

# STATEMENT OF ACCOUNTS

## WEST KOWLOON CULTURAL DISTRICT AUTHORITY PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
<b>Income</b>			
Bank interest income		178,803	143,081
Income from placement with the Hong Kong Monetary Authority	2(e), 16(c)	571,438	86,388
Net exchange gains		4,598	-
Sundry income		1	1
		<u>754,840</u>	<u>229,470</u>
<b>Expenses</b>			
Staff costs	3	(42,616)	(20,254)
Other operating expenses	4	(183,637)	(53,148)
		<u>(226,253)</u>	<u>(73,402)</u>
<b>Profit for the year</b>		<u>528,587</u>	<u>156,068</u>

The notes on pages 83 to 93 form part of the statement of accounts.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2011

	2011 HK\$'000	2010 HK\$'000
<b>Profit for the year</b>	<b>528,587</b>	156,068
<b>Other comprehensive income</b>	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>	<u><b>528,587</b></u>	<u><b>156,068</b></u>

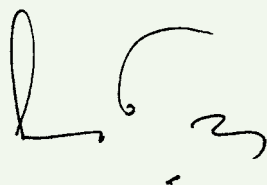
*The notes on pages 83 to 93 form part of the statement of accounts.*

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY BALANCE SHEET

AS AT 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	5,536	1,436
Placement with the Hong Kong Monetary Authority	9	<u>10,657,826</u>	<u>6,586,388</u>
		<u>10,663,362</u>	<u>6,587,824</u>
<b>Current assets</b>			
Bank interest receivables		107,940	43,471
Prepayments and deposits	10	4,147	-
Time deposits with original maturities over three months		11,493,467	15,140,000
Cash and cash equivalents	11	<u>114,289</u>	<u>59,036</u>
		<u>11,719,843</u>	<u>15,242,507</u>
<b>Current liabilities</b>			
Other payables and accruals	12	<u>32,027</u>	<u>10,114</u>
<b>Net current assets</b>		<u>11,687,816</u>	<u>15,232,393</u>
<b>Total assets less current liabilities</b>		<u>22,351,178</u>	<u>21,820,217</u>
<b>Non-current liabilities</b>			
Accrued contract gratuity		2,987	588
Other non-current liabilities		<u>-</u>	<u>25</u>
		<u>2,987</u>	<u>613</u>
<b>Net assets</b>		<u>22,348,191</u>	<u>21,819,604</u>
<b>Equity</b>			
Capital - Endowment from the Government of HKSAR	13	21,600,000	21,600,000
Reserve		<u>748,191</u>	<u>219,604</u>
		<u>22,348,191</u>	<u>21,819,604</u>

Approved and authorised for issue by the Board of the Authority on 30 June 2011.



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



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

The notes on pages 83 to 93 form part of the statement of accounts.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

	Capital -Endowment from the Government of HKSAR HK\$'000	Reserve HK\$'000	Total HK\$'000
<b>Balance at 1 April 2009</b>	21,600,000	63,536	21,663,536
<b>Total comprehensive income for the year</b>	-	156,068	156,068
<b>Balance at 31 March 2010</b>	21,600,000	219,604	21,819,604
<b>Total comprehensive income for the year</b>	-	528,587	528,587
<b>Balance at 31 March 2011</b>	<b>21,600,000</b>	<b>748,191</b>	<b>22,348,191</b>

The notes on pages 83 to 93 form part of the statement of accounts.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
<b>Operating activities</b>			
Profit for the year		528,587	156,068
Adjustments for:			
Depreciation		769	253
Bank interest income		(178,803)	(143,081)
Income from placement with the Hong Kong Monetary Authority		(571,438)	(86,388)
Net exchange gains		(4,598)	-
Changes in working capital:			
(Increase)/decrease in prepayments and deposits		(4,147)	18
Increase in other payables and accruals		21,913	2,188
Increase in non-current liabilities		2,374	601
<b>Net cash used in operating activities</b>		<b>(205,343)</b>	<b>(70,341)</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		(4,869)	(1,499)
Bank interest received		114,334	172,386
Placement with the Hong Kong Monetary Authority	9	(3,500,000)	(6,500,000)
Decrease in time deposits with original maturities over three months		3,646,533	6,433,400
<b>Net cash generated from investing activities</b>		<b>255,998</b>	<b>104,287</b>
<b>Net increase in cash and cash equivalents</b>		<b>50,655</b>	<b>33,946</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>59,036</b>	<b>25,090</b>
<b>Effect of exchange rate changes</b>		<b>4,598</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	11	<b>114,289</b>	<b>59,036</b>

## Major non-cash transaction:

The Authority did not withdraw but reinvested the interest income of HK\$502 million (2010: Nil) which was earned from the placement with the Hong Kong Monetary Authority for January to December 2010.

