

Quality Education Fund

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 in accordance with accounting principles generally accepted in Hong Kong.

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

Under section 8(3) of the Permanent Secretary for Education and Manpower Incorporation Ordinance (Cap. 1098), 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 certify that I have audited the statement of accounts referred to above in accordance with 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 2005 and of its surplus and cash flows for the year then ended and has been properly prepared in accordance with section 8(3) of the Permanent Secretary for Education and Manpower Incorporation Ordinance.

Audit Commission
Hong Kong
24 February 2006

(YING Kwok-wing)
Assistant Director of Audit
for Director of Audit

Quality Education Fund
Income and Expenditure Account
for the year ended 31 August 2005

	<u>Note</u>	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
INCOME			
Interest and dividends	3	149,906	154,692
Net realised and revaluation gains on financial instruments	4	527,749	413,147
Other income	5	<u>4,558</u>	<u>3,762</u>
		<u>682,213</u>	<u>571,601</u>
EXPENDITURE			
Grants	6	96,559	69,072
Incidental expenses	7	<u>23,509</u>	<u>15,858</u>
		<u>120,068</u>	<u>84,930</u>
SURPLUS FOR THE YEAR		<u><u>562,145</u></u>	<u><u>486,671</u></u>

There were no recognised gains or losses other than the surplus for the year.

The accompanying Notes 1 to 14 form part of these accounts.

Quality Education Fund
Balance Sheet
as at 31 August 2005

	<u>Note</u>	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
ASSETS			
Cash at bank		198	387
Deposits with banks and other financial institutions		221,471	215,696
Investments in securities	8	4,916,627	4,407,083
Receivables and other assets	9	<u>121,349</u>	<u>242,784</u>
		5,259,645	4,865,950
LIABILITIES			
Payables and other liabilities	10	<u>89,876</u>	<u>258,326</u>
NET ASSETS		<u><u>5,169,769</u></u>	<u><u>4,607,624</u></u>
Representing:			
FUND BALANCE			
Balance at beginning of year		4,607,624	4,120,953
Surplus for the year		<u>562,145</u>	<u>486,671</u>
Balance at end of year		<u><u>5,169,769</u></u>	<u><u>4,607,624</u></u>

The accompanying Notes 1 to 14 form part of these accounts.

(Mrs. Fanny LAW)
Permanent Secretary for Education and Manpower Incorporated
Trustee of the Quality Education Fund
24 February 2006

Quality Education Fund
Cash Flow Statement
for the year ended 31 August 2005

	<u>Note</u>	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Cash flows from operating activities			
Surplus for the year		562,145	486,671
Adjustments for:			
Interest income		(82,993)	(101,358)
Dividend income		(66,913)	(53,334)
Increase in investments in securities		(509,544)	(424,911)
Decrease/(Increase) in receivables and other assets		114,292	(185,475)
(Decrease)/Increase in payables and other liabilities		(168,450)	238,917
Elimination of foreign exchange differences in revaluation of cash and cash equivalents		573	(189)
Interest received		91,141	99,019
Dividends received		65,908	57,366
Net cash from operating activities		6,159	116,706
Effects of exchange rate changes on cash and cash equivalents		(573)	189
Cash and cash equivalents at beginning of year		216,083	99,188
Cash and cash equivalents at end of year	11	221,669	216,083

The accompanying Notes 1 to 14 form part of these accounts.

Quality Education Fund

Notes to the Accounts

1. Status of the Fund

The Quality Education Fund was established by a declaration of trust made on 2 January 1998 by the Permanent Secretary for Education and Manpower Incorporated (the Trustee). The Fund provides grants to fund projects that aim to raise the quality of school education, and to promote quality school education in Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

The accounts have been prepared in accordance with section 8(3) of the Permanent Secretary for Education and Manpower Incorporation Ordinance (Cap. 1098), all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. These are the Fund's first HKFRS accounts and HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards" has been applied. The accounting policies set out below have been applied consistently to all periods presented in these accounts and in preparing an opening HKFRS balance sheet at 1 September 2003 for the purposes of the transition to HKFRSs. The transition to HKFRSs has not affected the Fund's previously reported results of operations and financial position. A cash flow statement not previously prepared has been presented in these accounts.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the marking to market of investments in securities and off-balance sheet financial instruments as explained in the accounting policies set out below.

