

10 STATEMENT OF  
ACCOUNTS

WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Income</b>			
Bank interest income		227,757	178,803
Income from placement with the Hong Kong Monetary Authority	2(f), 18(c)	629,772	571,438
Income from held-to-maturity investments		3,672	-
Net exchange gains		72,511	4,598
Other income		78	1
		<u>933,790</u>	<u>754,840</u>
<b>Expenses</b>			
Staff costs	3	(71,866)	(42,616)
Other operating expenses	4	(119,273)	(183,637)
		<u>(191,139)</u>	<u>(226,253)</u>
<b>Profit for the year</b>		<u><u>742,651</u></u>	<u><u>528,587</u></u>

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The notes on pages 117 to 135 form part of the statement of accounts.

10 STATEMENT OF ACCOUNTS

WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

	2012 HK\$'000	2011 HK\$'000
<b>Profit for the year</b>	742,651	528,587
<b>Other comprehensive income</b>	-	-
<b>Total comprehensive income for the year</b>	<u><u>742,651</u></u>	<u><u>528,587</u></u>

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The notes on pages 117 to 135 form part of the statement of accounts.

**WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
BALANCE SHEET**

As at 31 March 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	9,041	5,536
Intangible assets	9	234	-
Placement with the Hong Kong Monetary Authority	10	11,287,598	10,657,826
Held-to-maturity investments	11	413,212	-
		<u>11,710,085</u>	<u>10,663,362</u>
<b>Current assets</b>			
Bank interest receivables		97,051	107,940
Income receivables from held-to-maturity investments		2,585	-
Accounts receivable, prepayments and deposits	12	13,169	4,147
Time deposits with original maturities over three months		10,343,819	11,493,467
Cash and cash equivalents	13	975,611	114,289
		<u>11,432,235</u>	<u>11,719,843</u>
<b>Current liabilities</b>			
Other payables and accruals	14	45,539	32,027
<b>Net current assets</b>			
		<u>11,386,696</u>	<u>11,687,816</u>
<b>Total assets less current liabilities</b>			
		<u>23,096,781</u>	<u>22,351,178</u>
<b>Non-current liabilities</b>			
Accrued contract gratuity		5,939	2,987
<b>Net assets</b>			
		<u>23,090,842</u>	<u>22,348,191</u>
<b>Equity</b>			
Capital - Endowment from the Government of HKSAR	15	21,600,000	21,600,000
Reserve		1,490,842	748,191
		<u>23,090,842</u>	<u>22,348,191</u>

Approved and authorised for issue by the Board of the Authority on 26 June 2012.



**The Honourable Stephen Lam Sui-lung, 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 117 to 135 form part of the statement of accounts.

**WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 March 2012

	Capital - Endowment from the Government of HKSAR HK\$'000	Reserve HK\$'000	Total HK\$'000
Balance at 1 April 2010	21,600,000	219,604	21,819,604
Total comprehensive income for the year	-	528,587	528,587
Balance at 31 March 2011	<u>21,600,000</u>	<u>748,191</u>	<u>22,348,191</u>
Total comprehensive income for the year	-	742,651	742,651
Balance at 31 March 2012	<u>21,600,000</u>	<u>1,490,842</u>	<u>23,090,842</u>

The notes on pages 117 to 135 form part of the statement of accounts.

**WEST KOWLOON CULTURAL DISTRICT AUTHORITY  
CASH FLOW STATEMENT**

For the year ended 31 March 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Operating activities</b>			
Profit for the year		742,651	528,587
Adjustments for:			
Depreciation and amortisation		3,996	769
Bank interest income		(227,757)	(178,803)
Income from held-to-maturity investments		(3,672)	-
Income from placement with the Hong Kong Monetary Authority		(629,772)	(571,438)
Net exchange gains		(72,511)	(4,598)
Changes in working capital:			
Increase in accounts receivable, prepayments and deposits		(9,022)	(4,147)
Increase in other payables and accruals		13,512	21,913
Increase in non-current liabilities		2,952	2,374
<b>Net cash used in operating activities</b>		<b>(179,623)</b>	<b>(205,343)</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment and intangible assets		(7,735)	(4,869)
Interest received		239,733	114,334
Placement with the Hong Kong Monetary Authority	10	-	(3,500,000)
Purchases of held-to-maturity investments		(409,502)	-
Net receipt from time deposits with original maturities over three months		1,212,486	3,646,533
<b>Net cash inflow from investing activities</b>		<b>1,034,982</b>	<b>255,998</b>
<b>Net increase in cash and cash equivalents</b>		<b>855,359</b>	<b>50,655</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>114,289</b>	<b>59,036</b>
<b>Effect of exchange rate changes</b>		<b>5,963</b>	<b>4,598</b>
<b>Cash and cash equivalents at end of year</b>	13	<b>975,611</b>	<b>114,289</b>

