

REPORT OF THE DIRECTOR OF AUDIT TO THE LEGISLATIVE COUNCIL

I have audited the attached financial statements which have been prepared under the accounting policies set out in note 2 to the accounts.

Respective responsibilities of the Director of Education Incorporated and the Director of Audit

Under the provisions of section 8(3) of the Director of Education Incorporation Ordinance, the Director of Education Incorporated is responsible for the preparation of financial statements. In preparing the financial statements, the Director of Education Incorporated has to select appropriate accounting policies and to apply them consistently.

It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

I have audited the financial statements referred to above in accordance with the provisions of section 8(5) of the Director of Education Incorporation Ordinance and the Audit Commission auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Education Incorporated in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Quality Education Fund, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements. I believe that my audit provides a reasonable basis for my opinion.

Opinion

In my opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Quality Education Fund as at 31 August 1998 and of its income and expenditure for the period from 2 January 1998 to 31 August 1998 and have been properly prepared in accordance with the provisions of section 8(3) of the Director of Education Incorporation Ordinance.

Audit Commission
Hong Kong
26 February 1999

(Dominic Y T Chan)
Director of Audit

QUALITY EDUCATION FUND
BALANCE SHEET AS AT 31 AUGUST 1998

		1998 HK\$'000
Investments	Note (3)	5,120,104
Current Assets	(4)	57,815
Current Liabilities	(5)	<u>(375,152)</u>
Net Assets		<u>4,802,767</u>

Represented by :

ACCUMULATED FUND

Balance at 2 January 1998	(1)	5,000,000
Deficit for the period		(197,233)
Balance at 31 August 1998		<u>4,802,767</u>

The notes on pages 3 to 7 form part of these accounts.

(Mrs. Fanny LAW)
Director of Education Incorporated
Trustee of the Quality Education Fund

15 February 1999

QUALITY EDUCATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE PERIOD FROM 2 JANUARY 1998 (DATE OF
ESTABLISHMENT OF THE FUND) TO 31 AUGUST 1998

		1998 HK\$'000
INCOME	Note	
Interest and dividends		
Bank deposits	(6)	209,680
Quoted shares	(7)	19,523
Quoted fixed interest securities	(8)	<u>48,750</u>
		277,953
EXPENDITURE		
Grants to institutions	(10)	(1,078)
Management expenses	(11)	(132)
Losses on sale/maturity and revaluation of investments, current assets and current liabilities	(9)	(473,976)
		<u>(475,186)</u>
Deficit for the period		<u>(197,233)</u>

The notes on pages 3 to 7 form part of these accounts.

QUALITY EDUCATION FUND
NOTES TO THE ACCOUNTS - FOR THE PERIOD
FROM 2 JANUARY 1998 (DATE OF ESTABLISHMENT
OF THE FUND) TO 31 AUGUST 1998

1. GENERAL

The accounts have been prepared in accordance with the Director of Education Incorporation Ordinance (Cap.1098).

The Fund was established by a declaration of trust made on 2 January 1998 by the Director of Education Incorporated who is the Trustee of the Fund. A sum of HK\$5,000 million for the purpose of setting up the Fund was received from the Government of the Hong Kong Special Administrative Region. The object of the Fund is to promote quality school education in Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Investments

Investments, other than bank deposits, are stated at the closing market value at the last business day of the period. Gains or losses arising on the sale/maturity/revaluation of investments during the period are included in the income and expenditure account.

(b) Income

Interest income is recognised on an accrual basis and dividend income is recognised when the share price goes ex-dividend.

(c) Non-Hong Kong dollar translation

Non-Hong Kong dollar denominated transactions during the period are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Non-Hong Kong dollar assets and liabilities at the balance sheet date are translated into Hong Kong dollars using exchange rates ruling at the last business day of the period. Exchange gains or losses arising are included in the income and expenditure account.

(d) Off-balance sheet financial instruments

Forward exchange contracts outstanding at the balance sheet date are valued at the forward rates of exchange ruling at the last business day of the period. Gains or losses arising from revaluation of these contracts are included in the income and expenditure account.

(e) Grants to institutions are recognised on a cash basis.

3. INVESTMENTS

	1998 HK\$'000
(a) Details	
Hong Kong quoted shares	921,291
Hong Kong quoted fixed interest securities and certificates of deposit	
- Public sector	213,783
- Others	821,340
Hong Kong dollar fixed deposits	1,483,100
Non-Hong Kong quoted shares	259,751
Non-Hong Kong quoted unit trusts	4,712
Non-Hong Kong quoted fixed interest securities and certificates of deposit	
- Public sector	682,585
- Others	733,317
Non-Hong Kong dollar call deposits and balances with investment managers	<u>225</u>
	<u>5,120,104</u>

(b) Individual security holdings exceeding 5% of the asset class as at 31 August 1998

Description	Class	Market value HK\$'000	% of Class
Cheung Kong (Holdings) Ltd.	Shares	60,870	5.16
CLP Holdings Ltd.	Shares	59,446	5.04
Hong Kong Telecommunications Ltd.	Shares	89,906	7.62
HSBC Holdings plc	Shares	292,876	24.81
Hutchison Whampoa Ltd.	Shares	121,330	10.28

4. CURRENT ASSETS

1998
HK\$'000

Cash at banks	179
Interest and dividends receivable	53,817
Proceeds from investments sold	<u>3,819</u>
	<u>57,815</u>

5. CURRENT LIABILITIES

1998
HK\$'000

Cost of investments bought	372,967
Revaluation losses on outstanding forward exchange contracts	<u>2,185</u>
	<u>375,152</u>

6. INTEREST FROM BANK DEPOSITS

1998
HK\$'000

Hong Kong dollar deposits	209,373
Non-Hong Kong dollar deposits	<u>307</u>
	<u>209,680</u>

7. DIVIDENDS FROM QUOTED SHARES

1998
HK\$'000

Hong Kong quoted shares	<u>19,523</u>
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8. INTEREST FROM QUOTED FIXED INTEREST SECURITIES

	1998 HK\$'000
Hong Kong quoted fixed interest securities and certificates of deposit	39,446
Non-Hong Kong quoted fixed interest securities	9,304
	<u>48,750</u>

9. LOSSES ON SALE/MATURITY AND REVALUATION OF INVESTMENTS,
CURRENT ASSETS AND CURRENT LIABILITIES

	1998 HK\$'000
Gains/(losses) on sale/maturity	
Investment losses	(383)
Exchange gains	1,504
	1,121
Losses on revaluation	
Investment losses	(465,036)
Exchange losses	(10,061)
	(475,097)
	<u>(473,976)</u>

10. GRANTS TO INSTITUTIONS

	1998 HK\$'000
Grants to institutions	<u>1,078</u>

Grants totalling HK\$332,433,000 for 510 projects were approved by the Trustee up to 31 August 1998. The grants not yet paid amounted to HK\$331,355,000.

11. MANAGEMENT EXPENSES

	1998 HK\$'000
Nominees commissions	33
Bank charges	<u>99</u>
	<u>132</u>

12. OUTSTANDING FORWARD EXCHANGE CONTRACTS

Forward exchange contracts entered into by the Fund during the period which have maturity dates after 31 August 1998 amounted to the equivalent of about HK\$92 million. These contracts are entered into by the Fund to contain the Fund's exposure to fluctuations in the exchange rates inherent in the Fund's non-Hong Kong dollar investments.