OVERVIEW

The 2002/03 financial year was the second year into the current triennium. Amidst the contraction in University Grants Committee ("UGC") funding, shrinking donations due to the local economic downturn and the lackluster investment market during the year, the University was able to finish the financial year with impressive results.

While Total Income has contracted by 4.8%, Total Expenditure recorded an 11% reduction, producing a record surplus of over $100.0 million for the year. The significant scaling down in activities was on capital projects which saw a short recess after the completion of the Student Residence Hall last year. Such a remarkable result was nothing accidental, and it could be attributed to the concerted efforts of the whole University community to economize on spending, to develop and improve revenue sources. Cautions was exercised in particular to uphold quality amidst cost-cutting and rapid expansion into new programmes.

The cost-saving programmes initiated in previous two years were implemented effectively, not only producing desirable results on target, but also matching well with other academic reforms which would continue into next few years. Much planning was put into paving the way for many of the taught postgraduate programmes to turn self-financed by phases starting next financial year as advised by the UGC.

It is gratifying to note that the Audit Commission's findings indicated that the University has fared reasonably well among all UGC-funded institutions. The University will take on the recommendations of the Commission, where practicable, to further improve the use of resources within the University.

RESULTS OF UNIVERSITY OPERATIONS

General Income

General Income recorded a rise of $36.6 million over 2002, representing a small increase of 4%. UGC grants were increased by $22.0 million, comprising $8.9 million for the Blister Programmes for Teacher Education and $20.1 million from the two tranches of Performance & Mission-Related Supplementary Grant for the
2001-04 triennium. While tuition fee level was frozen for another year as planned by the Government, over-enrolment has helped to increase total tuition fee income for the year by 4%. Interest and Investment Income was almost doubled with the more aggressive use of risk-controlled products, despite the subdued interest rate throughout the year.

**General Expenditure**

General Expenditure for the year was $925.0 million (2002: $961.9 million), a reduction of 3.8% from last year. Except Student Facilities and Amenities, all expenditure categories recorded a drop. An Art and Cultural Education Programme for students aimed at enhancing and nurturing their understanding and appreciation of art and culture was launched during the year, taking advantage of more students staying longer on campus after the occupation of the Student Residence Hall. Apart from that, the relative weightings among the other expenditure categories were similar to those in the previous years.

**Self-financing Activities**

Income from Self-financing Activities broke its record again in 2003 with a 18% increase to $359.9 million (2002: $305.0 million), netting a surplus of $95.9 million (2002: $74.3 million) which was higher by 29.1%. While part of this increase came from the full-scale operation of the Student Residence Hall in 2002/03, the sustained success in offering continuing education programmes was the key reason for such a notable achievement. The pilot learning centre in Shenzhen set up last year was producing encouraging results. A wholly foreign-owned subsidiary was being established in Shenzhen to handle the increasing operations more effectively.

As the UGC has agreed to regroup the operation of the Academic Community Hall ("Hall") as UGC-funded activity with effect from 1 July 2003, this operation would be presented under Self-financed Activities for the last time in 2002/03. With this new arrangement, the Hall has become eligible for bidding for UGC funding to carry out much-needed repair and maintenance works due to its ageing.
The improving operations of the Ng Tor Tai International House ("House"), a guesthouse operated under a wholly-owned subsidiary of the University, suffered a setback from the outbreak of Severely Acute Respiratory Syndrome in March to May 2003. Notwithstanding that, the House was able to record an operating profit of $0.2 million after depreciation (2002: $0.7 million) and the management of the House was confident of a recovery in 2003/04.

A number of new self-financed Taught Postgraduate Programmes were launched during the year to pave the way for replacing those which would be defunded by the UGC in the next few years. Faculties and Schools would continue to respond to market demands in launching more self-financed academic programmes as a way to alleviate the pressure from the reduction in UGC grant. A new subsidiary company was set up during the year to explore opportunities of a patent on Chemistry laboratory teaching kits.

Non-recurrent Subvention

During the year, the University has secured a total of $48.6 million (2002: $27.1 million) non-recurrent subvention from the UGC. They included, amongst others, $7.9 million for Teaching Development Grants projects, $14.7 million of Competitive Earmarked Research Grants, $5.0 million for Institutional Advancement earmarked grant, $2.2 million for English/Putonghua Immersion Programme (as part of the Teachers Education programmes) and $3.6 million for the UGC-initiated Student Exchange Programme earmarked grant.

Under a new initiative from the Government to promote the culture of benevolence in the society towards supporting higher education, the University secured a matching earmarked grant of $3.7 million from the UGC for the same amount of eligible donations obtained and received during the year.