**Major non-cash transaction:**

The Authority did not withdraw but reinvested the interest income of HK\$630 million (2011: HK\$502 million) which was earned from the placement with the Hong Kong Monetary Authority for January to December 2011.

The notes on pages 117 to 135 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 WKCD 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 WKCD 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) had been prepared and was submitted to the Town Planning Board in December 2011 with a view to obtaining the approval by the Chief Executive-in-Council in 2012/2013. Land grant will then be processed accordingly.

**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”). 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 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.

## 2. Significant accounting policies (Continued)

### (b) Basis of preparation (Continued)

(i) *Standards, amendments and interpretations which are effective on or after 1 April 2011*

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 2012 or later years and have not been early adopted:

Effective for accounting  
years beginning on or after

HKFRS 9	Financial Instruments	1 January 2015
HKFRS13	Fair Value Measurement	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.

### (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.

## 2. Significant accounting policies (Continued)

### (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 a 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) Intangible assets

Intangible assets are stated in the balance sheet at historical cost less accumulated amortisation and any impairment charges. Identifiable intangible assets with a finite useful life are amortised on a straight-line basis over their expected useful lives as follows:

Computer software and licences	3 years
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No amortisation is provided for software under development until software development is completed and available for its intended use.

The estimated useful life of an intangible asset is reviewed annually.

## 2. Significant accounting policies (Continued)

### (f) 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.

### (g) Held-to-maturity investments

The Authority has designated its investments in debt securities as “held-to-maturity investments”.

Held-to-maturity investments represent non-derivative financial assets with fixed maturities that the Authority has the positive intention and ability to hold to maturity. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the securities. They are subsequently stated in the balance sheet at amortised cost less impairment losses (see note 2(i)(ii)). Held-to-maturity investments are recognised or derecognised on the date the Authority commits to purchase or sell the investment or they expire.

Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

### (h) Bank interest receivables and accounts receivable, prepayments and deposits

Bank interest receivables and accounts receivable, prepayments and deposits are recognised at fair value and thereafter stated at amortised cost using effective interest method, less provision for impairment.

## 2. Significant accounting policies (Continued)

### (i) Impairment of assets

#### (i) *Property, plant and equipment and intangible assets*

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

If any such indication exists, the assets’ recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

- Calculation of recoverable amount

The recoverable amount of the assets 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 assets 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.

- Reversal 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 assets’ 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.

#### (ii) *Held-to-maturity investments*

Held-to-maturity investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence that the held-to-maturity investments carried at amortised cost is impaired, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the assets. The amount of the loss is recognised in the profit and loss account.

If in a subsequent period, the amount of any impairment loss decreases due to an event occurring subsequent to the write-down, then the previously recognised impairment loss is reversed through profit or loss. The reversal is limited to an amount that does not state the assets at more than what their amortised cost would have been in the absence of impairment.

#### (iii) *Bank interest receivables and accounts receivable, prepayments and deposits*

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.

## 2. Significant accounting policies (Continued)

### (j) 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.

### (k) 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.

### (l) Income recognition

Interest income from bank deposits and held-to-maturity investments is recognised on a time-apportioned basis using the effective interest method.

Changes in fair value of the placement with the 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.

### (m) Employee benefits

Salaries, contract end gratuity and annual leave entitlements are accrued in the year in which the employees render the associated services.

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.

