

**STATEMENT OF
ACCOUNTS**

CULTURA

West Kowloon Cultural District Authority
Profit and Loss Account
For the year ended 31 March 2010

	Note	Year ended 31 March 2010 HK\$'000	From 11 July 2008 (date of establishment) to 31 March 2009 HK\$'000
Income			
Bank interest income		143,081	72,798
Income from placement with the Hong Kong Monetary Authority	2(e), 14(c)	86,388	-
Sundry income		<u>1</u>	<u>-</u>
		<u>229,470</u>	<u>72,798</u>
Expenses			
Staff costs	3	(20,254)	(7,249)
Other operating expenses	4	(53,148)	(2,013)
		<u>(73,402)</u>	<u>(9,262)</u>
Profit for the year/period		<u>156,068</u>	<u>63,536</u>

West Kowloon Cultural District Authority
Statement of Comprehensive Income
For the year ended 31 March 2010

	Year ended 31 March 2010 HK\$'000	From 11 July 2008 (date of establishment) to 31 March 2009 HK\$'000
Profit for the year/period	156,068	63,536
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the year/period	<u>156,068</u>	<u>63,536</u>

West Kowloon Cultural District Authority
Balance Sheet
as at 31 March 2010

	Note	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Plant and equipment	7	1,436	190
Placement with the Hong Kong Monetary Authority	8	6,586,388	-
		<u>6,587,824</u>	<u>190</u>
Current assets			
Bank interest receivable		43,471	72,776
Prepayments and deposit	9	-	18
Time deposits with original maturities over three months		15,140,000	21,573,400
Cash and cash equivalents	10	59,036	25,090
		<u>15,242,507</u>	<u>21,671,284</u>
Current liabilities			
Other payables and accruals	11	10,114	7,926
Net current assets		<u>15,232,393</u>	<u>21,663,358</u>
Total assets less current liabilities		<u>21,820,217</u>	<u>21,663,548</u>
Non-current liabilities			
Accrued contract gratuity		588	12
Other non-current liabilities		25	-
		<u>613</u>	<u>12</u>
Net assets		<u>21,819,604</u>	<u>21,663,536</u>
Equity			
Capital - Endowment from the Government of HKSAR	12	21,600,000	21,600,000
Reserve		219,604	63,536
		<u>21,819,604</u>	<u>21,663,536</u>

84

Approved and authorised for issue by the Board of the Authority on 18 June 2010.



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



Dr Eva LAM Yee-wah, DBA
 Finance Executive Director
 West Kowloon Cultural District Authority

The notes on pages 87 to 98 form part of the statement of accounts.

West Kowloon Cultural District Authority
Statement of Changes in Equity
For the year ended 31 March 2010

	Capital - Endowment from the Government of HKSAR HK\$'000	Reserve HK\$'000	Total HK\$'000
Balance at 11 July 2008 (date of establishment)	-	-	-
Capital - Endowment from the Government of HKSAR	21,600,000	-	21,600,000
Comprehensive income for the period	<u>-</u>	<u>63,536</u>	<u>63,536</u>
Balance at 31 March 2009	21,600,000	63,536	21,663,536
Comprehensive income for the year	<u>-</u>	<u>156,068</u>	<u>156,068</u>
Balance at 31 March 2010	<u><u>21,600,000</u></u>	<u><u>219,604</u></u>	<u><u>21,819,604</u></u>

West Kowloon Cultural District Authority
Cash Flow Statement
For the year ended 31 March 2010

