

**REPORT OF THE DIRECTOR OF AUDIT  
TO THE PERMANENT SECRETARY FOR EDUCATION  
AND MANPOWER INCORPORATED**

I have audited the attached statement of accounts which has been prepared under the accounting policies set out in note 2 to the accounts.

**Respective responsibilities of the Permanent Secretary for Education  
and Manpower Incorporated and the Director of Audit**

Under the provisions of section 8(3) of the Permanent Secretary for Education and Manpower Incorporation Ordinance, the Permanent Secretary for Education and Manpower Incorporated is responsible for the preparation of the statement of accounts. In preparing the statement of accounts, the Permanent Secretary for Education and Manpower 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 that statement of accounts and to report my opinion to you.

**Basis of opinion**

I have audited the statement of accounts referred to above in accordance with the provisions of section 8(5) of the Permanent Secretary for Education and Manpower 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 statement of accounts. It also includes an assessment of the significant estimates and judgements made by the Permanent Secretary for Education and Manpower Incorporated in the preparation of the statement of accounts, 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 statement of accounts is free from material misstatement. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the statement of accounts. I believe that my audit provides a reasonable basis for my opinion.

### **Opinion**

In my opinion the statement of accounts gives a true and fair view of the state of affairs of the Quality Education Fund as at 31 August 2003 and of its income and expenditure for the year then ended and has been properly prepared in accordance with the provisions of section 8(3) of the Permanent Secretary for Education and Manpower Incorporation Ordinance.

Audit Commission  
Hong Kong  
23 March 2004

(LEUNG Kui-yuen, Patrick)  
Assistant Director of Audit  
for Director of Audit

**QUALITY EDUCATION FUND**  
**BALANCE SHEET AS AT 31 AUGUST 2003**

|                     |      | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---------------------|------|------------------|------------------|
|                     | Note |                  |                  |
| INVESTMENTS         | (3)  | 4,080,811        | 3,781,278        |
| CURRENT ASSETS      | (4)  | 59,550           | 101,990          |
| CURRENT LIABILITIES | (5)  | (19,408)         | (55,409)         |
| NET ASSETS          |      | <u>4,120,953</u> | <u>3,827,859</u> |

Representing:

**ACCUMULATED FUND**

|                                |                  |                  |
|--------------------------------|------------------|------------------|
| Balance at 1 September 2002    | 3,827,859        | 4,868,992        |
| Surplus/(Deficit) for the year | 293,094          | (1,041,133)      |
| Balance at 31 August 2003      | <u>4,120,953</u> | <u>3,827,859</u> |

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

(Mrs. Fanny LAW)  
Permanent Secretary for Education and Manpower Incorporated  
Trustee of the Quality Education Fund

20 February 2004

**QUALITY EDUCATION FUND**  
**INCOME AND EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDED 31 AUGUST 2003**

|  |      | 2003<br>HK\$'000      | 2002<br>HK\$'000          |
|--|------|-----------------------|---------------------------|
|  | Note |                       |                           |
| <b>INCOME</b>  |      |                       |                           |
| Interest and dividends   | (6)  | 157,502               | 162,897                   |
| Gains on sale/maturity and revaluation of<br>investments, current assets and current<br>liabilities  | (7)  | 249,460               | -                         |
| Securities lending income  |      | 942                   | 997                       |
| Other income   |      | <u>312</u>            | <u>94</u>                 |
|  |      | 408,216               | 163,988                   |
| <b>EXPENDITURE</b>   |      |                       |                           |
| Grants   | (8)  | (102,636)             | (931,550)                 |
| Incidental expenses  | (9)  | (12,486)              | (10,979)                  |
| Losses on sale/maturity and revaluation of<br>investments, current assets and current<br>liabilities | (7)  | -                     | (262,592)                 |
|  |      | (115,122)             | (1,205,121)               |
| Surplus/(Deficit) for the year   |      | <u><u>293,094</u></u> | <u><u>(1,041,133)</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 2003

### 1. GENERAL

The accounts have been prepared in accordance with the Permanent Secretary for Education and Manpower Incorporation Ordinance (Cap.1098 ).