### (n) 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 employees directly hired by the Authority and seconded staff from the Government of HKSAR are as follows:

	2012 HK\$'000	2011 HK\$'000
Salaries, allowances and other benefits	70,921	41,701
Pensions and contributions to MPF schemes	945	915
	<u>71,866</u>	<u>42,616</u>

## 4. Other operating expenses

	2012 HK\$'000	2011 HK\$'000
Consultancy fees <sup>(Note a)</sup>	72,460	146,385
Costs of hired services through employment agencies	1,248	2,814
Audit fee	92	88
Depreciation and amortisation	3,996	769
Others <sup>(Note b)</sup>	41,477	33,581
	<u>119,273</u>	<u>183,637</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\$56.3 million (2011: HK\$125.1 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\$16.2 million (2011: HK\$21.3 million) has been expensed in the year.
- (b) Included in “Others” are mainly expenditures incurred for public engagement exercises and public relations activities, performing arts and museum programming activities, recruitment costs and rent, rates and management expenses of the office.

## 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. Senior executives' remuneration

Emoluments received and receivable by the senior executives during the years ended 31 March 2012 and 31 March 2011 are as follows:

<b>2012</b>	<b>Chief Executive Officer ("CEO") (Note a)</b> HK\$'000	<b>Other senior executives (Note b)</b> HK\$'000	<b>Total</b> HK\$'000
Salaries / Other allowances	3,827	18,372	22,199
Provision for gratuity	676	2,663	3,339
Contributions to MPF schemes	-	84	84
	<u>4,503</u>	<u>21,119</u>	<u>25,622</u>
<b>2011</b>	<b>Chief Executive Officer ("CEO") (Note c)</b> HK\$'000	<b>Other senior executives (Note d)</b> HK\$'000	<b>Total</b> 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 joined the Authority in July 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 2011.
- (c) The former CEO served the Authority from 12 August 2010 to 7 January 2011.
- (d) Emoluments in 2011 represent remuneration for incomplete year of services of other senior executives who joined the Authority during the year.

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

	<b>2012</b> <b>Number of</b> <b>individuals</b>	2011 Number of individuals
HK\$4,500,001 – HK\$5,000,000	1	-
HK\$3,000,001 – HK\$3,500,000	2	-
HK\$2,500,001 – HK\$3,000,000	3	2
HK\$2,000,001 – HK\$2,500,000	3	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>9</u>

## 7. Taxation

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

<b>2012</b>	<b>Motor vehicle</b> HK\$'000	<b>Leasehold improvements, furniture and equipment</b> HK\$'000	<b>Computer equipment</b> HK\$'000	<b>Leasehold improvements in progress</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost</b>					
At 1 April 2011	496	122	2,834	3,144	6,596
Additions	-	1,442	685	5,331	7,458
Transfers	-	8,475	-	(8,475)	-
At 31 March 2012	<u>496</u>	<u>10,039</u>	<u>3,519</u>	-	<u>14,054</u>
<b>Accumulated depreciation</b>					
At 1 April 2011	41	67	952	-	1,060
Charge for the year	99	2,887	967	-	3,953
At 31 March 2012	<u>140</u>	<u>2,954</u>	<u>1,919</u>	-	<u>5,013</u>
<b>Net book value</b>					
At 31 March 2012	<u>356</u>	<u>7,085</u>	<u>1,600</u>	-	<u>9,041</u>
<b>2011</b>	<b>Motor vehicle</b> HK\$'000	<b>Leasehold improvements, furniture and equipment</b> HK\$'000	<b>Computer equipment</b> HK\$'000	<b>Leasehold improvements in progress</b> HK\$'000	<b>Total</b> HK\$'000
<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	<u>496</u>	<u>122</u>	<u>2,834</u>	<u>3,144</u>	<u>6,596</u>
<b>Accumulated depreciation</b>					
At 1 April 2010	-	28	263	-	291
Charge for the year	41	39	689	-	769
At 31 March 2011	<u>41</u>	<u>67</u>	<u>952</u>	-	<u>1,060</u>
<b>Net book value</b>					
At 31 March 2011	<u>455</u>	<u>55</u>	<u>1,882</u>	<u>3,144</u>	<u>5,536</u>

## 9. Intangible assets

<b>2012</b>	<b>Computer software and licences HK\$'000</b>
<b>Cost</b>	
At 1 April 2011	-
Additions	<u>277</u>
At 31 March 2012	<u>277</u>
<b>Accumulated amortisation</b>	
At 1 April 2011	-
Charge for the year	<u>43</u>
At 31 March 2012	<u>43</u>
<b>Net book value</b>	
At 31 March 2012	<u><u>234</u></u>

## 10. Placement with the Hong Kong Monetary Authority

As at 31 March 2012, HK\$10,000 million (the "Principal Amount") (2011: HK\$10,000 million) has been placed with the HKMA for a period of six years since 2010 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 6.0% and 5.6% per annum for January to December 2011 and January to December 2012, respectively. The Authority did not withdraw the interest earned for January to December 2010 and January to December 2011 which would continue to accrue interest at the same rate payable for the Principal Amount.

