

STATEMENT OF ACCOUNTS

WEST KOWLOON CULTURAL DISTRICT AUTHORITY

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2013

	Note	2013 HK\$'000	2012 HK\$'000
Income			
Bank interest income		285,960	227,757
Income from placement with the Hong Kong Monetary Authority		613,358	629,772
Gain on fair value change of fund investments		8,105	-
Income from held-to-maturity investments		10,649	3,672
Net exchange gains		72,028	72,511
Other income		4,920	78
		<u>995,020</u>	<u>933,790</u>
Expenses			
Staff costs	3	(67,169)	(71,866)
Other operating expenses	6	(130,103)	(119,273)
		<u>(197,272)</u>	<u>(191,139)</u>
Profit for the year		<u>797,748</u>	<u>742,651</u>



STATEMENT OF ACCOUNTS

WEST KOWLOON CULTURAL DISTRICT AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2013

	2013 HK\$'000	2012 HK\$'000
Profit for the year	797,748	742,651
Other comprehensive income	-	-
Total comprehensive income for the year	<u>797,748</u>	<u>742,651</u>



WEST KOWLOON CULTURAL DISTRICT AUTHORITY
BALANCE SHEET
AS AT 31 MARCH 2013

	Note	2013 HK\$'000	2012 HK\$'000
Non-current assets			
Property, plant and equipment	8	67,256	9,041
Museum collections	9	187,860	-
Intangible assets	10	4,627	234
Placement with the Hong Kong Monetary Authority	11 (a)	11,900,956	11,287,598
Fund investments	11 (b)	708,836	-
Held-to-maturity investments	12	9,986	413,212
Time deposit with maturity over one year		99,870	-
Bank interest receivables		108	-
		<u>12,979,499</u>	<u>11,710,085</u>
Current assets			
Held-to-maturity investments	12	420,022	-
Bank interest receivables		177,924	97,051
Income receivables from held-to-maturity investments		2,820	2,585
Other receivables, prepayments and deposits	13	19,731	13,169
Time deposits with original maturities over three months		10,346,180	10,343,819
Cash and cash equivalents	14	3,024	975,611
		<u>10,969,701</u>	<u>11,432,235</u>
Current liabilities			
Payables and accruals	15	56,813	45,539
Net current assets		<u>10,912,888</u>	<u>11,386,696</u>
Total assets less current liabilities		<u>23,892,387</u>	<u>23,096,781</u>
Non-current liabilities			
Accrued contract gratuity		3,797	5,939
Net assets		<u>23,888,590</u>	<u>23,090,842</u>
Equity			
Capital - Endowment from the Government of HKSAR	16	21,600,000	21,600,000
Reserve		2,288,590	1,490,842
		<u>23,888,590</u>	<u>23,090,842</u>

Approved and authorised for issue by the Board of the Authority on 28 June 2013.

.....
The Honourable Mrs Carrie Lam Cheng Yuet-ngor, 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

WEST KOWLOON CULTURAL DISTRICT AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2013

	Capital - Endowment from the Government of HKSAR HK\$'000	Reserve HK\$'000	Total HK\$'000
Balance at 1 April 2011	21,600,000	748,191	22,348,191
Total comprehensive income for the year	-	742,651	742,651
Balance at 31 March 2012	21,600,000	1,490,842	23,090,842
Total comprehensive income for the year	-	797,748	797,748
Balance at 31 March 2013	<u>21,600,000</u>	<u>2,288,590</u>	<u>23,888,590</u>