	Note	Year ended 31 March 2010 HK\$'000	From 11 July 2008 (date of establishment) to 31 March 2009 HK\$'000
Operating activities			
Profit for the year/period		156,068	63,536
Adjustments for:			
Depreciation		253	38
Bank interest income		(143,081)	(72,798)
Income from placement with the Hong Kong Monetary Authority	8	(86,388)	-
Changes in working capital:			
Decrease/(increase) in prepayments and deposit		18	(18)
Increase in other payables and accruals		2,188	7,926
Increase in non-current liabilities		601	12
Net cash used in operating activities		(70,341)	(1,304)
Investing activities			
Purchases of plant and equipment		(1,499)	(228)
Bank interest received		172,386	22
Placement with the Hong Kong Monetary Authority	8	(6,500,000)	-
Decrease/(increase) in time deposits with original maturities over three months		6,433,400	(21,573,400)
Net cash generated from/(used in) investing activities		104,287	(21,573,606)
Financing activities			
Capital - Endowment from the Government of HKSAR		-	21,600,000
Net cash generated from financing activities		-	21,600,000
Net increase in cash and cash equivalents		33,946	25,090
Cash and cash equivalents at beginning of year/period		25,090	-
Cash and cash equivalents at end of year/period	10	59,036	25,090

Notes to the Statement of Accounts For the year ended 31 March 2010

1 General information

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 & 7/F, 98 Caroline Hill Road, Causeway Bay, Hong Kong.

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

2 Significant accounting policies

(a) Statement of compliance

The statement of accounts has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual HKFRS, 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. The significant accounting policies applied in the preparation of this statement of accounts are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(b) Basis of preparation

The statement of accounts has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The statement of accounts has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the statement of accounts in conformity with HKFRS 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 recognised 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.

(b) Basis of preparation (Continued)

(i) Adoption of new or revised HKFRS

In the current year, the Authority has adopted the following revised standard and amendment to an existing standard, which are relevant to its operations.

HKAS 1 (Revised), "Presentation of Financial Statements", prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the profit and loss account and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present the balance sheets at the end of the current period and comparative period. The Authority has applied HKAS1 (Revised) from 1 April 2009, resulting in a new primary statement, the "Statement of Comprehensive Income", being presented in the statement of accounts.

HKFRS 7, "Financial Instruments – Disclosures" (amendment), requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

The adoption of the revised standard and the amendment to an existing standard listed above only resulted in additional disclosures. The changes in presentation and disclosures have no effect on the Authority's results of operations and financial position.

(ii) Standards, amendments and interpretations which are not yet effective

The following revised standards and amendments to existing standards, which are relevant to the Authority, have been published and are mandatory for accounting periods of the Authority beginning on or after 1st April 2010 or later periods and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 24 (Revised)	Related Party Disclosures	1st January 2011
HKFRS 9	Financial Instruments	1st January 2013
Improvements to HKFRS - Amendments to: HKAS 7	Statement of Cash Flows	1st January 2010

The Authority has commenced an assessment of the impact of these revised standards and amendments but is not yet in a position to state whether these revised standards and amendments would have an impact on the results of operations and financial position of the Authority.

(c) Functional and presentation currency

Items included in the statement of accounts of the Authority are measured using the currency of the primary economic environment in which the Authority operates (the “functional currency”). The statement of accounts is presented in Hong Kong dollar, which is the Authority’s functional and presentation currency.

(d) Plant and equipment

Plant and equipment are stated in the balance sheet at historical cost less accumulated depreciation and any impairment losses. The historical cost of an item of 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. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis to write off the cost of each item of plant and equipment over its estimated useful life, as follows:

Office furniture and equipment	3 years
Computer equipment	3 years

The estimated useful life of an asset is reviewed annually.

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

(e) Placement with the Hong Kong Monetary Authority

The Authority has designated the placement with the Hong Kong Monetary Authority (“HKMA”) as a “financial asset at fair value through profit or loss”. The Authority determines the classification of its financial assets at initial recognition, and such classification depends on the purpose for which the financial assets were acquired.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed to the profit and loss account. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in fair value of “financial assets at fair value through profit or loss” are recognised in the profit and loss account in the period in which they arise.

