

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 of the state of affairs of the Quality Education Fund as at 31 August 2000 and of its income and expenditure for the year then ended 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
28 February 2001

(LEUNG Moon-tong, David)
Assistant Director of Audit
for Director of Audit

QUALITY EDUCATION FUND

BALANCE SHEET AS AT 31 AUGUST 2000

| | | 2000 HK\$'000 | 1999 HK\$'000 |
|---------------------|------|------------------|------------------|
| | Note | | |
| INVESTMENTS | (3) | 6,458,133 | 5,990,282 |
| CURRENT ASSETS | (4) | 131,009 | 357,278 |
| CURRENT LIABILITIES | (5) | (107,432) | (326,708) |
| NET ASSETS | | <u>6,481,710</u> | <u>6,020,852</u> |

Representing:

ACCUMULATED FUND

| | | |
|-----------------------------|------------------|------------------|
| Balance at 1 September 1999 | 6,020,852 | 4,802,767 |
| Surplus for the year | 460,858 | 1,218,085 |
| Balance at 31 August 2000 | <u>6,481,710</u> | <u>6,020,852</u> |

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

(Matthew CHEUNG Kin-chung)
Director of Education Incorporated
Trustee of the Quality Education Fund

19 February 2001

QUALITY EDUCATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2000

| | | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------|-----------------------|-------------------------|
| | Note | | |
| INCOME | | | |
| Interest and dividends | (6) | 263,893 | 267,631 |
| Gains on sale/maturity and revaluation of investments, current assets and current liabilities | (7) | 495,332 | 1,294,410 |
| Bond lending income | | 288 | 126 |
| | | <u>759,513</u> | <u>1,562,167</u> |
| EXPENDITURE | | | |
| Grants | (8) | (283,595) | (337,247) |
| Incidental expenses | (9) | (15,060) | (6,835) |
| | | (298,655) | (344,082) |
| Surplus for the year | | <u><u>460,858</u></u> | <u><u>1,218,085</u></u> |

There were no recognised gains or losses other than the surplus for the year.
The notes on pages 3 to 7 form part of these accounts.

QUALITY EDUCATION FUND
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 AUGUST 2000

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 year. Gains or losses arising from the sale/maturity/revaluation of investments during the year are included in the income and expenditure account.

(b) Income

Interest and bond lending 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 year 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 year. 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 year. Gains or losses arising from revaluation of these contracts are included in the income and expenditure account.

(e) Payments of grants are recognised on cash basis.

3. INVESTMENTS

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| (a) Details | | |
| Hong Kong quoted shares | 1,793,839 | 1,877,107 |
| Hong Kong quoted fixed interest securities and certificates of deposit | | |
| — Public sector | 257,120 | 307,290 |
| — Others | 766,493 | 970,024 |
| Hong Kong dollar fixed deposits | 194,000 | 499,434 |
| Non-Hong Kong quoted shares | 2,007,865 | 1,238,179 |
| Non-Hong Kong quoted fixed interest securities and certificates of deposit /commercial papers | | |
| — Public sector | 983,271 | 938,176 |
| — Others | 399,705 | 90,344 |
| Non-Hong Kong dollar fixed deposits | 25,238 | 10,343 |
| Non-Hong Kong dollar call deposits and balances with investment managers | 30,602 | 59,385 |
| | <u>6,458,133</u> | <u>5,990,282</u> |

(b) Individual security holdings exceeding 5% of the asset class as at 31 August 2000

| Description | Class | Market value HK\$'000 | % of Class |
|------------------------------------|--|--------------------------|---------------|
| HSBC Holdings plc | Shares | 575,147 | 15.13 |
| Hutchison Whampoa Ltd. | Shares | 282,656 | 7.43 |
| Kowloon-Canton Railway Corporation | Fixed Interest | 148,021 | 6.15 |
| 8% 15 March 2010 | Securities/ Certificates of Deposit/ Commercial Papers | | |

4. CURRENT ASSETS

| | 2000 HK\$'000 | 1999 HK\$'000 |
|--|------------------|------------------|
| Cash at banks | 226 | 194 |
| Interest and dividends receivable | 54,174 | 55,165 |
| Proceeds from investments sold | 20,706 | 294,946 |
| Revaluation gains on outstanding forward exchange contracts | 55,876 | 6,949 |
| Other debtors | 27 | 24 |
| | <u>131,009</u> | <u>357,278</u> |

5. CURRENT LIABILITIES

| | 2000 HK\$'000 | 1999 HK\$'000 |
|----------------------------|------------------|------------------|
| Cost of investments bought | 105,398 | 324,897 |
| Other creditors | 2,034 | 1,811 |
| | <u>107,432</u> | <u>326,708</u> |

6. INTEREST AND DIVIDENDS

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| Interest from Hong Kong dollar deposits | 15,996 | 47,062 |
| Interest from non-Hong Kong dollar deposits | 2,057 | 2,980 |
| Dividends from Hong Kong quoted shares | 60,130 | 39,023 |
| Dividends from non-Hong Kong quoted shares | 18,364 | 12,196 |
| Interest from Hong Kong quoted fixed interest securities and certificates of deposit | 98,529 | 105,547 |
| Interest from non-Hong Kong quoted fixed interest securities and certificates of deposit /commercial papers | 68,817 | 60,823 |
| | <u>263,893</u> | <u>267,631</u> |

7. GAINS ON SALE/MATURITY AND REVALUATION OF INVESTMENTS, CURRENT ASSETS AND CURRENT LIABILITIES

| | 2000 HK\$'000 | 1999 HK\$'000 |
|-------------------------|------------------|------------------|
| Gains on sale/maturity | | |
| Investment gains | 104,004 | 192,115 |
| Exchange (losses)/gains | (9,782) | 31,396 |
| | 94,222 | 223,511 |
| Gains on revaluation | | |
| Investment gains | 496,297 | 1,081,472 |
| Exchange losses | (95,187) | (10,573) |
| | 401,110 | 1,070,899 |
| | <u>495,332</u> | <u>1,294,410</u> |

8. GRANTS

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| Grants to schools/educational bodies/ institutions/individuals | 290,708 | 337,961 |
| Refund of grants | (7,113) | (714) |
| | <u>283,595</u> | <u>337,247</u> |

Grants totalling HK\$1,542 million for 2,729 projects were approved by the Trustee up to 31 August 2000. The outstanding grants not yet paid amounted to HK\$912 million (1999: HK\$246 million).

9. INCIDENTAL EXPENSES

| | 2000 HK\$'000 | 1999 HK\$'000 |
|------------------------------|------------------|------------------|
| Fees for investment managers | 6,792 | 5,378 |
| Publicity costs | 6,512 | - |
| Fees for global custodian | 979 | 803 |
| Honoraria | 406 | 434 |
| Bank charges | 171 | 127 |
| Nominees commission | 98 | 83 |
| Others | 102 | 10 |
| | <u>15,060</u> | <u>6,835</u> |

10. OUTSTANDING FORWARD EXCHANGE CONTRACTS

Forward exchange contracts entered into by the Fund during the year which have maturity dates after 31 August 2000 amounted to the equivalent of HK\$1,084 million (1999 : HK\$1,995 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.