WEST KOWLOON CULTURAL DISTRICT AUTHORITY
CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2013

	Note	2013 HK\$'000	2012 HK\$'000
Operating activities			
Profit for the year		797,748	742,651
Adjustments for:			
Depreciation and amortisation		5,302	3,996
Bank interest income		(285,960)	(227,757)
Income from held-to-maturity investments		(10,649)	(3,672)
Income from placement with the Hong Kong Monetary Authority		(613,358)	(629,772)
Gain on fair value change of fund investments		(8,105)	-
Net exchange gains		(72,028)	(72,511)
Changes in working capital:			
Increase in other receivables, prepayments and deposits		(6,562)	(9,022)
Increase in payables and accruals		11,274	13,512
(Decrease) / Increase in accrued contract gratuity		(2,142)	2,952
Net cash used in operating activities		(184,480)	(179,623)
Investing activities			
Purchases of property, plant and equipment and intangible assets		(67,910)	(7,735)
Purchases of museum collections		(187,860)	-
Interest received		216,483	239,733
Purchases of fund investments		(700,044)	-
Purchases of held-to-maturity investments		(9,982)	(409,502)
Net (placement of) / receipt from time deposits with original maturities over three months		(39,050)	1,212,486
Net cash (outflow) / inflow from investing activities		(788,363)	1,034,982
Net (decrease) / increase in cash and cash equivalents		(972,843)	855,359
Cash and cash equivalents at beginning of year		975,611	114,289
Effect of exchange rate changes		256	5,963
Cash and cash equivalents at end of year	14	3,024	975,611

Major non-cash transaction:

The Authority did not withdraw but reinvested the interest income of HK\$623 million (2012: HK\$630 million) which was earned from the placement with the Hong Kong Monetary Authority for January to December 2012.

WEST KOWLOON CULTURAL DISTRICT AUTHORITY
NOTES TO THE STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2013

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 "WKCD").

The draft WKCD Development Plan ("DP") was approved by the Chief Executive in Council on 8 January 2013. The approved DP provides a statutory land use planning framework to guide the development and redevelopment of land within the WKCD. Related land grants are being 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 (the "HKICPA") and the requirements of the WKCD Ordinance. 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 2012*

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 2013 or later years and have not been early adopted:

		Effective for accounting years beginning on or after
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 13	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 ("HK\$"), 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, other than assets under construction, 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
Leasehold improvements, furniture and equipment	3 years
Computer equipment	3 years

Construction in progress is stated at cost less any accumulated impairment loss. Costs comprise direct costs of construction, such as materials, direct staff costs, production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate property, plant and equipment category when substantially all the activities necessary to prepare the asset for its intended use are completed.

No depreciation is provided for construction 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) MUSEUM COLLECTIONS

Museum collections, whether donated or purchased, are stated at cost or at nominal value less any impairment losses. Capitalised artworks are not depreciated because they are deemed to have indefinite lives, but are subject to impairment reviews where damage or deterioration is reported.

Museum collections acquired by purchase

Purchased artworks are recorded at cost. The costs of the artworks are not subject to revaluation because the cost of revaluation is not considered to be commensurate with the benefits to users of the statement of accounts.

Museum collections acquired by donation

Donated artworks are recorded at zero or nominal value. Comprehensive valuation would not provide a meaningful figure and the cost of doing so is not commensurate with the benefits to users of the statement of accounts.



2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) 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, licences and systems	3 years
---	---------

Computer software, licences and systems in progress are stated at cost less any accumulated impairment loss. Costs mainly comprise system development expenditure and other direct costs attributable to the development of the system. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate intangible assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

No amortisation is provided for computer software, licences and systems in progress until the software development is completed and available for its intended use.

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

(g) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Authority has designated the placement with the Hong Kong Monetary Authority (the "HKMA") and investments in bond funds ("fund investments") as "financial assets 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 are acquired.

Financial assets at fair value through profit or loss are recognised when and only when the Authority becomes a party to the contractual provisions of the instruments and on a trade date basis. 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(h) 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. Amortised cost is calculated using effective interest method by taking into account any discount or premium on acquisition over the period to maturity. 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.

(i) BANK INTEREST RECEIVABLES AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

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

(j) LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

(k) 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.



2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(k) IMPAIRMENT OF ASSETS (CONTINUED)***(ii) Museum collections*

The carrying amount of an asset is reviewed where there is evidence of impairment, for example where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised is dealt with in accordance with the recognition and measurement policies detailed in note 2(k)(i).

(iii) 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 are 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.

(iv) Bank interest receivables and other receivables, 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. Such impairment loss is reversed in subsequent periods through the profit and loss account when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash at bank and in hand, and time deposits with original maturities of three months or less.

(m) PAYABLES AND ACCRUALS

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.

(n) 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 and fund investments, which are designated as "financial assets at fair value through profit or loss", are recognised as income or loss in the profit and loss account in the year in which they arise.