The notes on pages 83 to 93 form part of the statement of accounts.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## NOTES TO THE STATEMENT OF ACCOUNTS

### 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 office address is at 29/F, Tower 6, The Gateway, 9 Canton Road, Kowloon, 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.

The Board of the Authority on 4 March 2011 selected City Park designed by Foster + Partners as the preferred option for the development of the future arts and culture hub. Based on the preferred option, a Development Plan (DP) will be prepared and information on the DP will be unveiled to the public before its submission to the Town Planning Board around end 2011 with a view to obtaining the approval under the Town Planning Ordinance in 2012/2013. Land will be granted subsequently after the notification of the approval of the plan in the Gazette.

### 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 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 year in which the estimates are revised if the revisions affect only that year, or in the year of the revision and future years if the revisions affect both current and future years.

##### (i) Standards, amendments and interpretations which are effective on or after 1 January 2010

The HKICPA has issued a number of amendments and interpretations to existing standards which are effective in the current year. These amendments and interpretations are not relevant to the Authority and have no impact on the Authority's statement of accounts.

##### (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 years of the Authority beginning on or after 1 April 2011 or later years and have not been early adopted:

		Effective for accounting years beginning on or after
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011
HKFRS 9	Financial Instruments	1 January 2013

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.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## NOTES TO THE STATEMENT OF ACCOUNTS

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Foreign currency translation

(i) *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.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

Property, 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 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. 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 year in which they are incurred.

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, as follows:

Motor vehicle	5 years
Furniture and equipment	3 years
Computer equipment	3 years
Leasehold improvements	3 years

No depreciation is provided for leasehold improvements in progress until they are completed and available for their intended use.

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 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 year in which they arise.

#### (f) Bank interest receivables, prepayments and deposits

Bank interest receivables, prepayments and deposits 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.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## NOTES TO THE STATEMENT OF ACCOUNTS

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) 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 recognised 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 recognised 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 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 years. Reversals of impairment losses are credited to the profit and loss account in the year 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 year in which they arise.

#### (k) Employee benefits

Salaries and annual leave entitlements are accrued in the year 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 year in which the associated services are rendered.

Contributions to Mandatory Provident Fund ("MPF") schemes are charged as expenditure on an accrual basis in the year 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.



## WEST KOWLOON CULTURAL DISTRICT AUTHORITY NOTES TO THE STATEMENT OF ACCOUNTS

### 3 STAFF COSTS

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

	2011 HK\$'000	2010 HK\$'000
Salaries, allowances and other benefits	41,701	18,044
Pensions and contributions to MPF schemes	915	2,210
	<u>42,616</u>	<u>20,254</u>

### 4 OTHER OPERATING EXPENSES

	2011 HK\$'000	2010 HK\$'000
Consultancy fees (Note a)	146,385	40,627
Costs of hired services through employment agencies	2,814	2,137
Audit fee	88	85
Depreciation	769	253
Others (Note b)	33,581	10,046
	<u>183,637</u>	<u>53,148</u>

Notes:

(a) The Authority 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\$125.1 million (2010: HK\$20.7 million) has been charged to the profit and loss account in the year. The Authority has also entered into a number of other consultancy contracts, of which around HK\$21.3 million (2010: HK\$19.9 million) has been expensed in the year.

(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.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## NOTES TO THE STATEMENT OF ACCOUNTS

### 6 SENIOR EXECUTIVES' REMUNERATION

Emoluments received and receivable by the senior executives for the year ended 31 March 2011 (2010: Nil) are as follows:

	Chief Executive Officer ("CEO") (Note a) HK\$' 000	Other senior executives (Note b) HK\$' 000	Total HK\$' 000
Salaries/ Other allowances	1,969	13,568	15,537
Provision for gratuity	-	1,882	1,882
Contributions to MPF schemes	-	71	71
	<u>1,969</u>	<u>15,521</u>	<u>17,490</u>

Notes:

(a) The CEO served from 12 August 2010 to 7 January 2011.

