

**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 Language 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 Language 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.

**Language 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
<b>INCOME</b>			
Government grants	3	500,000	-
Interest income from bank deposits		<u>20,404</u>	<u>10,204</u>
		<u>520,404</u>	<u>10,204</u>
<b>EXPENDITURE</b>			
Grants		57,467	33,244
Public education and publicity expenses		<u>1</u>	<u>10</u>
		<u>57,468</u>	<u>33,254</u>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		<u><u>462,936</u></u>	<u><u>(23,050)</u></u>

There were no recognised gains or losses other than the surplus/(deficit) for the year.

The accompanying Notes 1 to 7 form part of these accounts.

**Language Fund  
Balance Sheet  
as at 31 August 2005**

	<u>Note</u>	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
<b>ASSETS</b>			
Cash at bank		29,418	12,562
Bank deposits	4	1,140,059	705,514
Interest receivable		19,566	6,815
		<u>1,189,043</u>	<u>724,891</u>
<b>LIABILITIES</b>			
Grants payable		1,216	-
		<u>1,187,827</u>	<u>724,891</u>
<b>NET ASSETS</b>			
		<u>1,187,827</u>	<u>724,891</u>
Representing:			
<b>FUND BALANCE</b>			
Balance at 1 September 2004		724,891	747,941
Surplus/(Deficit) for the year		462,936	(23,050)
Balance at 31 August 2005		<u>1,187,827</u>	<u>724,891</u>

The accompanying Notes 1 to 7 form part of these accounts.



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

**Language Fund**  
**Cash Flow Statement**  
**for the year ended 31 August 2005**

	<u>Note</u>	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
<b>Cash flows from operating activities</b>			
Government grants received		500,000	-
Interest received		7,653	7,079
Grants paid		(56,251)	(33,244)
Public education and publicity expenses paid		(1)	(10)
(Increase)/Decrease in bank deposits with original maturity over three months		(434,583)	42,291
<b>Net cash from operating activities</b>		16,818	16,116
<b>Cash and cash equivalents at 1 September 2004</b>		22,600	6,484
<b>Cash and cash equivalents at 31 August 2005</b>	5	39,418	22,600

The accompanying Notes 1 to 7 form part of these accounts.

## Language Fund Notes to the Accounts

### 1. Status of the Fund

The Language Fund was established by a declaration of trust made on 2 May 1994 by the Permanent Secretary for Education and Manpower Incorporated (the Trustee). The Fund provides grants to fund projects aimed at improving Hong Kong people's proficiency in Chinese (including Putonghua) and English.

### 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.

#### (c) Government grants

Government grants are recognised as income in the period in which they are receivable.

#### (d) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(e) Grants

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.

(f) Cash and cash equivalents

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

3. Government grants

During the year, the Fund obtained a government grant of HK\$500 million (2004: Nil) as approved by the Finance Committee of the Legislative Council.

4. Bank deposits

These are Hong Kong dollar deposits placed with banks for investment under section 5(1) of the Permanent Secretary for Education and Manpower Incorporation Ordinance. The remaining maturity of these deposits is analysed below.

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Within one year	700,046	345,468
More than one year	440,013	360,046
	<u>1,140,059</u>	<u>705,514</u>

5. Cash and cash equivalents

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Cash at bank	29,418	12,562
Bank deposits with original maturity within three months	10,000	10,038
	<u>39,418</u>	<u>22,600</u>

**6. 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 approximately HK\$634 million (2004: HK\$382 million).

**7. 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. According to the Fund's assessment, these HKFRSs would not have a significant impact on its results of operations and financial position.