**(o) 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 in which the related employees render the associated services.

(p) 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 are as follows:

	2013 HK\$'000	2012 HK\$'000
Salaries, allowances and other benefits	97,028	70,921
Contributions to MPF schemes	1,525	945
Total staff costs	98,553	71,866
Less: Direct staff costs capitalised into construction in progress ^{(Note 2(d))}	(31,384)	-
	<u>67,169</u>	<u>71,866</u>
Representing:		
Salaries, allowances and other benefits	66,120	70,921
Contributions to MPF schemes	1,049	945
	<u>67,169</u>	<u>71,866</u>

4. 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.

**5. SENIOR EXECUTIVES' REMUNERATION**

Remuneration received and receivable by the senior executives during the years ended 31 March 2013 and 31 March 2012 are as follows:

<u>2013</u>	Chief Executive Officer ("CEO") HK\$'000	Other senior executives ^(Note a) HK\$'000	Total HK\$'000
Salaries / Other allowances	5,346	18,601	23,947
Contract gratuity	1,058	2,670	3,728
Contributions to MPF schemes	10	117	127
	<u>6,414</u>	<u>21,388</u>	<u>27,802</u>
<u>2012</u>	Chief Executive Officer ("CEO") ^(Note b) HK\$'000	Other senior executives ^(Note a) HK\$'000	Total HK\$'000
Salaries / Other allowances	3,827	18,372	22,199
Contract gratuity	676	2,663	3,339
Contributions to MPF schemes	-	84	84
	<u>4,503</u>	<u>21,119</u>	<u>25,622</u>

Notes:

- (a) 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.
- (b) The CEO joined the Authority in July 2011.

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

	2013 Number of individuals	2012 Number of individuals
HK\$6,000,001 – HK\$6,500,000	1	-
HK\$4,500,001 – HK\$5,000,000	-	1
HK\$3,000,001 – HK\$3,500,000	2	2
HK\$2,500,001 – HK\$3,000,000	3	3
HK\$2,000,001 – HK\$2,500,000	3	3
	<u>9</u>	<u>9</u>

6. OTHER OPERATING EXPENSES

	2013 HK\$'000	2012 HK\$'000
Programming and activities costs	31,152	9,885
Consultancy fees ^(Note)	40,741	72,460
Operating lease payments	13,615	13,023
Site facility management	7,665	961
Depreciation and amortisation	5,302	3,996
Audit fee	90	92
Others	31,538	18,856
	<u>130,103</u>	<u>119,273</u>

Note:
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 million, of which around HK\$13 million (2012: HK\$56.3 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\$27.7 million (2012: HK\$16.2 million) has been expensed in the year.

7. TAXATION

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

8. PROPERTY, PLANT AND EQUIPMENT

<u>2013</u>	Motor vehicle	Leasehold improvements, furniture and equipment	Computer equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 April 2012	496	10,039	3,519	-	14,054
Additions	-	521	878	61,449	62,848
Transfers	-	110	1,007	(1,117)	-
At 31 March 2013	<u>496</u>	<u>10,670</u>	<u>5,404</u>	<u>60,332</u>	<u>76,902</u>
Accumulated depreciation					
At 1 April 2012	140	2,954	1,919	-	5,013
Charge for the year	99	3,480	1,054	-	4,633
At 31 March 2013	<u>239</u>	<u>6,434</u>	<u>2,973</u>	<u>-</u>	<u>9,646</u>
Net book value					
At 31 March 2013	<u>257</u>	<u>4,236</u>	<u>2,431</u>	<u>60,332</u>	<u>67,256</u>
<u>2012</u>	Motor vehicle	Leasehold improvements, furniture and equipment	Computer equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
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>-</u>	<u>14,054</u>
Accumulated depreciation					
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>-</u>	<u>5,013</u>
Net book value					
At 31 March 2012	<u>356</u>	<u>7,085</u>	<u>1,600</u>	<u>-</u>	<u>9,041</u>