UGC-funded Capital and Other Projects

There were no new Capital Grant approved by the Government in the year. Only four allocations for Alterations, Additions and Improvement works totaling $40.4 million (2002: $15.4 million), were approved. Six projects were completed and their accounts closed during the year with the fund balances returned to the Government.
Two lots of land in Shek Mun, adjacent to one another, were allotted during the year to the University for establishing the HKBU affiliated school and a second campus for the College of International Education which offers associate degree programmes. The former will replace the lot at Renfrew Road adjoining the University campus which had been identified for the affiliated school previously. The latter would be operated by the School of Continuing Education of the University under a ten-year license which included an obligation to construct a purpose-built campus facility within three years and a $360.0 million interest-free construction loan from the Government repayable within the ten-year license period.

Donations and Benefactions

In 2003, the University received total donations of $43.4 million (2002: $116.1 million), including $14.2 million for capital projects (2002: $91.7 million), $7.9 million for student scholarship, prizes, bursaries and loan funds (2002: $6.5 million) and $3.0 million (2002: $3.3 million) towards the University Foundation Funds.

Encouraged by the funding scheme initiated by the Government during the year to match donations secured by the University, the entire University community is working hard to capitalize on this opportunity with the view to attaining the designated targets within the qualifying period.

CASHFLOW AND FINANCIAL STRENGTH

Fund Balances and Reserves

Total funds held by the University at the end of 2002/03 were $1.2 billion (2002: $1.0 billion). They included a balance of $271.4 million on General Funds, $855.2 million on Specific Funds and $33.2 million of recurrent UGC funds carried forward in the Equalization Account. The first two funds, which include University Foundation Funds, are mainly generated by the University from non-UGC sources. They have helped and will continue to help the University to cushion the impact of the impending cut in government funding in the next few years, as well as provide resources for worthwhile activities not funded by the UGC. The last fund is essentially due to a timing difference between the release of grants and the incidence of expenditure, and its balance,
Investment and Rates of Return

With the recovery of investment markets after the war in Iraq, the investment portfolios managed by the investment managers appointed by the University recorded an overall positive return of 3% (2002: -2.2%) for the whole financial year. The University has adopted a more aggressive approach in using new risk-controlled products from the market to enhance yields from surplus working capital. Together with an improved cashflow, this approach has helped the University to reap a bigger interest income during the year.

SUPERANNUATION FUNDS

The Hong Kong Baptist University 1998 Superannuation Fund ("the Fund"), a members’ choice Occupational Retirement Schemes Ordinance scheme which is exempted from the Mandatory Provident Fund ("MPF") Ordinance, and an MPF scheme, continued to operate under a trust arrangement. Returns of the thirteen investment options under the Fund ranged from 5.3% to +7.9% for the financial year (2002: -10.5% to +2.6%), while those of the seven options under the MPF scheme ranged from -7.4% to +4.1% (2002: -14.1% to +1.5%).

CHANGES IN ACCOUNTING POLICIES

The University continuously seeks to improve financial information presentation and accountability. With effect from 1 July 2002, the University has adopted new accounting policies in respect of investments in securities and accrual for staff leave entitlements in order to comply with the Statements of Standard Accounting Practice ("SSAPs") No. 24 "Accounting for Investments in Securities" and No. 34 "Employee benefits" issued by the Hong Kong Society of Accountants. The effect of the changes in accounting policies is summarized in Note 2 to the accounts.
LOOKING FORWARD

Further economization in the use of resources while maintaining quality will be the main theme for financial planning in the next few years. As delinking with Civil Service Pay Scale sets in on 1 July 2003, the University will have greater flexibility in deploying resources while being mindful of the commitments to its staff under existing appointment contracts.

In anticipation of the grant reduction for 2004/05 which has been set by the UGC as a roll-over year of the current funding triennium, the University has embarked on a series of stern cost-saving measures in 2002/03. Most of them have so far produced fruitful results while helping to ensure that programme quality is not compromised. Improvements on internal efficiency and effectiveness through flattened management structure and streamlined procedures, tightened cost controls in the deployment and use of assets, consolidation of operational units and integrating technology with people, will be gathering more momentum.

Michael P K Wu
Treasurer
17th December 2003

學的會計政策，此變更的影響已於帳冊附註第二項中作扼要說明。

展望

如何進一步節用資源將是大學未來數年財政規劃的主要課題。隨著二零零三年七月一日政府實行解除對大學教職員薪酬規管，不再強制與公務員薪酬掛鈎，大學在調配資源方面應有更大靈活性，但仍須就與各僱員簽訂之僱用合約條款恪守承諾。

考慮到二零零四年／零五年度（而教資會已決定將現三年撥款期延展至該年度）政府削減撥款的預計幅度，大學早已作好準備，在二零零二／零三年度開展一連串推行節約成本措施。直至目前為止，大部份措施均取得良好效益，並有助確保各項課程質素不會因此而下降。預期來年將透過簡化架構及工序，在資產調配和運用方面加強成本控制，整合部門運作，及結合科技與人力優勢，以提高大學內部營運效率及效益。

司庫
伍步高
二零零三年十二月十七日