The Authority has designated the placement with the 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.

## 11. Held-to-maturity investments

Held-to-maturity investments are debt securities with maturity periods of no more than two years and are all denominated in Renminbi ("RMB"). The expected yield of the debt securities, excluding exchange gain/loss on revaluation, is between 1.6% per annum and 3.25% per annum.

	2012 HK\$'000	2011 HK\$'000
Listed in Hong Kong	278,134	-
Unlisted	<u>135,078</u>	-
	<u>413,212</u>	-
Current portion	-	-
Non-current portion	<u>413,212</u>	-
	<u>413,212</u>	-

## 12. Accounts receivable, prepayments and deposits

	2012 HK\$'000	2011 HK\$'000
Amount due from the Government of HKSAR	8,889	-
Prepayments	196	14
Rental deposit	3,948	3,817
Other deposits	<u>136</u>	<u>316</u>
	<u>13,169</u>	<u>4,147</u>



### 13. Cash and cash equivalents

	2012 HK\$'000	2011 HK\$'000
Cash at bank and in hand	1,744	910
Time deposits with original maturities of three months or less	973,867	113,379
	<u>975,611</u>	<u>114,289</u>

### 14. Other payables and accruals

	2012 HK\$'000	2011 HK\$'000
Accrued salaries, MPF contributions, and provision for annual leave entitlements	1,915	989
Accrued contract gratuity	3,591	914
Consultancy fee	34,557	20,370
Others	5,476	9,754
	<u>45,539</u>	<u>32,027</u>

### 15. 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.

### 16. Commitments

#### (a) Operating lease commitments

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

	2012 HK\$'000	2011 HK\$'000
Land and buildings		
- within one year	11,876	12,122
- in the second to fifth years	9,896	21,772
	<u>21,772</u>	<u>33,894</u>

### 16. Commitments (Continued)

#### (b) Capital commitments

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

	2012 HK\$'000	2011 HK\$'000
Leasehold improvements	-	4,690

### 17. 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 a director who was civil service staff seconded to the Authority included in note 3 is as follows:

	2012 HK\$'000	2011 HK\$'000
Senior executives' remuneration <sup>(Note 6)</sup>	25,622	17,490
Civil service staff seconded to the Authority Project Director <sup>1</sup>	-	643
	<u>25,622</u>	<u>18,133</u>

<sup>1</sup> The Project Director was a civil service staff seconded to the Authority in October 2008 and the secondment ended in June 2010.

## 17. Material related party transactions (Continued)

### (b) Other related party transactions

	2012 HK\$'000	2011 HK\$'000
Income from placement with the Hong Kong Monetary Authority <sup>(note i)</sup>	<u>629,772</u>	<u>571,438</u>
Salaries and related costs of staff seconded from the Government of HKSAR <sup>(note ii)</sup>	<u>-</u>	<u>2,850</u>

The Authority has paid an amount of HK\$8.9 million on behalf of the Government of HKSAR for carrying out some government entrustment works. The outstanding balance would be reimbursed by the Government by way of offset against any future WKCD works to be entrusted to the Government or against a demand note from WKCD in the event that WKCD does not entrust any future works to the Government. The balance is included in Accounts receivable, prepayments and deposits (note 12).

The temporary office of the Authority was located in a property owned by the Government of HKSAR. Office rental expense of HK\$0.2 million was charged by the Government of HKSAR during the current year (2011: HK\$2.2 million).

#### Notes:

- (i) As at 31 March 2012, HK\$10,000 million (2011: HK\$10,000 million) has been placed with the HKMA at a rate of return which is determined annually (note 10).
- (ii) The Authority reimbursed the Government of HKSAR for costs incurred in relation to the salaries and allowances of staff seconded to the Authority.

## 18. 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. A Treasury team in Finance department is dedicated to the day-to-day management and investment of the funds.

