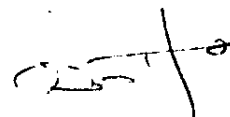


**HONG KONG ARTS FESTIVAL SOCIETY LIMITED
EXECUTIVE COMMITTEE'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2011**

Certified true copy



Secretary of the Company



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08/12/2011

HONG KONG ARTS FESTIVAL SOCIETY LIMITED

REPORT OF THE EXECUTIVE COMMITTEE

The Executive Committee submits its report together with the audited financial statements of Hong Kong Arts Festival Society Limited (the "Society") for the year ended 30 June 2011.

Principal activities

The principal activities of the Society are to annually produce, manage and organise the Hong Kong Arts Festival which is an international arts festival of performing arts.

Results

The results of the Society are set out in the statement of comprehensive income on pages 6 and 7.

Property, plant and equipment

Details of the movements in property, plant and equipment are set out in note 4 to the financial statements.

Executive Committee

The members of the Executive Committee during the year were:

Mr Charles Yeh Kwong Lee (Chairman)
Mr Rafael Junior Hui (Vice Chairman)
Mr Billy Sze Kuen Li (Hon Treasurer)
Mr Daniel Yat Chiu Ng
Mr David William Gwilt
Mr Ronald Arculli
Mr Victor Mou Zing Cha
Ms Nikki Mien Hua Ng
Mr Joseph Chi Kwong Yam
Mr Peter James Holland Riley
Mr Roberto Alexandra Vieira Ribeiro
Ms Gilly Fung Han Wong
Mr Anthony Wing Kin Chow (appointed on 4 March 2011)
Mr Iain Ferguson Bruce (resigned on 4 March 2011)

In accordance with Article 45 of the Society's Articles of Association, Mr Daniel Yat Chiu Ng, Mr David William Gwilt, Ms Nikki Mien Hua Ng, Mr Joseph Chi Kwong Yam, Mr Peter James Holland Riley, Mr Roberto Alexandra Vieira Ribeiro and Ms Gilly Fung Han Wong will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Executive Committee members' interests

No contracts of significance in relation to the Society's operations to which the Society was a party and in which a member of the Executive Committee had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Society a party to any arrangement to enable the Executive Committee members of the Society to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Society or its associated corporations.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED

REPORT OF THE EXECUTIVE COMMITTEE (CONTINUED)

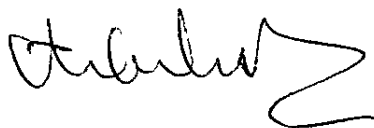
Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the operations of the Society were entered into or existed during the year.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Executive Committee



Chairman

Hong Kong, 27 SEP 2011

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HONG KONG ARTS FESTIVAL SOCIETY LIMITED**
(incorporated in Hong Kong and limited by guarantee)

We have audited the financial statements of Hong Kong Arts Festival Society Limited (the "Society") set out on pages 5 to 22, which comprise the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Executive Committee's responsibility for the financial statements

The Executive Committee is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the Executive Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Committee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(CONTINUED)**
(incorporated in Hong Kong and limited by guarantee)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Society's affairs as at 30 June 2011, and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 SEP 2011


HONG KONG ARTS FESTIVAL SOCIETY LIMITED
 (All amounts in Hong Kong dollars unless otherwise stated)

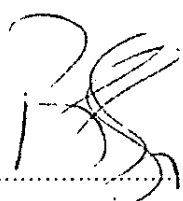
BALANCE SHEET

	Note	As at 30 June	
		2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	4	502,613	360,684
Current assets			
Accounts and other receivables	6	4,560,724	5,086,076
Cash and cash equivalents	7	39,810,298	17,195,464
		44,371,022	22,281,540
Total assets		44,873,635	22,642,224
FUNDS			
Reserve funds		18,043,518	17,185,660
LIABILITIES			
Current liabilities			
Accounts and other payables	8	10,240,117	5,456,564
Deferred income	9	16,590,000	-
		26,830,117	5,456,564
Total funds and liabilities		44,873,635	22,642,224

The notes on pages 10 to 22 are an integral part of these financial statements.

The financial statements on pages 5 to 22 were approved by the Executive Committee on
 27 SEP 2011 and were signed on its behalf.


 Chairman


 Honorary Treasurer

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 30 June	
		2011	2010
Revenue			
Grants	10	41,080,000	27,292,447
Ticket sales		38,492,059	30,699,007
Sponsorship income and donations		16,171,166	12,082,351
Other contributions		1,113,110	539,700
Corporate patron scheme income		650,000	775,000
Advertising income from booking brochures, souvenir brochures and house programmes		882,475	861,411
Special projects			
- Income from Murder in San Jose (Rerun and tour)		1,565,173	1,277,876
- Funds received for Creative October		-	687,000
- Income from Shanghai Expo		1,864,830	1,740,000
- Income from Power Plant		4,001,665	-
		<u>105,820,478</u>	<u>75,954,792</u>
Less: cost of production			
Artists fees, hotel cost and per diem expenses		21,789,343	13,687,420
Venue rental and production expenses		23,193,411	18,539,410
Airfares and transportation		14,104,269	6,835,997
Royalties		356,467	284,290
Local performances and fringe events		6,067,574	7,369,232
Overseas publicity programme		150,134	-
Advertising		6,070,272	3,995,506
General promotion		4,009,633	3,235,957
Booking brochures, souvenir brochures and house programmes		2,891,422	2,488,974
Box office service		3,309,407	2,801,256
Sponsorship expenses		574,634	444,310
Audience development expenses		1,345,836	894,380
Insurance		90,100	82,670
Special projects			
- Murder in San Jose (Rerun and tour)		1,278,471	1,081,010
- Creative October		-	660,560
- Shanghai Expo		2,689,994	949,898
- Power Plant		3,897,883	-
		<u>91,818,850</u>	<u>63,350,870</u>
Balance carried forward		<u>14,001,628</u>	<u>12,603,922</u>