(f) Bank interest receivable, prepayments and deposit

Bank interest receivable, prepayments and deposit are recognised at fair value and thereafter stated at amortised cost using effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(g) Impairment of assets

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

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

(i) Calculation of recoverable amount

The recoverable amount of the 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 plant and equipment do 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 recognised in previous periods. Reversals of impairment losses are credited to the profit and loss account in the period in which the reversals are recognised.

(h) 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.

(i) Other payables and accruals

Other payables and accruals are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Income recognition

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

Changes in fair value of the placement with HKMA, which is designated as a “financial asset at fair value through profit or loss”, are recognised as income in the profit and loss account in the period in which they arise.

(k) 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 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.

(l) Provisions and contingent liabilities

Provisions are recognised 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.

3 Staff costs

Staff costs for seconded staff from the Government of HKSAR and employees directly hired by the Authority are as follows:

	Year ended 31 March 2010 HK\$'000	From 11 July 2008 (date of establishment) to 31 March 2009 HK\$'000
Salaries, allowances and other benefits	18,044	6,163
Pensions and contributions to MPF schemes	<u>2,210</u>	<u>1,086</u>
	<u>20,254</u>	<u>7,249</u>

4 Other operating expenses

	Year ended 31 March 2010 HK\$'000	From 11 July 2008 (date of establishment) to 31 March 2009 HK\$'000
Consultancy fees (Note a)	40,627	-
Costs of hired services through employment agencies	2,137	620
Audit fee	85	85
Depreciation	253	38
Others (Note b)	<u>10,046</u>	<u>1,270</u>
	<u>53,148</u>	<u>2,013</u>

Notes:

- (a) During the year, the Authority has entered into 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\$230.0 million, of which around HK\$20.7 million has been charged to the profit and loss accounts in the year. The Authority has also entered into a number of other consultancy contracts during the year, totalling about HK\$39.6 million, of which around HK\$19.9 million has been expensed.
- (b) Included in "Others" are recruitment costs, IT and computer expenses, and expenditures incurred for public engagement exercises and public relations activities.

5 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.

6 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.

7 Plant and equipment

	Office furniture and equipment HK\$'000	Computer equipment HK\$'000	Total HK\$'000
Cost			
At 11 July 2008 (date of establishment)	-	-	-
Additions	-	228	228
At 31 March 2009	-	228	228
Accumulated depreciation			
At 11 July 2008 (date of establishment)	-	-	-
Charge for the period	-	38	38
At 31 March 2009	-	38	38
Net book value			
At 31 March 2009	-	190	190
Cost			
At 1 April 2009	-	228	228
Additions	110	1,389	1,499
At 31 March 2010	110	1,617	1,727
Accumulated depreciation			
At 1 April 2009	-	38	38
Charge for the period	28	225	253
At 31 March 2010	28	263	291
Net book value			
At 31 March 2010	82	1,354	1,436

8 Placement with the Hong Kong Monetary Authority

In January 2010, the Authority placed HK\$6,500,000,000 (the “Principal Amount”) with HKMA for a period of six years during which time the Authority would not be able to withdraw the Principal Amount.

The rate of return on the placement, which is determined annually in January and payable annually in arrears on 31 December, is calculated on the basis of the average annual rate of return on certain investment portfolio of the Exchange Fund over the past six years or the average annual yield of three-year Exchange Fund Notes in the previous year (subject to a minimum of zero percent), whichever is the higher. This rate has been fixed at 6.3% per annum for 2010.

The Authority has designated the placement with HKMA as a “financial asset at fair value through profit or loss”. The financial asset is denominated in Hong Kong dollar. Its fair value, which is determined using the discounted cash flow model, approximates its carrying value.

