

SIR MURRAY MACLEHOSE TRUST FUND

Trustee's Report on the administration of the Fund for the year ended 31 March 2024

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 his sole discretion may direct.

2. The Secretary for Home and Youth 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 net losses on investment) was HK\$3.80 million. The net losses on investment were HK\$8.07 million. The total expenditure was HK\$0.22 million. No grants had been made during the year. The Fund recorded a deficit of HK\$4.49 million for 2023-24.

5. As at 31 March 2024, the capital of the Fund was HK\$50.49 million and the accumulated surplus was HK\$25.18 million. The audited Financial Statements of the Fund for the year ended 31 March 2024 is at Appendix II.



(Miss Alice MAK)

The Secretary for Home and Youth Affairs Incorporated
Trustee

MacLehose Fund

3 December 2024

SIR MURRAY MACLEHOSE TRUST FUND

**Membership of the Investment Advisory Committee
(1.4.2023 – 31.3.2024)**

Mr CHENG Kwok-fai, Sammond Chairman

Ms CHEUNG Marn-kay, Katherine

Ms WONG Ching-chi, Gigi

Mr WONG Chun, Jeffrey

Miss CHIU Ching-yi, Stella



MacLehose Fund

Financial statements for the year ended 31 March 2024

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 2024, 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 material accounting policy information.

In my opinion, the financial statements give a true and fair view of the financial position of the MacLehose Fund as at 31 March 2024, 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.

Other information

The Secretary for Home and Youth Affairs Incorporated is responsible for the other information. The other information comprises all the information included in the Trustee's

Report on the administration of the MacLehose Fund, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of The Secretary for Home and Youth Affairs Incorporated for the financial statements

The Secretary for Home and Youth 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 and Youth 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 and Youth 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 and Youth Affairs Incorporated;
- conclude on the appropriateness of The Secretary for Home and Youth 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.

I communicate with The Secretary for Home and Youth Affairs Incorporated regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Ms Elaine Chang
Principal Auditor (Acting)
for Director of Audit

3 December 2024

Audit Commission
6th Floor, High Block
Queensway Government Offices
66 Queensway
Hong Kong

MACLEHOSE FUND

BALANCE SHEET AS AT 31 MARCH 2024

	Note	2024 HK\$	2023 HK\$
CURRENT ASSETS			
Financial assets measured at fair value through income and expenditure account	3	23,570,369	44,065,445
Accounts receivable		416,410	398,946
Time deposits with original maturities over three months		31,034,015	31,937,525
Cash and cash equivalents	4	20,673,880	3,769,627
		<u>75,694,674</u>	<u>80,171,543</u>
CURRENT LIABILITIES			
Provision for staff gratuity	5	(7,747)	(7,026)
Provision for untaken leave		(9,664)	(2,282)
Accounts payable		(1,298)	-
		<u>(18,709)</u>	<u>(9,308)</u>
NET CURRENT ASSETS		<u>75,675,965</u>	<u>80,162,235</u>
NON-CURRENT LIABILITIES			
Provision for staff gratuity	5	(9,825)	(5,369)
NET ASSETS		<u>75,666,140</u>	<u>80,156,866</u>
ACCUMULATED FUND			
Capital		50,488,157	50,488,157
Accumulated surplus		25,177,983	29,668,709
		<u>75,666,140</u>	<u>80,156,866</u>

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



(Miss Alice MAK)
The Secretary for Home and Youth Affairs Incorporated
Trustee
MacLehose Fund
3 December 2024

MACLEHOSE FUND

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2024**

	Note	2024 HK\$	2023 HK\$
INCOME			
Dividend income		2,858,527	1,558,345
Interest income	6	943,820	973,518
Net realised and revaluation losses on financial assets measured at fair value through income and expenditure account		(6,372,221)	(5,877,047)
Net exchange losses		(1,702,491)	(3,436,938)
Other income		-	5,638
		<u>(4,272,365)</u>	<u>(6,776,484)</u>
EXPENDITURE			
Staff costs		(218,024)	(216,065)
Other operating expenses		(337)	(427)
		<u>(218,361)</u>	<u>(216,492)</u>
DEFICIT FOR THE YEAR		<u>(4,490,726)</u>	<u>(6,992,976)</u>
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u><u>(4,490,726)</u></u>	<u><u>(6,992,976)</u></u>