(c) Investments in securities

Investments in securities are stated in the balance sheet at fair value. The fair value is based on the closing market value at the last business day of the year. Changes in fair value are recognised in the income and expenditure account as they arise. Gains or losses on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the income and expenditure account as they arise.

(d) 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.

(e) 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 from revaluation of these contracts are included in the income and expenditure account.

(f) Revenue recognition

Interest income, commission recapture income and securities lending income are recognised on the accrual basis. Dividend income is recognised when the share price goes ex-dividend.

(g) Grants recognition

Grants are recognised as expenditure when they are approved by the Trustee except in those cases where the release of grant is subject to certain conditions, such grants being recognised as expenditure when the grantees comply with the conditions.

(h) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank and deposits with banks and other financial institutions with a maturity of three months or less from the date of placement.

3. Interest and dividends

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Interest from Hong Kong dollar deposits	1,682	133
Interest from foreign currency deposits	1,385	784
Dividends from Hong Kong listed equity securities	41,615	33,676
Dividends from overseas listed equity securities	25,298	19,658
Interest from Hong Kong debt securities	28,210	43,902
Interest from overseas debt securities	51,716	56,539
	<u>149,906</u>	<u>154,692</u>

4. Net realised and revaluation gains on financial instruments

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Net gains on investments in securities	540,976	433,537
Net losses on other financial instruments	(13,227)	(20,390)
	<u>527,749</u>	<u>413,147</u>

5. Other income

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Commission recapture income	1,243	1,918
Securities lending income	3,150	1,637
Others	165	207
	<u>4,558</u>	<u>3,762</u>

6. Grants

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Grants to schools/educational bodies/ institutions/individuals	105,314	100,821
Refund of unused grants	(8,755)	(31,749)
	<u>96,559</u>	<u>69,072</u>

7. Incidental expenses

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Publicity costs	3,604	2,386
Teaching excellence scheme	3,184	1,218
Honoraria	43	254
Fees for investment managers	14,817	10,013
Fees for custodians	1,796	1,762
Bank charges	6	208
Others	59	17
	<u>23,509</u>	<u>15,858</u>

8. Investments in securities

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Equity securities		
Hong Kong listed equity securities	1,222,427	1,200,212
Overseas listed equity securities	1,803,070	1,405,121
	3,025,497	2,605,333
Debt securities		
Hong Kong debt securities		
— Listed	163,863	156,231
— Unlisted	512,258	464,223
Overseas debt securities		
— Listed	1,149,202	1,106,264
— Unlisted	65,807	75,032
	1,891,130	1,801,750
	<u>4,916,627</u>	<u>4,407,083</u>

9. Receivables and other assets

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Interest and dividends receivable	27,492	34,635
Proceeds from investments sold	93,230	204,292
Revaluation gains on outstanding forward exchange contracts	-	2,173
Other debtors	627	1,684
	<u>121,349</u>	<u>242,784</u>

10. Payables and other liabilities

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Cost of investments bought	84,313	255,424
Revaluation losses on outstanding forward exchange contracts	1,098	-
Other creditors	4,465	2,902
	<u>89,876</u>	<u>258,326</u>

11. Cash and cash equivalents

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Cash at bank	198	387
Deposits with banks and other financial institutions	221,471	215,696
	<u>221,669</u>	<u>216,083</u>

12. Commitments

As at 31 August 2005, approved grants to be released by the Fund when the grantees comply with the conditions and not provided for in the accounts amounted to HK\$133 million (2004: HK\$95 million). Since inception up to 31 August 2005, grants totalling HK\$3,171 million for 5,767 projects were approved by the Trustee.

13. Outstanding forward exchange contracts

Forward exchange contracts entered into by the Fund during the year which have maturity dates after 31 August 2005 amounted to the equivalent of HK\$1,154 million (2004: HK\$2,136 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.

14. Recently issued accounting standards

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2005. The Fund has not early adopted these HKFRSs in the accounts for the year ended 31 August 2005. The Fund has commenced an assessment but is not yet in a position to state the impact of these HKFRSs on the Fund's results of operations and financial position.