,605
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	31,972,009	34,933,102
	=====	=====

**(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:

	<b>2021 HK\$</b>	<b>2020 HK\$</b>
Hedge funds	239,918	277,605
	=====	=====

- (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 2021, the Fund has already disposed of the majority of these unauthorised investments. Divestment of the remaining unauthorised investments is scheduled for completion by 2022, the valuation of which as at 31 March 2021 was HK\$239,918.
- (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

	<b>2021</b> <b>HK\$</b>	<b>2020</b> <b>HK\$</b>
Time deposits with original maturities within three months	5,588,790	-
Placements with a financial institution	102,571	12,610,031
Cash at banks	8,499,373	1,458,327
	<hr/> 14,190,734 <hr/> <hr/>	<hr/> 14,068,358 <hr/> <hr/>



**6. PROVISION FOR STAFF GRATUITY**

	<b>2021 HK\$</b>	<b>2020 HK\$</b>
Balance at beginning of year	22,661	16,897
Provision for the year	17,654	16,408
Payments for the year	(20,077)	(7,854)
Provision written back	(278)	(2,790)
	<hr/>	<hr/>
Balance at end of year	19,960	22,661
	<hr/> <hr/>	<hr/> <hr/>
Classified as:		
Current liability	5,879	19,307
Non-current liability	14,081	3,354
	<hr/>	<hr/>
	19,960	22,661
	<hr/> <hr/>	<hr/> <hr/>

The Fund's staff costs represent its share of costs of staff employed by the Trust Funds and Temples Joint Secretariat, which provides executive support to the Fund.

**7. INTEREST**

	<b>2021 HK\$</b>	<b>2020 HK\$</b>
Interest on bank deposits and cash and cash equivalents	757,891	582,603
Interest on debt securities	166,231	167,935
	<hr/>	<hr/>
	924,122	750,538
	<hr/> <hr/>	<hr/> <hr/>

## 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, time deposits and cash and cash equivalents. The maximum exposure to credit risk 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 time deposits and cash and cash equivalents, all placements of cash are made with reputable financial institutions and all bank balances 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.

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

	<b>2021</b> <b>HK\$</b>	<b>2020</b> <b>HK\$</b>
Time deposits and cash and cash equivalents, by credit rating		
Aa1 to Aa3	20,589,831	19,110,382
A1 to A3	27,767,736	17,965,826
	<u>48,357,567</u>	<u>37,076,208</u>
	=====	=====
	<b>2021</b> <b>HK\$</b>	<b>2020</b> <b>HK\$</b>
Debt securities, by credit rating		
A1 to A3	4,700,774	4,707,608
	=====	=====

While the financial assets measured at amortised cost are subject to the impairment requirements, the Fund has estimated that their expected credit losses are immaterial and considers that no loss allowance is required.

**(b) Liquidity risk**

Liquidity risk is the risk that an entity 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 and mitigate the effects of fluctuations in cash flows. Hence, the Fund does not have significant exposure to liquidity risk.

As at 31 March 2021, the Fund did not have financial liabilities. As at 31 March 2020, the remaining contractual maturities of all financial liabilities, based on contractual undiscounted cash flows and the earliest date on which the Fund can be required to pay, were three months or less.

**(c) Market risk**

Market risk is the risk that changes in market variables such as equity prices, interest rates and currency exchange rates may affect the fair value or cash flows of a financial instrument.

The Fund maintains a diversified portfolio of investments. The IAC, 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**

Price risk is the risk of loss arising from changes in prices. The Fund's financial assets measured at fair value through income and expenditure account are subject to the price risk inherent in all such investments i.e. the value of holdings may fall as well as rise.

It was estimated that, as at 31 March 2021, if the market prices of these investments had been 10% (2020: 10%) higher/lower, with all other variables held constant, the surplus of the Fund for the year and the accumulated surplus would increase/decrease by HK\$3,197,000 (2020: the deficit of the Fund for the year would decrease/increase and the accumulated surplus would increase/decrease by HK\$3,493,000).

**(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 fair 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 foreign currencies are exposed to currency risk.

At the reporting date, the net exposure of the Fund to each foreign currency arising from financial instruments is shown below:

	<b>2021</b> <b>HK\$</b>	<b>2020</b> <b>HK\$</b>
US dollar	5,291,774	17,655,762
Renminbi	39,980,995	16,614,353
	<u>45,272,769</u>	<u>34,270,115</u>
	=====	=====

As 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 2021, should Renminbi strengthen/weaken by 10% (2020: 10%) against the Hong Kong dollar, with all other variables held constant, the surplus of the Fund for the year and the accumulated surplus would increase/decrease by HK\$3,998,000 (2020: the deficit of the Fund for the year would decrease/increase and the accumulated surplus would increase/decrease by HK\$1,661,000).

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.

## 9. FAIR VALUE MEASUREMENT

### (a) Fair value hierarchy of financial instruments

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".

<b>2021</b>			
	<b>Level 1 HK\$</b>	<b>Level 3 HK\$</b>	<b>Total HK\$</b>
<b>Financial assets measured at fair value through income and expenditure account</b>			
Equity securities			
Listed in Hong Kong	31,732,091	-	31,732,091
Hedge funds			
Unlisted	-	239,918	239,918
	<u>31,732,091</u>	<u>239,918</u>	<u>31,972,009</u>
	=====	=====	=====

<b>2020</b>			
	<b>Level 1 HK\$</b>	<b>Level 3 HK\$</b>	<b>Total HK\$</b>
<b>Financial assets measured at fair value through income and expenditure account</b>			
Equity securities			
Listed in Hong Kong	34,655,497	-	34,655,497
Hedge funds			
Unlisted	-	277,605	277,605
	<u>34,655,497</u>	<u>277,605</u>	<u>34,933,102</u>
	=====	=====	=====

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

The three levels of the fair value hierarchy are:

Level 1: fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities;

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 (i.e. as prices) or indirectly (i.e. derived from prices); and

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

**(b) Valuation techniques and key inputs**

The fair value of financial instruments classified under Level 1 is based on the quoted market prices of these financial instruments at the reporting date, without any deduction for estimated future selling costs.

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.