The notes on pages 10 to 22 are an integral part of these financial statements.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	2011	2010
Balance brought forward		<u>14,001,628</u>	<u>12,603,922</u>
Less: administrative and other expenses			
Salaries and allowances		11,621,370	8,711,409
Retirement benefit costs		970,258	860,840
Operating lease rentals in respect of office premises and warehouse		993,079	968,167
Building management fees		265,680	265,680
Communication, recruitment and others		354,539	247,878
International program consultant's fee and expenses		19,836	134,412
Logistics manager's fee and expenses		265,200	265,524
Depreciation	4	284,809	171,688
Overseas travel expenses		127,625	72,622
Printing and stationery		194,549	122,895
Auditor's remuneration		111,061	90,187
Net exchange (gains)/losses		(906,834)	608,997
Loss on disposal of property, plant and equipment		11,603	325
Entertainment		28,833	28,807
Sundries		59,230	53,615
		<u>14,400,838</u>	<u>12,603,046</u>
Operating (deficit)/surplus after administrative and other expenses		(399,210)	876
Interest income			
- Bank balances and deposits		15,267	21,268
Net exchange gains on foreign forward exchange contracts		-	4,420
Other income		1,104,202	1,038,729
		<u>720,259</u>	<u>1,065,293</u>
Operating surplus for the year		720,259	1,065,293
Write back of overprovision in prior years for overseas artists' salaries tax		137,599	311,977
		<u>857,858</u>	<u>1,377,270</u>
Surplus for the year		857,858	1,377,270
Other comprehensive income for the year		-	-
		<u>857,858</u>	<u>1,377,270</u>
Total comprehensive income for the year		<u><u>857,858</u></u>	<u><u>1,377,270</u></u>

The notes on pages 10 to 22 are an integral part of these financial statements.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF CHANGES IN FUNDS

	2011	2010
Reserve funds:		
As at 1 July	17,185,660	15,808,390
Comprehensive income		
Surplus for the year	857,858	1,377,270
Other comprehensive income	-	-
Total comprehensive income	857,858	1,377,270
As at 30 June	18,043,518	17,185,660

The notes on pages 10 to 22 are an integral part of these financial statements.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
 (All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF CASH FLOWS

	Note	Year ended 30 June	
		2011	2010
Cash flows from operating activities			
Cash generated from/(used in) operations	13	23,037,909	(4,292,406)
Net cash generated from/(used in) operating activities		23,037,909	(4,292,406)
Cash flows from investing activities			
Purchases of property, plant and equipment	4	(438,342)	(347,396)
Decrease in pledged bank deposits		-	1,552,400
Interest received		15,267	21,268
Net cash (used in)/generated from investing activities		(423,075)	1,226,272
Net increase/(decrease) in cash and cash equivalents		22,614,834	(3,066,134)
Cash and cash equivalents at the beginning of the year		17,195,464	20,261,598
Cash and cash equivalents at the end of the year	7	39,810,298	17,195,464

The notes on pages 10 to 22 are an integral part of these financial statements.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The principal activities of Hong Kong Arts Festival Society Limited (the "Society") are to annually produce, manage and organise the Hong Kong Arts Festival which is an international arts festival of performing arts.

The Society is incorporated under the Hong Kong Companies Ordinance and is limited by guarantee. Under the provision of the Society's Articles of Association, every member shall, in the event of the Society being wound up, contribute to the assets of the Society to the extent of HK\$500.

The address of its registered office is located at 12/F, Hong Kong Arts Centre, 2 Harbour Road, Wanchai, Hong Kong.

These financial statements are presented in Hong Kong dollars unless otherwise stated. These financial statements have been approved for issue by the Executive Committee on 27 SEP 2011

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Society have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

- (a) New standards, amendments and interpretations to existing standards (collectively, the "Amendments") effective as of 1 July 2010

HKICPA has issued a number of Amendments which are mandatory for the Society's accounting year commencing on 1 July 2010. The Amendments do not have any impact on the Society's financial statements since they are not relevant to the Society's operations.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- (b) Amendments that are not yet effective and have not been early adopted by the Society

Certain Amendments have been published that are mandatory for accounting periods beginning on or after 1 July 2011. Some of the Amendments are relevant and applicable to the Society; however, they have not been early adopted in these financial statements. The Society has commenced, but not yet completed, an assessment of the impact of the applicable Amendments on its results of operations and financial position. The Executive Committee is of the view that the impact on the financial statements would not be significant other than certain additional disclosures.

