



**Statement of Accounts**

**West Kowloon Cultural District Authority**  
**Profit and Loss Account**  
**For the period from 11 July 2008**  
**(date of establishment) to 31 March 2009**

	Note	HK\$	HK\$
<b>Income</b>			
Interest income			72,798,531
<b>Expenses</b>			
Staff costs	4	7,248,818	
Other operating expenses	5	<u>2,013,305</u>	
			<u>9,262,123</u>
<b>Profit for the period</b>			<u><u>63,536,408</u></u>

**West Kowloon Cultural District Authority**  
**Balance Sheet**  
**as at 31 March 2009**

	Note	HK\$	HK\$
<b>Non-current assets</b>			
Property, plant and equipment	8		189,650
<b>Current assets</b>			
Interest receivable		72,776,709	
Prepayments and deposit	9	18,041	
Time deposits with original maturities over three months		21,573,400,000	
Cash and cash equivalents	10	<u>25,089,683</u>	
		21,671,284,433	
<b>Current liabilities</b>			
Other payable and accruals	11	<u>7,925,532</u>	
<b>Net current assets</b>			<u>21,663,358,901</u>
<b>Total assets less current liabilities</b>			21,663,548,551 <span style="float: right; border-bottom: 1px solid black; padding-left: 20px;">71</span>
<b>Non-current liability</b>			
Accrued contract gratuity			<u>12,143</u>
<b>Net assets</b>			<u>21,663,536,408</u>
<b>Equity</b>			
Capital - Endowment from the Government of HKSAR	12		21,600,000,000
Reserve			<u>63,536,408</u>
			<u>21,663,536,408</u>

Approved and authorised for issue by the Board of the Authority on 20 July 2009.



Mr Henry TANG Ying-yen, GBM, GBS, JP  
Chairman of the Board  
West Kowloon Cultural District Authority



Mr Andrew TSOI Po-wa  
Finance Manager,  
West Kowloon Cultural District Authority

The notes on pages 74 to 78 form part of the statement of accounts.

**West Kowloon Cultural District Authority**  
**Statement of Changes in Equity**  
**For the period from 11 July 2008**  
**(date of establishment) to 31 March 2009**

	Note	HK\$	HK\$
Balance at 11 July 2008 (date of establishment)			-
Capital – Endowment from the Government of HKSAR	12	21,600,000,000	
Profit for the period		<u>63,536,408</u>	
			<u>21,663,536,408</u>
Balance at 31 March 2009			<u><u>21,663,536,408</u></u>

**West Kowloon Cultural District Authority**  
**Cast Flow Statement**  
**For the period from 11 July 2008**  
**(date of establishment) to 31 March 2009**

	Note	HK\$
<b>Operating activities</b>		
Profit for the period		63,536,408
Adjustments for –		
Depreciation		37,930
Interest income		(72,798,531)
Changes in working capital –		
Increase in prepayments and deposit		(18,041)
Increase in other payable and accruals		7,925,532
Increase in accrued contract gratuity		12,143
<b>Net cash used in operating activities</b>		<b>(1,304,559)</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment		(227,580)
Interest received		21,822
Increase in time deposits with original maturities over three months		(21,573,400,000)
<b>Net cash used in investing activities</b>		<b>(21,573,605,758)</b>
<b>Financing activities</b>		
Capital - Endowment from the Government of HKSAR		21,600,000,000
<b>Net cash generated from financing activities</b>		<b>21,600,000,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>25,089,683</b>
<b>Cash and cash equivalents at 11 July 2008</b> (date of establishment)		-
<b>Cash and cash equivalents at 31 March 2009</b>	10	<b>25,089,683</b>

## NOTES TO THE STATEMENT OF ACCOUNTS

For the period from 11 July 2008 (date of establishment) to 31 March 2009

### 1. Background

The West Kowloon Cultural District Authority ("the Authority") was established as a body corporate in Hong Kong under the West Kowloon Cultural District Authority Ordinance ("the WKCDA Ordinance"), Cap. 601, which was enacted on 11 July 2008. Its temporary office address is at 6/F and 7/F, 98 Caroline Hill Road, Causeway Bay, Hong Kong.

The statement of accounts, being the first set of the Authority's statement of accounts, covers the operations of the Authority for the period from 11 July 2008 (date of establishment) to 31 March 2009.