9. MUSEUM COLLECTIONS

<u>2013</u>	HK\$'000
Cost	
At 1 April 2012	-
Additions ^(Note)	187,860
At 31 March 2013	<u>187,860</u>
Accumulated impairment	
At 1 April 2012	-
Charge for the year	-
At 31 March 2013	<u>-</u>
Net book value	
At 31 March 2013	<u>187,860</u>

Note:
The Authority is in the process of establishing the M+ Collection Trust (the "Collection Trust") to hold the legal interest in the M+ Museum's collection of artworks for the benefit of the Hong Kong community. Among the acquisitions made in the year, the Authority entered into a transaction with two agreements signed, one agreement to acquire 47 pieces of contemporary Chinese artworks (the "Purchased Works") at a cost of around HK\$180 million from Dr Ulrich Adolf Sigg (the "Seller" or "Donor") and another agreement to receive a donation of 1,463 pieces of contemporary Chinese artworks (the "Donated Works") as a gift from Stiftung für Chinesische Gegenwartskunst ("Chinese Contemporary Art Foundation") & Dr Ulrich Adolf Sigg. This is treated as a single transaction upon the contemporaneous completion of the Deed of Sale and Purchase and Deed of Gift. The transaction includes a condition that the Seller / Donor may at his sole discretion upon demand require the Authority or the Trustees of the Collection Trust to re-sell the Purchased Works to the Seller at the price paid by the Authority / transfer the ownership and possession of the Donated Works to the Donor in the event that the opening of the M+ facility in its major part shall be delayed beyond the year 2019 or that either or both the Authority or the Collection Trust is / are terminated or dissolved for any purpose other than reorganization of any of the Authority, the Collection Trust or the M+ Museum.

The Donated Works were valued at around HK\$1.3 billion with reference to a valuation report prepared by an independent valuer in May 2012.

10. INTANGIBLE ASSETS

<u>2013</u>	Computer software, licences and systems HK\$'000	Computer software, licences and systems in progress HK\$'000	Total HK\$'000
Cost			
At 1 April 2012	277	-	277
Additions	1,214	3,848	5,062
Transfers	3,454	(3,454)	-
At 31 March 2013	<u>4,945</u>	<u>394</u>	<u>5,339</u>
Accumulated amortisation			
At 1 April 2012	43	-	43
Charge for the year	669	-	669
At 31 March 2013	<u>712</u>	<u>-</u>	<u>712</u>
Net book value			
At 31 March 2013	<u>4,233</u>	<u>394</u>	<u>4,627</u>
<u>2012</u>	Computer software, licences and systems HK\$'000	Computer software, licences and systems in progress HK\$'000	Total HK\$'000
Cost			
At 1 April 2011	-	-	-
Additions	277	-	277
At 31 March 2012	<u>277</u>	<u>-</u>	<u>277</u>
Accumulated amortisation			
At 1 April 2011	-	-	-
Charge for the year	43	-	43
At 31 March 2012	<u>43</u>	<u>-</u>	<u>43</u>
Net book value			
At 31 March 2012	<u>234</u>	<u>-</u>	<u>234</u>

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2013 HK\$'000	2012 HK\$'000
Placement with the Hong Kong Monetary Authority	(a)	11,900,956	11,287,598
Fund investments	(b)	708,836	-
		<u>12,609,792</u>	<u>11,287,598</u>

(a) Placement with the Hong Kong Monetary Authority

As at 31 March 2013, HK\$10,000 million (the "Principal Amount") (2012: 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%, 5.6% and 5.0% per annum for January to December 2011, 2012 and 2013 respectively. The Authority did not withdraw the interest earned for January to December 2011 and January to December 2012 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 HK\$. Its fair value, which is determined with reference to the estimated rates of investment return for future years, approximates its carrying value.

(b) Fund investments

As at 31 March 2013, around HK\$709 million has been invested in bond funds of which the overall portfolio ratings are A1 or above by Moody's or equivalent ratings by Standard and Poor's. The fair value of the fund investments are determined based on the net asset value of the funds from the fund administrator.



12. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments are debt securities with original maturity periods of no more than three years and are denominated in Renminbi ("RMB") or HK\$. The expected yield of the debt

securities, excluding exchange gain / loss on revaluation, is between 1.6% per annum and 3.25% per annum.

