

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 2001 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 2002

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

QUALITY EDUCATION FUND

BALANCE SHEET AS AT 31 AUGUST 2001

		2001 HK\$'000	2000 HK\$'000
	Note		
INVESTMENTS	(3)	4,815,707	6,458,133
CURRENT ASSETS	(4)	117,012	131,009
CURRENT LIABILITIES	(5)	(63,727)	(107,432)
NET ASSETS		<u>4,868,992</u>	<u>6,481,710</u>

Representing:

ACCUMULATED FUND

Balance at 1 September 2000	6,481,710	6,020,852
(Deficit)/Surplus for the year	(1,612,718)	460,858
Balance at 31 August 2001	<u>4,868,992</u>	<u>6,481,710</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

22 February 2002

QUALITY EDUCATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2001

		2001 HK\$'000	2000 HK\$'000
	Note		
INCOME			
Interest and dividends	(6)	225,333	263,893
Gains on sale/maturity and revaluation of investments, current assets and current liabilities	(7)	-	495,332
Securities lending income		700	288
Other income		22	-
		<u>226,055</u>	<u>759,513</u>
EXPENDITURE			
Grants	(8)	(1,026,331)	(283,595)
Incidental expenses	(9)	(19,006)	(15,060)
Losses on sale/maturity and revaluation of investments, current assets and current liabilities	(7)	(793,436)	-
		(1,838,773)	(298,655)
(Deficit)/Surplus for the year		<u>(1,612,718)</u>	<u>460,858</u>

There were no recognised gains or losses other than the deficit 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 2001

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 securities 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

	2001 HK\$'000	2000 HK\$'000
(a) Details		
Hong Kong quoted shares	1,213,716	1,793,839
Hong Kong quoted fixed interest securities/certificates of deposit		
— Public sector	95,716	257,120
— Others	711,059	766,493
Hong Kong dollar fixed deposits	182,500	194,000
Non-Hong Kong quoted shares	1,246,775	2,007,865
Non-Hong Kong quoted fixed interest securities/certificates of deposit/ commercial papers		
— Public sector	917,291	983,271
— Others	383,292	399,705
Non-Hong Kong dollar fixed deposits	12,725	25,238
Non-Hong Kong dollar call deposits and balances with investment managers	52,633	30,602
	<u>4,815,707</u>	<u>6,458,133</u>

(b) Individual security holdings exceeding 5% of the asset class as at 31 August 2001

Description	Class	Market value HK\$'000	% of Class
HSBC Holdings plc	Shares	328,842	13.36
Hutchison Whampoa Ltd.	Shares	183,048	7.44
Kowloon-Canton Railway Corporation	Fixed Interest	163,830	7.77
8% 15 March 2010	Securities/ Certificates of Deposit/ Commercial Papers		

4. CURRENT ASSETS

	2001 HK\$'000	2000 HK\$'000
Cash at banks	402	226
Interest and dividends receivable	49,570	54,174
Proceeds from investments sold	66,971	20,706
Revaluation gains on outstanding forward exchange contracts	-	55,876
Other debtors	69	27
	<u>117,012</u>	<u>131,009</u>

5. CURRENT LIABILITIES

	2001 HK\$'000	2000 HK\$'000
Cost of investments bought	61,538	105,398
Revaluation losses on outstanding forward exchange contracts	258	-
Other creditors	1,931	2,034
	<u>63,727</u>	<u>107,432</u>

6. INTEREST AND DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interest from Hong Kong dollar deposits	8,417	15,996
Interest from non-Hong Kong dollar deposits	2,235	2,057
Dividends from Hong Kong quoted shares	43,923	60,130
Dividends from non-Hong Kong quoted shares	16,554	18,364
Interest from Hong Kong quoted fixed interest securities/certificates of deposit	80,329	98,529
Interest from non-Hong Kong quoted fixed interest securities/certificates of deposit/ commercial papers	73,875	68,817
	<u>225,333</u>	<u>263,893</u>

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

	2001 HK\$'000	2000 HK\$'000
(Losses)/Gains on sale/maturity		
Investment (losses)/gains	(307,922)	104,004
Exchange losses	(10,334)	(9,782)
	(318,256)	94,222
(Losses)/Gains on revaluation		
Investment (losses)/gains	(478,825)	496,297
Exchange gains/(losses)	3,645	(95,187)
	(475,180)	401,110
	<u>(793,436)</u>	<u>495,332</u>

8. GRANTS

	2001 HK\$'000	2000 HK\$'000
Grants to schools/educational bodies/ institutions/individuals	1,036,789	290,708
Refund of grants	(10,458)	(7,113)
	<u>1,026,331</u>	<u>283,595</u>

Grants totalling HK\$2,746 million for 4,316 projects were approved by the Trustee up to 31 August 2001. The outstanding grants not yet paid amounted to HK\$1,080 million (2000: HK\$912 million).

9. INCIDENTAL EXPENSES

	2001 HK\$'000	2000 HK\$'000
Publicity costs	7,002	6,512
Fees for investment managers	5,983	6,792
Salaries to adjudicators	2,442	-
Cash awards	1,200	-
Fees for global custodian	1,001	979
Honoraria	920	406
Bank charges	163	171
Nominees commission	93	98
Others	202	102
	<u>19,006</u>	<u>15,060</u>

10. OUTSTANDING FORWARD EXCHANGE CONTRACTS

Forward exchange contracts entered into by the Fund during the year which have maturity dates after 31 August 2001 amounted to the equivalent of HK\$950 million (2000 : HK\$1,084 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.