#### (i) Foreign currency risk

The Authority's functional and presentation currency is Hong Kong Dollar ("HKD"). Its foreign currency risk arises mainly from its financial assets denominated in currencies other than HKD.

The Authority's foreign currency risk exposure arises from its bank deposits and investments in debt securities that are denominated in foreign currencies. A set of investment guidelines covering investment limits, risk management and controls is used to manage the Authority's foreign currency risk.

The following table details the Authority's exposure at the balance sheet date to currency risk arising from significant financial assets denominated in foreign currencies. Other than the items set out in the table below, all financial assets and liabilities at the balance sheet date are denominated in HKD.

	2012		2011	
	USD HK\$ million	RMB HK\$ million	USD HK\$ million	RMB HK\$ million
Time deposits with original maturities over three months and Cash and cash equivalents	3,234.7	3,846.0	-	1,084.9
Bank interest receivables	41.8	32.6	-	2.1
Held-to-maturity investments	-	413.2	-	-
Income receivables from held-to-maturity investments	-	2.6	-	-
	<u>3,276.5</u>	<u>4,294.4</u>	<u>-</u>	<u>1,087.0</u>

The Authority manages its foreign currency risk in RMB by closely monitoring the movement of RMB exchange rate against HKD as compared to the weighted average conversion rate. In the event that the RMB is expected to depreciate, the Authority may consider either immediate disposal in the market and/or using forward hedge contracts to mitigate the currency risk. It is assumed that the pegged rate between the USD and HKD would not give rise to significant foreign currency risk.

## 18. Financial risk management (Continued)

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

#### (ii) Credit risk

The Authority's credit risk is the risk that counterparties may default on its bank deposits/placements and investments in debt securities.

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 based on factors such as overall deposit base and capital base of the bank/institution and total funds under management. In addition, based on the prevailing economic and financial development, the approved list of banks/institutions and the exposure limits are regularly monitored, revised and updated.

As at 31 March 2012, all investments in debt securities were of a minimum issuer/issue credit rating of A3 or above by Moody's. These investments are subject to a maximum concentration limit endorsed by Investment Committee and approved by the Board.

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

#### (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 terms.

Except for accrued contract gratuity which is payable in one 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.

## 18. Financial risk management (Continued)

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

#### (iv) Sensitivity analysis

##### Foreign currency risk

The Authority is exposed to foreign currency risk due to fluctuations in the RMB exchange rates (see note 18(a)(i)). As at 31 March 2012, if there were a 3% (2011: 1%) increase/decrease in the 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\$128.8 million (2011: HK\$10.9 million).

##### Interest rate risk

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 2012, 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\$11.3 million (2011: HK\$11.6 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 time deposits in existence at that date. Fixed rate debt securities that are carried at amortised cost are excluded from this analysis.

The Authority is also exposed to financial risk arising from changes in the rate of return on the placement with the HKMA, which is set annually in January. Based on the balance of the placement with the HKMA as at 31 March 2012, 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 the HKMA and reserve would have increased/decreased by approximately HK\$11.1 million (2011: HK\$10.5 million) 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 the WKCDA 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.

## 18. Financial risk management (Continued)

### (c) Fair value estimation

#### (i) Financial assets carried at fair values

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 the HKMA is included in level 3. The following table presents the changes in level 3 instruments for the year ended 31 March 2012:

	2012 HK\$million	2011 HK\$million
Opening balance	10,657.8	6,586.4
Addition	-	3,500.0
Income from placement with the HKMA	629.8	571.4
Closing balance	<u>11,287.6</u>	<u>10,657.8</u>

## 18. Financial risk management (Continued)

### (c) Fair value estimation (Continued)

#### (ii) Fair values of financial assets not reported at fair values

The carrying amounts of the Authority's financial assets carried at cost or amortised cost are not materially different from their fair values as at 31 March 2012 and 2011.

Summarised in the following table are the carrying amount and fair value of financial assets not presented in the Authority's balance sheet at their fair values. The carrying amounts of short-term receivables and short-term payables approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	2012		2011	
	Carrying amount HK\$ million	Fair value HK\$ million	Carrying amount HK\$ million	Fair value HK\$ million
Held-to-maturity investments	<u>413.2</u>	<u>414.2</u>	<u>-</u>	<u>-</u>