	2013 HK\$'000	2012 HK\$'000
Listed in Hong Kong	282,733	278,134
Unlisted	147,275	135,078
	<u>430,008</u>	<u>413,212</u>
Current portion	420,022	-
Non-current portion	9,986	413,212
	<u>430,008</u>	<u>413,212</u>

13. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2013 HK\$'000	2012 HK\$'000
Amount due from the Government of HKSAR ^(Note)	14,815	8,889
Rental deposit	3,944	3,948
Others	972	332
	<u>19,731</u>	<u>13,169</u>

Note:

The Authority has entered into an agreement with 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.

14. CASH AND CASH EQUIVALENTS

	2013 HK\$'000	2012 HK\$'000
Cash at bank and in hand	3,024	1,744
Time deposits with original maturities of three months or less	-	973,867
	<u>3,024</u>	<u>975,611</u>

15. PAYABLES AND ACCRUALS

	2013 HK\$'000	2012 HK\$'000
Accrued salaries, MPF contributions, and provision for annual leave entitlements	2,146	1,915
Accrued contract gratuity	10,239	3,591
Others	44,428	40,033
	<u>56,813</u>	<u>45,539</u>

16. 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.

17. COMMITMENTS**(a) OPERATING LEASE COMMITMENTS**

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

	2013 HK\$'000	2012 HK\$'000
Land and buildings		
- within one year	11,080	11,876
- in the second to fifth years	21	9,896
	<u>11,101</u>	<u>21,772</u>
Other assets		
- within one year	598	-
- in the second to fifth years	135	-
	<u>733</u>	<u>-</u>
	<u>11,834</u>	<u>21,772</u>

(b) CAPITAL COMMITMENTS

Commitments in respect of capital expenditures on property, plant and equipment, intangible assets, and museum collections are as follows:

	2013 HK\$'000	2012 HK\$'000
Contracted but not provided for		
- Property, plant and equipment	508,271	-
- Museum collections	8,564	-
- Intangible assets	2,305	-
	<u>519,140</u>	<u>-</u>
Authorised but not contracted for		
- Museum collections	23,498	-
	<u>23,498</u>	<u>-</u>

18. 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. For the purpose of the statement of accounts, transactions between the Authority and Government departments, agencies or Government controlled entities, other than those

transactions such as the payment of government rent and rates, fees etc. that arise in the normal dealings between the Government and the Authority, are considered to be related party transactions. 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 is as follows:

	2013 HK\$'000	2012 HK\$'000
Senior executives' remuneration ^(Note 5)	<u>27,802</u>	<u>25,622</u>

(b) OTHER RELATED PARTY TRANSACTIONS

	2013 HK\$'000	2012 HK\$'000
Income from placement with the Hong Kong Monetary Authority ^{(Note 11(a))}	613,358	629,772
Payments on behalf of the Government of HKSAR for carrying out some government entrustment works ^(Note 13)	<u>5,926</u>	<u>8,889</u>

19. 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 HK\$. Its foreign currency risk arises mainly from its financial assets denominated in currencies other than HK\$.

	2013		2012	
	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	3,111.4	4,002.2	3,234.7	3,846.0
Bank interest receivables	61.0	80.9	41.8	32.6
Fund investments	708.8	-	-	-
Held-to-maturity investments	-	420.0	-	413.2
Income receivables from held-to-maturity investments	-	2.7	-	2.6
	<u>3,881.2</u>	<u>4,505.8</u>	<u>3,276.5</u>	<u>4,294.4</u>

The Authority manages its foreign currency risk in RMB by closely monitoring the movement of RMB exchange rate against HK\$ 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 United States Dollar ("USD") and HK\$ would not give rise to significant foreign currency risk.

The Authority's foreign currency risk exposure arises from its bank deposits, investments in debt securities and fund investments 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 HK\$.