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 2024

	Capital HK\$	Accumulated surplus HK\$	Total HK\$
Balance at 1 April 2022	50,488,157	36,661,685	87,149,842
Total comprehensive loss for 2022-23	-	(6,992,976)	(6,992,976)
Balance at 31 March 2023	50,488,157	29,668,709	80,156,866
Total comprehensive loss for 2023-24	-	(4,490,726)	(4,490,726)
Balance at 31 March 2024	50,488,157	25,177,983	75,666,140

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

MACLEHOSE FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2024**

	Note	2024 HK\$	2023 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit for the year		(4,490,726)	(6,992,976)
Adjustments for:			
Dividend income		(2,858,527)	(1,558,345)
Interest income		(943,820)	(973,518)
Net realised and revaluation losses on financial assets measured at fair value through income and expenditure account		6,372,221	5,877,047
Acquisition of financial assets measured at fair value through income and expenditure account		(11,030,650)	(37,301,489)
Proceeds from disposal of financial assets measured at fair value through income and expenditure account		25,153,505	29,511,509
Decrease in accounts receivable		20,935	38,038
Increase/(Decrease) in provision for staff gratuity		5,177	(2,743)
Increase/(Decrease) in provision for untaken leave		7,382	(1,844)
Increase/(Decrease) in accounts payable		1,298	(15,704)
Exchange difference		1,255,419	2,468,646
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		<u>13,492,214</u>	<u>(8,951,379)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (increase)/decrease in time deposits with original maturities over three months		(351,963)	614,212
Dividends received		2,858,527	1,517,257
Interest received		905,421	833,060
NET CASH FROM INVESTING ACTIVITIES		<u>3,411,985</u>	<u>2,964,529</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		16,904,199	(5,986,850)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		3,769,627	9,756,507
Effect of exchange rate changes on cash and cash equivalents		54	(30)
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	<u><u>20,673,880</u></u>	<u><u>3,769,627</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 34th Floor, Wu Chung House, 213 Queen's Road East, Wan Chai, Hong Kong.

2. MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements of the Fund 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). Material accounting policies adopted by the Fund are 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 historical 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) Impact of new and revised HKFRSs

The HKICPA has issued certain new or revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Fund. 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. These include the following which may be relevant to the Fund.

	Effective for accounting periods beginning on or after
HKFRS 18 "Presentation and Disclosure in Financial Statements"	1 January 2027

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 financial statements.

(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 measured at fair value plus or minus transaction costs that are directly attributable to the acquisition of the financial assets or the issue of the 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 8. 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 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 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.

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 financial assets measured at amortised cost, 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 instruments.

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 using the spot exchange rates at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the closing exchange rates 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 from listed equity securities is recognised when the share price is quoted ex-dividend. Dividend income from unlisted hedge funds 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, time deposits with original maturities within three months and placements with a financial institution.

(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, Government's contribution to the Civil Service Provident Fund Scheme and housing and medical benefits provided to the seconded staff by the Government, are charged as expenditure in the year in which the services are rendered.

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

	2024 HK\$	2023 HK\$
Equity securities – at fair value		
Listed in Hong Kong	23,441,984	43,904,183
Hedge funds – at fair value		
Unlisted	128,385	161,262
	<u>23,570,369</u>	<u>44,065,445</u>

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

	2024 HK\$	2023 HK\$
Hedge funds	<u>128,385</u>	<u>161,262</u>

- (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 and Youth 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 and Youth Affairs Incorporated. This notwithstanding, there is no expressed delegation from the Chief Executive to The Secretary for Home and Youth Affairs Incorporated 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 2024, the Fund has already disposed of the majority of these unauthorised investments. Divestment of the remaining unauthorised investments is scheduled for completion by 2025, the valuation of which as at 31 March 2024 was HK\$128,385.
- (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

	2024 HK\$	2023 HK\$
Time deposits with original maturities within three months	13,804,866	-
Placements with a financial institution	108,062	57,418
Cash at banks	6,760,952	3,712,209
	<u>20,673,880</u>	<u>3,769,627</u>