### 2. Principal activities

The functions and objectives of the Authority are stipulated in Sections 4(1) and 4(2) of the WKCDA Ordinance respectively. In brief, the Authority is responsible for the planning, development, operation and maintenance of the arts and cultural facilities, related facilities or ancillary facilities of the West Kowloon Cultural District.

### 3. Significant accounting policies

#### (a) Statement of compliance

The statement of accounts has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Authority is set out below.

The Authority has not applied any new standard or interpretation that is not yet effective for the accounting period ended 31 March 2009 (see note 16).

#### (b) Basis of preparation of the statement of accounts

The Authority's functional and reporting currency in the statement of accounts is Hong Kong dollars. The measurement basis used in the preparation of statement of accounts is the historical cost basis.

The preparation of the statement of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revisions affect both current and future periods.

#### (c) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition necessary for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The estimated useful life for computers is three years.

The estimated useful life of an asset is reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized as income or expenditure in the profit and loss account on the date of retirement or disposal.

**(d) Interest receivable, prepayments and deposit**

Interest receivable, prepayments and deposit are recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts. Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

**(e) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property, plant and equipment may be impaired or an impairment loss previously recognized no longer exists or may have decreased.

If any such indication exists, the property, plant and equipment's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

**(i) Calculation of recoverable amount**

The recoverable amount of the property, plant and equipment is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where the property, plant and equipment does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined only for the cash-generating unit which is the smallest group of assets that includes the asset and generates cash inflows independently.

**(ii) Reversals of impairment losses**

An impairment loss is reversed if there has been a positive change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in previous periods. Reversals of impairment losses are credited to the profit and loss account in the period in which the reversals are recognized.

**(f) Other payable and accruals**

Other payable and accruals are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, and time deposits with original maturities of three months or less.

**(h) Income recognition**

Interest income is accrued by reference to the principal outstanding and at the effective interest rate applicable.

**(i) Employee benefits**

Salaries and annual leave entitlements are accrued in the period in which the employees render the associated services. Staff on-costs, including pensions and housing benefits provided by the Government of the Hong Kong Special Administrative Region ("HKSAR") to the civil service staff seconded to the Authority, are charged as expenditure on an accrual basis in the period in which the associated services are rendered.

Contributions to Mandatory Provident Fund (MPF) schemes are charged as expenditure on an accrual basis in the period when related employees have rendered the associated services.

(j) Provisions and contingent liabilities

Provisions are recognized in the balance sheet when the Authority has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Authority will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Related parties

Parties are considered to be related to the Authority if the parties have the ability, directly or indirectly, to control the Authority or exercise significant influence over the Authority in making financial and operating decisions, or vice versa. Related parties also include key management personnel having authority and responsibility for planning, directing and controlling the activities of the Authority.

4. Staff costs

	HK\$
Salaries, allowances and other benefits	6,163,119
Pensions and contributions to MPF schemes	<u>1,085,699</u>
	<u>7,248,818</u>

5. Other operating expenses

	HK\$
Costs of hired services through employment agencies	620,434
Audit fee	85,000
Depreciation	37,930
Others	<u>1,269,941</u>
	<u>2,013,305</u>

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6. Board / Committee / Consultation Panel members' remuneration

The chairmen and members of the Board of the Authority, its Committees and the Consultation Panel of the Authority were not entitled to any remuneration for their services rendered to the Authority.

7. Taxation

Pursuant to Section 41(1) of the WKCD Ordinance, the Authority is exempt from taxation under the Inland Revenue Ordinance (Cap. 112). Pursuant to Section 41(2) of the WKCD Ordinance, the Authority is also exempt from stamp duty under the Stamp Duty Ordinance (Cap. 117) in respect of any instrument relating to (a) the conveyance of any immovable property under which the beneficial interest of the property passes by way of gift to the Authority; or (b) the transfer of any stock within the meaning of the Stamp Duty Ordinance, under which the beneficial interest of the stock passes by way of gift to the Authority.