The fund investments are denominated in USD. Certain bond funds do not hedge the currency exposures of the underlying securities which are domiciled in Asia. The Authority monitors the currency movement of these countries among other factors closely. Mitigation measures may be taken in the event that there is significant movement in any of these currencies.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)**(a) FINANCIAL RISK FACTORS (CONTINUED)***(ii) Interest rate risk*

The Authority's interest-bearing assets include placement with the HKMA, bank deposits, investments in debt securities and fund investments. Apart from the placement with the HKMA, which the return is determined annually (see Note 11(a)), most of these assets bear interest at fixed rates. Bank deposits and debt securities are intended to hold till maturity, while fund investments do not have maturity dates. The Authority is exposed to interest rate risk as fair value of the fund investments will normally fall when market interest rates increase. The Authority monitors its interest rate risk with reference to the approved strategies and benchmark.

(iii) Price risk

The Authority is exposed to price risks arising from fund investments held under financial assets at fair value through profit or loss. The fair value of the fund investments were mainly affected by the exchange rate movements of foreign currencies and the changes in interest rates. The risks exposures resulted from foreign currency risk and interest rate risk were separately analysed in Note 19(a)(i) and 19(a)(ii) respectively.

(iv) Credit risk

The Authority's credit risk is the risk that counterparties may default on its bank deposits / placements, investments in bond funds 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 2013, all investments in debt securities were of a minimum issuer / issue credit rating of A3 or above by Moody's or equivalent rating by Standard and Poor's. These investments are subject to a maximum concentration limit endorsed by Investment Committee and approved by the Board.

As at 31 March 2013, all fund investments are subject to an overall portfolio credit rating of at least A1 by Moody's or equivalent rating by Standard and Poor's.

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.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)**(a) FINANCIAL RISK FACTORS (CONTINUED)***(v) 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.

*(vi) Sensitivity analysis*Foreign currency risk

The Authority is exposed to foreign currency risk due to fluctuations in the RMB exchange rates (see Note 19(a)(i)). As at 31 March 2013, if there were a 2% (2012: 3%) 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 net exchange gain by approximately HK\$90.1 million (2012: HK\$128.8 million).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Authority's exposure to currency risk for the RMB denominated financial assets in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes in foreign currency represent the Authority's assessment of reasonable possible changes in foreign exchange rates over the period until the next balance sheet date.

Interest rate risk

The Authority is exposed to interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and fund investments. Based on the time deposits balance as at 31 March 2013, 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 by approximately HK\$10.4 million (2012: HK\$11.3 million) a year.

Based on the fund balance as at 31 March 2013, if there were a general increase / decrease of 0.1% (or 10 basis points) in the market interest rates on the same date, it is estimated that, with all other variables held constant, it would decrease / increase the fair value of the Authority's fund investments by approximately HK\$3.6 million (2012: nil).

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 and fund investments in existence at that date. Fixed rate debt securities which are held to maturity 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 2013, 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 would have increased / decreased by approximately HK\$11.8 million (2012: HK\$11.1 million) a year.

Price risk

The fair value of the fund investments is mainly affected by the exchange rate movements of foreign currencies and the changes in interest rates. Sensitivity analysis of foreign currency risk and interest rate risk are separately disclosed in above notes.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)**(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 WKCD 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*(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. Fund investments of the Authority are 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.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)**(c) FAIR VALUE ESTIMATION (CONTINUED)***(i) Financial assets carried at fair values (Continued)*

The Authority's fund investments are included in level 1. The following table presents the changes in level 1 instruments for the year ended 31 March 2013:

	2013 HK\$ million	2012 HK\$ million
Opening balance	-	-
Addition	700.0	-
Exchange gains	0.7	-
Fair value gains	8.1	-
Closing balance at fair value	<u>708.8</u>	<u>-</u>

The placement with the Hong Kong Monetary Authority is included in level 3. The following table presents the changes in level 3 instruments for the year ended 31 March 2013:

	2013 HK\$ million	2012 HK\$ million
Opening balance	11,287.6	10,657.8
Income from placement with the Hong Kong Monetary Authority	613.4	629.8
Closing Balance	<u>11,901.0</u>	<u>11,287.6</u>

(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 2013 and 2012.

The carrying amounts of other financial assets and liabilities carried at amortised cost approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

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.

	2013		2012	
	Carrying amount HK\$ million	Fair value HK\$ million	Carrying amount HK\$ million	Fair value HK\$ million
Held-to-maturity investments	<u>430.0</u>	<u>429.4</u>	<u>413.2</u>	<u>414.2</u>