The Fund was established by a declaration of trust made on 2 January 1998 by the Permanent Secretary for Education and Manpower 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) Foreign currency translation

Foreign currency denominated transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Foreign currency 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

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| (a) Details  |                  |                  |
| Hong Kong listed equity securities                             | 1,123,140        | 913,208          |
| Hong Kong debt securities                                      |                  |                  |
| — Listed   | 27,478           | 27,890           |
| — Unlisted   | 561,157          | 627,230          |
| Hong Kong dollar fixed deposits                                | 86,665           | 63,000           |
| Overseas listed equity securities                              | 1,302,342        | 969,102          |
| Overseas debt securities                                       |                  |                  |
| — Listed   | 889,330          | 1,021,834        |
| — Unlisted   | 78,725           | 78,628           |
| Foreign currency fixed deposits                                | 10,108           | 75,994           |
| Foreign currency call deposits and<br>balances with custodians | 1,866            | 4,392            |
|  | <u>4,080,811</u> | <u>3,781,278</u> |

#### (b) Individual security holdings exceeding 5% of the asset class as at 31 August 2003

| Description   | Class             | Market value<br>HK\$'000 | % of<br>Class |
|---|-------------------|--------------------------|---------------|
| Hutchison Whampoa Ltd.                                    | Equity securities | 148,385                  | 6.12          |
| Kowloon-Canton Railway<br>Corporation<br>8% 15 March 2010 | Debt securities   | 173,037                  | 11.12         |

4. CURRENT ASSETS

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Cash at banks  | 549              | 320              |
| Interest and dividends receivable                              | 36,327           | 35,469           |
| Proceeds from investments sold                                 | 14,700           | 65,489           |
| Revaluation gains on outstanding forward<br>exchange contracts | 7,785            | -                |
| Other debtors  | 189              | 712              |
|  | <u>59,550</u>    | <u>101,990</u>   |

5. CURRENT LIABILITIES

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Cost of investments bought                                      | 16,862           | 52,647           |
| Revaluation losses on outstanding forward<br>exchange contracts | -                | 543              |
| Other creditors   | 2,546            | 2,219            |
|   | <u>19,408</u>    | <u>55,409</u>    |

6. INTEREST AND DIVIDENDS

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Interest from Hong Kong dollar deposits           | 1,310            | 1,795            |
| Interest from foreign currency deposits           | 523              | 490              |
| Dividends from Hong Kong listed equity securities | 37,528           | 31,927           |
| Dividends from overseas listed equity securities  | 18,186           | 13,283           |
| Interest from Hong Kong debt securities           | 42,796           | 51,498           |
| Interest from overseas debt securities            | 57,159           | 63,904           |
|   | <u>157,502</u>   | <u>162,897</u>   |

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

|                               | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Losses on sale/maturity       |                  |                  |
| Investment losses             | (59,809)         | (138,025)        |
| Exchange gains                | 33,300           | 4,852            |
|                               | (26,509)         | (133,173)        |
| Gains/(Losses) on revaluation |                  |                  |
| Investment gains/(losses)     | 195,969          | (192,737)        |
| Exchange gains                | 80,000           | 63,318           |
|                               | 275,969          | (129,419)        |
|                               | <u>249,460</u>   | <u>(262,592)</u> |



8. GRANTS

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Grants to schools/educational bodies/<br>institutions/individuals | 172,456          | 957,562          |
| Refund of grants  | (69,820)         | (26,012)         |
|   | <u>102,636</u>   | <u>931,550</u>   |

Grants totalling HK\$2,929 million for 4,858 projects were approved by the Trustee up to 31 August 2003. The outstanding grants not yet paid amounted to HK\$132 million (2002: HK\$215 million).

9. INCIDENTAL EXPENSES

|                              | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|------------------------------|------------------|------------------|
| Publicity costs              | 1,831            | 3,000            |
| Honoraria                    | 674              | 780              |
| Salaries to adjudicators     | -                | 470              |
| Fees for investment managers | 7,795            | 5,460            |
| Fees for custodians          | 1,594            | 951              |
| Bank charges                 | 201              | 125              |
| Nominees commission          | 18               | 86               |
| Others                       | 373              | 107              |
|                              | <u>12,486</u>    | <u>10,979</u>    |

10. OUTSTANDING FORWARD EXCHANGE CONTRACTS

Forward exchange contracts entered into by the Fund during the year which have maturity dates after 31 August 2003 amounted to the equivalent of HK\$373 million (2002 : HK\$213 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 foreign currency investments.