5. PROVISION FOR STAFF GRATUITY

	2024 HK\$	2023 HK\$
Balance at beginning of year	12,395	15,138
Provision for the year	13,839	15,096
Payments for the year	(7,461)	(16,925)
Provision written back	(1,201)	(914)
	<hr/>	<hr/>
Balance at end of year	17,572	12,395
	<hr/>	<hr/>
Classified as:		
Current liability	7,747	7,026
Non-current liability	9,825	5,369
	<hr/>	<hr/>
	17,572	12,395
	<hr/>	<hr/>

The Fund's staff costs, which represent its share of costs of staff employed by the Trust Funds and Temples Joint Secretariat and staff seconded from the Government, are firstly paid by the General Chinese Charities Fund and then reimbursed by the Fund.

6. INTEREST INCOME

	2024 HK\$	2023 HK\$
Interest on bank deposits and cash and cash equivalents	943,820	973,518
	<hr/>	<hr/>

7. FINANCIAL RISK MANAGEMENT

The Fund's financial instruments include financial assets measured at fair value through income and expenditure account, accounts receivable, time deposits with original maturities over three months, cash and cash equivalents and accounts payable. The major risks associated with these 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 time deposits and cash and cash equivalents. The maximum exposure to credit risk of the financial assets of the Fund at the reporting date is equal to their carrying amounts.

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. Hence, the Fund's exposure to credit risk is considered to be limited.

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

	2024 HK\$	2023 HK\$
Time deposits and cash and cash equivalents, by credit rating		
Aa1 to Aa3	14,461,039	8,395,382
A1 to A3	21,564,853	14,786,370
Baa1 to Baa3	15,682,003	12,525,400
	<u>51,707,895</u>	<u>35,707,152</u>

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

(b) 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.

As at 31 March 2024, it is estimated that a 10% (2023: 10%) increase/decrease in market prices of these investments, with all other variables held constant, would have decreased/increased the deficit for the year by HK\$2,357,000 (2023: HK\$4,407,000).

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of 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 time 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/deficit for the year.

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 is not exposed to material cash flow interest rate risk 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 Hong Kong dollars are exposed to currency risk.

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

	2024 HK\$	2023 HK\$
US dollar	237,689	219,925
Renminbi	31,421,133	32,314,550
	<u>31,658,822</u>	<u>32,534,475</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. As at 31 March 2024, it is estimated that a 10% (2023: 10%) increase/decrease in exchange rate of Renminbi against Hong Kong dollar, with all other variables held constant, would have decreased/increased the deficit for the year by HK\$3,142,000 (2023: HK\$3,231,000).

The sensitivity analysis above is based on the assumption that the change in exchange rate had occurred at the reporting date and had been applied to the financial instruments denominated in Renminbi in existence at that date.

(c) 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 exposures to liquidity risk.

As at 31 March 2024, 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 one month or less. As at 31 March 2023, the Fund did not have any financial liabilities.

8. 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”.

2024			
	Level 1 HK\$	Level 3 HK\$	Total HK\$
Financial assets measured at fair value through income and expenditure account			
Equity securities			
Listed in Hong Kong	23,441,984	-	23,441,984
Hedge funds			
Unlisted	-	128,385	128,385
	<u>23,441,984</u>	<u>128,385</u>	<u>23,570,369</u>
2023			
	Level 1 HK\$	Level 3 HK\$	Total HK\$
Financial assets measured at fair value through income and expenditure account			
Equity securities			
Listed in Hong Kong	43,904,183	-	43,904,183
Hedge funds			
Unlisted	-	161,262	161,262
	<u>43,904,183</u>	<u>161,262</u>	<u>44,065,445</u>

No financial instruments were classified under Level 2. There were no transfers between levels during the reporting years.

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 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.

9. 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.

10. COST OF ADMINISTERING THE FUND

The cost of administering the Fund, other than salaries and fees paid under section 6(2) of the Sir Murray MacLehose Trust Fund Ordinance, shall be a charge upon general revenue of the Government of the Hong Kong Special Administrative Region in accordance with section 8(1) of the Ordinance.