

## **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 2002 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  
31 March 2003

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

QUALITY EDUCATION FUND  
BALANCE SHEET AS AT 31 AUGUST 2002

		2002 HK\$'000	2001 HK\$'000
	Note		
INVESTMENTS	(3)	3,781,278	4,815,707
CURRENT ASSETS	(4)	101,990	117,012
CURRENT LIABILITIES	(5)	(55,409)	(63,727)
NET ASSETS		<u>3,827,859</u>	<u>4,868,992</u>

Representing:

ACCUMULATED FUND

Balance at 1 September 2001	4,868,992	6,481,710
Deficit for the year	(1,041,133)	(1,612,718)
Balance at 31 August 2002	<u>3,827,859</u>	<u>4,868,992</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

17 February 2003

**QUALITY EDUCATION FUND**  
**INCOME AND EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDED 31 AUGUST 2002**

		2002 HK\$'000	2001 HK\$'000
	Note		
<b>INCOME</b>			
Interest and dividends	(6)	162,897	225,333
Securities lending income		997	700
Other income		94	22
		<u>163,988</u>	<u>226,055</u>
<b>EXPENDITURE</b>			
Grants	(8)	(931,550)	(1,026,331)
Incidental expenses	(9)	(10,979)	(19,006)
Losses on sale/maturity and revaluation of investments, current assets and current liabilities	(7)	(262,592)	(793,436)
		(1,205,121)	(1,838,773)
Deficit for the year		<u>(1,041,133)</u>	<u>(1,612,718)</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 2002

### 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/reevaluation 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

	2002 HK\$'000	2001 HK\$'000
(a) Details		
Hong Kong quoted shares	913,208	1,213,716
Hong Kong quoted fixed interest securities/certificates of deposit		
— Public sector	38,742	95,716
— Others	616,378	711,059
Hong Kong dollar fixed deposits	63,000	182,500
Non-Hong Kong quoted shares	969,102	1,246,775
Non-Hong Kong quoted fixed interest securities/certificates of deposit/ commercial papers		
— Public sector	719,305	917,291
— Others	381,157	383,292
Non-Hong Kong dollar fixed deposits	75,994	12,725
Non-Hong Kong dollar call deposits and balances with investment managers	4,392	52,633
	<u>3,781,278</u>	<u>4,815,707</u>

#### (b) Individual security holdings exceeding 5% of the asset class as at 31 August 2002

Description	Class	Market value HK\$'000	% of Class
Hutchison Whampoa Ltd.	Shares	138,606	7.36
HSBC Holdings plc	Shares	110,826	5.89
China Mobile (Hong Kong) Ltd.	Shares	95,348	5.07
Kowloon-Canton Railway Corporation	Fixed Interest	173,217	9.87
8% 15 March 2010	Securities/ Certificates of Deposit/ Commercial Papers		

4. CURRENT ASSETS

	2002 HK\$'000	2001 HK\$'000
Cash at banks	320	402
Interest and dividends receivable	35,469	49,570
Proceeds from investments sold	65,489	66,971
Other debtors	712	69
	<u>101,990</u>	<u>117,012</u>

5. CURRENT LIABILITIES

	2002 HK\$'000	2001 HK\$'000
Cost of investments bought	52,647	61,538
Revaluation losses on outstanding forward exchange contracts	543	258
Other creditors	2,219	1,931
	<u>55,409</u>	<u>63,727</u>

6. INTEREST AND DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interest from Hong Kong dollar deposits	1,795	8,417
Interest from non-Hong Kong dollar deposits	490	2,235
Dividends from Hong Kong quoted shares	31,927	43,923
Dividends from non-Hong Kong quoted shares	13,283	16,554
Interest from Hong Kong quoted fixed interest securities/certificates of deposit	51,498	80,329
Interest from non-Hong Kong quoted fixed interest securities/certificates of deposit/ commercial papers	63,904	73,875
	<u>162,897</u>	<u>225,333</u>

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

	2002 HK\$'000	2001 HK\$'000
Losses on sale/maturity		
Investment losses	(138,025)	(307,922)
Exchange gains/(losses)	4,852	(10,334)
	(133,173)	(318,256)
Losses on revaluation		
Investment losses	(192,737)	(478,825)
Exchange gains	63,318	3,645
	(129,419)	(475,180)
	<u>(262,592)</u>	<u>(793,436)</u>



8. GRANTS

	2002 HK\$'000	2001 HK\$'000
Grants to schools/educational bodies/ institutions/individuals	957,562	1,036,789
Refund of grants	(26,012)	(10,458)
	<u>931,550</u>	<u>1,026,331</u>

Grants totalling HK\$2,839 million for 4,585 projects were approved by the Trustee up to 31 August 2002. The outstanding grants not yet paid amounted to HK\$215 million (2001: HK\$1,080 million).

9. INCIDENTAL EXPENSES

	2002 HK\$'000	2001 HK\$'000
Publicity costs	3,069	7,002
Honoraria	780	920
Salaries to adjudicators	470	2,442
Cash awards	-	1,200
Fees for investment managers	5,460	5,983
Fees for global custodian	951	1,001
Bank charges	125	163
Nominees commission	86	93
Others	38	202
	<u>10,979</u>	<u>19,006</u>

10. OUTSTANDING FORWARD EXCHANGE CONTRACTS

Forward exchange contracts entered into by the Fund during the year which have maturity dates after 31 August 2002 amounted to the equivalent of HK\$213 million (2001 : HK\$950 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.