(b) Other senior executives include Director, Chief Executive Officer's Office; Executive Director, Communications & Marketing; Executive Director, Finance; Executive Director, Human Resources; Executive Director, M+; Executive Director, Performing Arts; Executive Director, Project Delivery and General Counsel, all of whom joined the Authority during the year.

The emoluments of the senior executives are shown in the range as follows:

	2011 Number of individuals	2010 Number of individuals
HK\$2,500,001 – HK\$3,000,000	2	-
HK\$2,000,001 – HK\$2,500,000	1	-
HK\$1,500,001 – HK\$2,000,000	4	-
HK\$1,000,001 – HK\$1,500,000	1	-
HK\$1,000,000 or below	1	-
	<u>9</u>	<u>-</u>

### 7 TAXATION

Pursuant to Section 41(1) of the WKCDA Ordinance, the Authority is exempt from taxation under the Inland Revenue Ordinance (Cap. 112). Pursuant to Section 41(2) of the WKCDA 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.

WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
NOTES TO THE STATEMENT OF ACCOUNTS

**8 PROPERTY, PLANT AND EQUIPMENT**

	Motor vehicle HK\$'000	Furniture and equipment HK\$'000	Computer equipment HK\$'000	Leasehold improvements in progress HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 April 2009	-	-	228	-	228
Additions	-	110	1,389	-	1,499
At 31 March 2010	-	110	1,617	-	1,727
<b>Accumulated depreciation</b>					
At 1 April 2009	-	-	38	-	38
Charge for the year	-	28	225	-	253
At 31 March 2010	-	28	263	-	291
<b>Net book value</b>					
At 31 March 2010	-	82	1,354	-	1,436
<b>Cost</b>					
At 1 April 2010	-	110	1,617	-	1,727
Additions	496	12	1,217	3,144	4,869
At 31 March 2011	496	122	2,834	3,144	6,596
<b>Accumulated depreciation</b>					
At 1 April 2010	-	28	263	-	291
Charge for the year	41	39	689	-	769
At 31 March 2011	41	67	952	-	1,060
<b>Net book value</b>					
At 31 March 2011	455	55	1,882	3,144	5,536

**9 PLACEMENT WITH THE HONG KONG MONETARY AUTHORITY**

As at 31 March 2011, HK\$10,000 million (the "Principal Amount") (2010: HK\$6,500 million) has been placed 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 arrear 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% and 6.0% per annum for January to December 2010 and January to December 2011, respectively. The Authority did not withdraw the interest payable to the Authority earned for January to December 2010 which shall continue to accrue interest at the same rate payable for the Principal Amount.

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.

**WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
NOTES TO THE STATEMENT OF ACCOUNTS**

**10 PREPAYMENTS AND DEPOSITS**

	2011 HK\$'000	2010 HK\$'000
Prepayments	14	-
Rental deposit	3,817	-
Other deposits	316	-
	<u>4,147</u>	<u>-</u>

**11 CASH AND CASH EQUIVALENTS**

	2011 HK\$'000	2010 HK\$'000
Cash at bank and in hand	910	19,036
Time deposits with original maturities of three months or less	113,379	40,000
	<u>114,289</u>	<u>59,036</u>

**12 OTHER PAYABLES AND ACCRUALS**

	2011 HK\$'000	2010 HK\$'000
Amount due to the Government of HKSAR	-	1,373
Accrued salaries, MPF contributions, and provision for annual leave entitlements	989	97
Accrued contract gratuity	914	144
Audit fee	88	85
Consultancy fee	20,370	5,479
Others	9,666	2,936
	<u>32,027</u>	<u>10,114</u>

**13 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.

WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
NOTES TO THE STATEMENT OF ACCOUNTS

**14 COMMITMENTS**

**(a) Operating lease commitments**

Commitments for total future minimum lease payments under non-cancellable operating leases are as follows:

	2011 HK\$'000	2010 HK\$'000
Land and buildings		
- within one year	12,122	-
- in the second to fifth years	21,772	-
	<u>33,894</u>	<u>-</u>

**(b) Capital commitments**

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2011 HK\$'000	2010 HK\$'000
Leasehold improvements	<u>4,690</u>	<u>-</u>

**15 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 senior executives and directors who were civil service staff seconded to the Authority included in note 3 is as follows:

	2011 HK\$'000	2010 HK\$'000
Senior executives' remuneration (Note 6)	17,490	-
Civil service staff seconded to the Authority		
Project Director <sup>1</sup>	643	2,621
Legal Services Director <sup>1</sup>	-	89
Corporate Services Director <sup>1</sup>	-	188
	<u>18,133</u>	<u>2,898</u>

<sup>1</sup> 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, Corporate Services Director and Project Director ended in April 2009, May 2009 and June 2010 respectively.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## NOTES TO THE STATEMENT OF ACCOUNTS

### 15 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### (b) Other related party transactions

	2011 HK\$'000	2010 HK\$'000
Income from placement with the Hong Kong Monetary Authority (note i)	571,438	86,388
Salaries and related costs of staff seconded from the Government of HKSAR (note ii)	<u>2,850</u>	<u>13,151</u>

The temporary office of the Authority was located in a property owned by the Government of HKSAR. Office rental expense of \$2.2 million was charged by the Government of HKSAR during the current year (2010: Nil).

Notes:

- (i) As at 31 March 2011, HK\$10,000 million (2010: HK\$6,500 million) has been placed with HKMA at a rate of return which is determined annually (note 9).
- (ii) The Authority reimbursed the Government of HKSAR for costs incurred in relation to the salaries and allowances of staff seconded to the Authority.

### 16 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) Foreign currency risk

The Authority's foreign currency risk arises mainly from its financial assets denominated in currencies other than Hong Kong dollar ("HKD").

The Authority's foreign currency risk exposure arises from its time deposits that are denominated in Renminbi ("RMB") which is not the Authority's functional currency.

The bank interest receivables, time deposits with original maturities over three months and cash and cash equivalents which are denominated in RMB as at 31 March 2011 were HK\$2 million, HK\$995 million and HK\$90 million respectively (2010: Nil).

A set of investment guidelines covering investment limits, risk management and controls is used to manage the Authority's foreign currency risk.

The Authority manages its foreign currency risk by closely monitoring the movement of RMB exchange rate against HKD as compared to initial conversion rate. If the RMB depreciates by 5% or more against HKD, compared against the initial conversion rate, the Authority should call a meeting with the Investment Committee to evaluate and decide on how to mitigate the loss due to currency risk. In the event that the RMB is expected to depreciate, the Authority may consider either immediate disposal in the market or using foreign exchange forwards hedge contract to mitigate the currency risk, subject to prior endorsement by the Investment Committee and approval by the Board and Financial Secretary of HKSAR where appropriate.

##### (ii) Credit risk

The Authority's credit risk is the risk that counterparties may default on its bank deposits / placements.

The Authority sets limits on its exposure to the approved list of banks/institutions. To ensure that there is no significant concentration of credit risk to a single counterparty, balance with each bank/institution is subject to a maximum exposure limit which is 1% of the overall deposit base of the bank/institution or 10% of the capital base of the bank/institution or 20% of the total funds under management, whichever is the lowest. The approved list of banks/institutions and the exposure limits are monitored regularly and updated periodically.

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.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## NOTES TO THE STATEMENT OF ACCOUNTS

### 16 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Financial risk factors (Continued)

##### (iii) 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 to three 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.

##### (iv) Sensitivity analysis

The Authority is exposed to foreign currency risk due to fluctuations in the RMB exchange rate. Based on the RMB deposits balance as at 31 March 2011, if there were a 1% increase/decrease in RMB exchange rate against the HKD on the same date, it is estimated that, with all other variables held constant, it would increase/decrease the Authority's exchange gain/loss and reserve by approximately HK\$10.9 million (2010: Nil).

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 2011, if there were a general increase/decrease of 0.1% (or 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\$11.6 million (2010: HK\$15.1 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 2011, if there were an increase/decrease of 0.1% (or 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 and reserve would have increased/decreased by approximately HK\$10.5 million (2010: HK\$6.5 million on an annualized basis) a year.

#### (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.

# WEST KOWLOON CULTURAL DISTRICT AUTHORITY

## NOTES TO THE STATEMENT OF ACCOUNTS

### 16 FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Fair value estimation

Effective 1 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 2011:

	2011 HK\$'000	2010 HK\$'000
Opening balance	<b>6,586,388</b>	-
Addition	<b>3,500,000</b>	6,500,000
Income from placement with HKMA	<b>571,438</b>	86,388
Closing balance	<b>10,657,826</b>	6,586,388