8. Property, plant and equipment

	Computers HK\$
<b>Cost</b>	
Additions	227,580
<b>Accumulated depreciation</b>	
Charge for the period	<u>37,930</u>
<b>At 31 March 2009</b>	<u>189,650</u>



## 9. Prepayments and deposit

	HK\$
Prepayments	17,891
Deposit	150
	<u>18,041</u>

## 10. Cash and cash equivalents

	HK\$
Cash at bank and in hand	8,989,683
Time deposits with original maturities of three months or less	16,100,000
	<u>25,089,683</u>

## 11. Other payable and accruals

	HK\$
Amount due to the Government of HKSAR	7,506,988
Accrued salaries, MPF contributions, and provision for annual leave entitlements	85,145
Audit fee	85,000
Others	248,399
	<u>7,925,532</u>

## 12. Capital

On 4 July 2008, the Finance Committee of the Legislative Council of HKSAR approved an upfront endowment of HK\$21.6 billion to the Authority for developing the West Kowloon Cultural District.

Pursuant to Section 22(2) of the WKCDA Ordinance, the Authority shall (a) manage its finances (including resources) with due care and diligence; and (b) ensure the financial sustainability of the operation and management of arts and cultural facilities, related facilities and ancillary facilities.

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## 13. Material related party transaction

### (a) Key management personnel remuneration

Remuneration of the following directors included in note 4 is as follows –

	HK\$
Project Director*	1,213,761
Legal Services Director*	852,330
Corporate Services Director*	619,870
	<u>2,685,961</u>

\* These three directors are civil service staff seconded to the Authority on 13 October 2008, 10 October 2008 and 3 November 2008 respectively.

### (b) Other related party transactions

In addition to the amount due to the Government of HKSAR as disclosed in note 11 above, during the accounting period, the Authority reimbursed the Government of HKSAR an amount of HK\$927,304 for costs incurred by the Home Affairs Bureau in connection with the Authority's set-up work and running expenses.

#### 14. Financial risks

The Authority's financial assets include interest receivable, time deposits with original maturities over three months as well as cash and cash equivalents amounted to HK\$72,776,709, HK\$21,573,400,000 and HK\$25,089,683 respectively. The Authority's financial liabilities include other payable and accruals, as well as accrued contract gratuity amounted to HK\$7,925,532 and HK\$12,143 respectively.

Risk management is carried out by the Authority under approved policies. The Authority identifies and evaluates financial risks, and provides written principles for overall risk management.

##### (a) Credit risk

On 14 October 2008, the Government of HKSAR announced the use of the exchange fund to immediately guarantee repayment of all customer deposits held with all authorised institutions in Hong Kong (which cover licensed banks in the HKSAR, among others, and include HKSAR branches of overseas institutions) following the principles of the Deposit Protection Scheme, until the end of 2010. The bank balances of the Authority are kept in the said authorised institutions and are therefore fully protected under the said scheme.

##### (b) Liquidity risk

The Authority's policy is to regularly monitor current and expected liquidity requirements to ensure that the Authority maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Except for accrued contract gratuity which is payable in two years without interest, other financial liabilities of the Authority at the balance sheet date do not bear interest and are payable within one year or on demand.

##### (c) Sensitivity analysis

Based on the time deposits balance as at the balance sheet date on 31 March 2009, if there were a general increase / decrease of 10 basis points in the annual interest rates on the same date, it is estimated that, with all other variables held constant, it would increase / decrease the Authority's interest income and reserve by approximately HK\$22 million a year.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the time deposits in existence at that date.

##### (d) Fair values

The carrying amounts of the Authority's financial assets and financial liabilities equal to their fair values.

#### 15. Post-balance sheet event

The Authority has entered into the following significant commitment after the balance sheet date on 31 March 2009. With the approval of the Board, the Authority has executed in July 2009 three separate contracts with three consultants each to prepare a Conceptual Plan for the West Kowloon Cultural District (i.e. the Conceptual Plan Consultancy) and also a contract with another consultant to undertake the detailed technical and engineering feasibility study on the selected Conceptual Plan with a view to preparing a detailed Development Plan for submission to the Town Planning Board as well as to prepare the detailed functional requirements for the core arts and cultural facilities (i.e. the Project Consultancy). The total value for the four contracts for both the Conceptual Plan Consultancy and the Project Consultancy amounts to about HK\$230 million.

#### 16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period ended 31 March 2009

Up to the date of approval of the statement of accounts for issue by the Board of the Authority, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2009 and which have not been adopted in the statement of accounts.

The Authority is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of these standards may result in new or amended disclosures in the statement of accounts in the period of its initial application, it is unlikely to have a significant impact on the Authority's results of operations and financial position in that period.