

**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 2004 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  
28 January 2005

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

# QUALITY EDUCATION FUND

## BALANCE SHEET AS AT 31 AUGUST 2004

		2004 HK\$'000	2003 HK\$'000
	Note		
INVESTMENTS	(3)	4,622,779	4,080,811
CURRENT ASSETS	(4)	243,171	59,550
CURRENT LIABILITIES	(5)	(258,326)	(19,408)
NET ASSETS		<u>4,607,624</u>	<u>4,120,953</u>

Representing:

### ACCUMULATED FUND

Balance at 1 September 2003	4,120,953	3,827,859
Surplus for the year	486,671	293,094
Balance at 31 August 2004	<u>4,607,624</u>	<u>4,120,953</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

24 January 2005

**QUALITY EDUCATION FUND**  
**INCOME AND EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDED 31 AUGUST 2004**

		2004 HK\$'000	2003 HK\$'000
	Note		
<b>INCOME</b>			
Interest and dividends	(6)	154,692	157,502
Gains on sale/maturity and revaluation of investments, current assets and current liabilities	(7)	413,147	249,460
Other income	(8)	3,762	1,288
		<hr/> 571,601	<hr/> 408,250
<b>EXPENDITURE</b>			
Grants	(9)	(69,072)	(102,636)
Incidental expenses	(10)	(15,858)	(12,520)
		(84,930)	(115,156)
Surplus for the year		<hr/> <u>486,671</u>	<hr/> <u>293,094</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 2004

### 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, commission recapture income and securities lending income are recognised on an accrual basis. 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.

## INVESTMENTS

	2004 HK\$'000	2003 HK\$'000
(a) Details		
Hong Kong listed equity securities	1,200,212	1,123,140
Hong Kong debt securities		
— Listed	156,231	27,478
— Unlisted	464,223	561,157
Hong Kong dollar fixed deposits	133,926	86,665
Overseas listed equity securities	1,405,121	1,302,342
Overseas debt securities		
— Listed	1,106,264	889,330
— Unlisted	75,032	78,725
Foreign currency fixed deposits	59,816	10,108
Foreign currency call deposits and balances with custodians	21,954	1,866
	<u>4,622,779</u>	<u>4,080,811</u>

### (b) Individual security holdings exceeding 5% of the asset class as at 31 August 2004

Description	Class	Market value HK\$'000	% of Class
HSBC Holdings Plc	Equity securities	134,526	5.16
Kowloon-Canton Railway Corporation 8% 15 March 2010	Debt securities	172,621	9.58

## 4. CURRENT ASSETS

	2004 HK\$'000	2003 HK\$'000
Cash at banks	387	549
Interest and dividends receivable	34,635	36,327
Proceeds from investments sold	204,292	14,700
Revaluation gains on outstanding forward exchange contracts	2,173	7,785
Other debtors	1,684	189
	<u>243,171</u>	<u>59,550</u>

5. CURRENT LIABILITIES

	2004 HK\$'000	2003 HK\$'000
Cost of investments bought	255,424	16,862
Other creditors	2,902	2,546
	<u>258,326</u>	<u>19,408</u>

6. INTEREST AND DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interest from Hong Kong dollar deposits	133	1,310
Interest from foreign currency deposits	784	523
Dividends from Hong Kong listed equity securities	33,676	37,528
Dividends from overseas listed equity securities	19,658	18,186
Interest from Hong Kong debt securities	43,902	42,796
Interest from overseas debt securities	56,539	57,159
	<u>154,692</u>	<u>157,502</u>

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

	2004 HK\$'000	2003 HK\$'000
Gains/(Losses) on sale/maturity		
Investment gains/(losses)	120,153	(59,809)
Exchange gains	29,595	33,300
	149,748	(26,509)
Gains on revaluation		
Investment gains	193,534	195,969
Exchange gains	69,865	80,000
	263,399	275,969
	<u>413,147</u>	<u>249,460</u>

8. OTHER INCOME

	2004 HK\$'000	2003 HK\$'000
Commission recapture income	1,918	300
Securities lending income	1,637	942
Others	207	46
	<u>3,762</u>	<u>1,288</u>

9. GRANTS

	2004 HK\$'000	2003 HK\$'000
Grants to schools/educational bodies/ institutions/individuals	100,821	172,456
Refund of grants	(31,749)	(69,820)
	<u>69,072</u>	<u>102,636</u>

Grants totalling HK\$3,029 million for 5,218 projects were approved by the Trustee up to 31 August 2004. The outstanding grants not yet paid amounted to HK\$95 million (2003: HK\$132 million).

10. INCIDENTAL EXPENSES

	2004 HK\$'000	2003 HK\$'000
Publicity costs	2,386	1,865
Teaching excellence scheme	1,218	-
Honoraria	254	674
Fees for investment managers	10,013	7,795
Fees for custodians	1,762	1,594
Bank charges	208	201
Nominees commission	-	18
Others	17	373
	<u>15,858</u>	<u>12,520</u>



## 11. OUTSTANDING FORWARD EXCHANGE CONTRACTS

Forward exchange contracts entered into by the Fund during the year which have maturity dates after 31 August 2004 amounted to the equivalent of HK\$2,136 million (2003 : HK\$373 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.