9 Prepayments and deposit

	2010 HK\$'000	2009 HK\$'000
Prepayments	-	18
Deposit	-	-
	<u>-</u>	<u>18</u>

10 Cash and cash equivalents

	2010 HK\$'000	2009 HK\$'000
Cash at bank and in hand	19,036	8,990
Time deposits with original maturities of three months or less	<u>40,000</u>	<u>16,100</u>
	<u>59,036</u>	<u>25,090</u>

11 Other payables and accruals

	2010 HK\$'000	2009 HK\$'000
Amount due to the Government of HKSAR	1,373	7,507
Accrued salaries, MPF contributions, and provision for annual leave entitlements	241	85
Accrued contract gratuity	144	-
Audit fee	85	85
Consultancy fee	5,479	-
Others	<u>2,792</u>	<u>249</u>
	<u>10,114</u>	<u>7,926</u>

12 Capital

On 4 July 2008, the Finance Committee of the Legislative Council of the Hong Kong Special Administrative Region ("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.

95

13 Material related party transactions

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.

(a) Key management personnel remuneration

Remuneration of the following directors included in note 3 is as follows:

	2010 HK\$'000	2009 HK\$'000
Project Director *	2,621	1,214
Legal Services Director *	89	852
Corporate Services Director *	<u>188</u>	<u>620</u>
	<u>2,898</u>	<u>2,686</u>

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

The secondment of the Legal Services Director and Corporate Services Director ended on 9 April 2009 and 2 May 2009 respectively.

(b) Other related party transactions

	2010 HK\$'000	2009 HK\$'000
Income from placement with the Hong Kong Monetary Authority (note i)	86,388	-
Salaries and related costs of staff seconded from the Government of HKSAR (note ii)	<u>13,151</u>	<u>7,139</u>

The temporary office of the Authority is located in a property owned by the Government of HKSAR. No office rental expense has been charged by the Government of HKSAR during the current year (2009: Nil).

Notes:

- (i) During the current year, the Authority has placed HK\$6,500,000,000 with HKMA at a rate of return which is determined annually (note 8).
- (ii) The Authority reimbursed the Government of HKSAR for costs incurred in relation to the salaries and allowances of staff seconded to the Authority.

14 Financial risk management

(a) Financial risk factors

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.

(i) 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.

The Authority believes it is prudent to place part of the funds with HKMA and expects HKMA to meet its contractual obligations to the Authority in respect of the placement.

(a) Financial risk factors (Continued)

(ii) 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 from the start of the employment contract 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.

(iii) Sensitivity analysis

The Authority is exposed to interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits. Based on the time deposits balance as at 31 March 2010, 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 bank interest income and reserve by approximately HK\$15.1 million (2009: HK\$21.6 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.

The Authority is also exposed to financial risk arising from changes in the rate of return on the placement with HKMA, which is set annually in January. Based on the balance of the placement with HKMA as at 31 March 2010, if there were an increase/decrease of 10 basis points in the current year rate of return, it is estimated that, with all other variables held constant, the Authority's income from the placement with HKMA (earned between January and March 2010) and reserve would have increased/decreased by approximately HK\$6.5 million on an annualized basis.

(b) Capital risk management

The Authority's objectives when managing capital are to safeguard the Authority's ability to continue as a going concern and ensure the financial sustainability of the operation and management of the arts and cultural facilities, related facilities or ancillary facilities of the West Kowloon Cultural District.

The Authority's working capital is mainly financed by the Government's upfront endowment. Under West Kowloon Cultural District Authority Ordinance, the Authority is required to manage its finances with due care and diligence and invest the capital of the Authority in a financially prudent manner.

(c) Fair value estimation

Effective 1st April 2009, the Authority adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of the fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1. None of the instruments of the Authority is included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. None of the instruments of the Authority is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The placement with HKMA is included in level 3. The following table presents the changes in level 3 instruments for the year ended 31 March 2010:

	2010 HK\$'000	2009 HK\$'000
Opening balance	-	-
Addition	6,500,000	-
Income from placement with HKMA	<u>86,388</u>	-
Closing balance	<u><u>6,586,388</u></u>	<u><u>-</u></u>