2.2 Foreign currency translation

- (a) Functional and presentation currency

Items included in the financial statements of the Society are measured using the currency of the primary economic environment in which the Society operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is the Society's functional and presentation currency.

- (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 statement of comprehensive income.

2.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Society and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the statement of comprehensive income during the financial year in which they are incurred.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.3 Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives as follows:

Furniture and fixtures	5 years
Office equipment	5 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.4).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.4 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.6 Impairment of financial assets carried at amortised cost

The Society assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.6 Impairment of financial assets carried at amortised cost (Continued)

The criteria that the Society uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Society, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Society first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

2.7 Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

If collection of accounts and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Accounts and other payables

Accounts and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Accounts and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.10 Provisions

Provisions are recognised when the Society has a present legal or constructive obligation where, as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.11 Employee benefits

(a) Pension obligations

The Society operates a defined contribution retirement scheme under the Occupational Retirement Scheme Ordinance ("ORSO Scheme") and a mandatory provident fund scheme ("MPF Scheme") in Hong Kong. The assets of the schemes are held in separate trustee-administered funds. The Society has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and, for ORSO Scheme, are reduced by contributions forfeited by those employees who leave the ORSO Scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave, maternity leave, paternity leave and other non-accumulating compensated absences are not recognised until the time of leave.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.12 Revenue and income recognition

Revenue and income are recognised as follows:

(a) Grants

Grants are recognised when there is a reasonable assurance that the Society will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

(b) Ticket sales

Ticket sales are recognised when the event is held.

(c) Sponsorship income and donations, and other contributions

Sponsorship income and donations, and other contributions are recognised when the right to receive payment is established.

(d) Corporate patron scheme income

Corporate patron scheme income is recognised on an accruals basis.

(e) Advertising income

Advertising income is recognised when the advertisement is published on the brochures and magazines.

(f) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(g) Other income

Other income is recognised on an accruals basis.

(h) Income from special projects

Income from special projects is recognised on an accruals basis.

2.13 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risk management

3.1 Financial risk factors

The Society's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, cash flow interest rate risk and liquidity risk. The Society's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Society's financial performance.

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the Society's functional currency. The Society is exposed to foreign currency exchange fluctuations arising from various currency exposures created in the normal course of business, primarily with respect to United States dollars, Euros and Pounds sterling.

(i) United States dollars

For transactions or balances denominated in United States dollars, as United States dollars are reasonably stable with the Hong Kong dollars under the Linked Exchange Rate System, the Executive Committee is of the opinion that the Society does not have significant foreign exchange risk. Accordingly, no sensitivity analysis is performed.

(ii) Euros

For transactions or balances denominated in Euros, at 30 June 2011, if Hong Kong dollars had weakened/strengthened by 5% against Euros with all other variables held constant, surplus for the year would have been HK\$210,095 (2010: HK\$228,940) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of financial assets or financial liabilities as denominated in Euros.

(ii) Pounds sterling

For transactions or balances denominated in Pounds sterling, at 30 June 2011, if Hong Kong dollars had weakened/strengthened by 5% against Pounds sterling with all other variables held constant, surplus for the year would have been HK\$126,316 (2010: HK\$119,104) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of financial assets or financial liabilities as denominated in Pounds sterling.

(b) Credit risk

Credit risk arises from accounts and other receivables and bank balances.

The Society has no significant credit risk on accounts and other receivables because the Society has policies in place for the control and monitoring of its credit risk.

The credit risk on liquid funds is limited because the counterparties are reputable and with creditworthy banks. As such, no significant credit risk is anticipated.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Cash flow interest rate risk

Other than the cash at banks which carry interest at prevailing market interest rates, the Society has no other significant interest-bearing assets or liabilities. The Society's interest rate risk mainly arises from interest-bearing bank deposits and is managed by the Executive Committee.

At 30 June 2011, if interest rates on interest-bearing bank deposits had been 50 basis points (2010: 50 basis points) higher/lower with all other variables held constant, surplus for the year would have been HK\$199,051 (2010: HK\$83,698) higher/lower, as a result of higher/lower interest income on bank deposits.

(d) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents. Accordingly, the Executive Committee members are of the opinion that the Society does not have significant liquidity risk.

The table below analyses the Society's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2011	2010
Less than one year		
Accounts and other payables (note 8)	8,045,468	5,451,764

3.2 Fund risk management

The Society's objectives when managing funds are to safeguard the Society's ability to continue as a going concern and to have sufficient funding for future operations. The Society's overall strategy remains unchanged from prior years.

The funds of the Society comprise its reserve funds.

3.3 Fair value estimation

The carrying values less impairment provision of receivables and payables are a reasonable approximation of their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Society for similar financial instruments.

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

4 Property, plant and equipment

	Furniture and fixtures	Office equipment	Computer equipment	Total
At 1 July 2009				
Cost	1,000,601	288,559	797,453	2,086,613
Accumulated depreciation	(863,818)	(262,953)	(774,541)	(1,901,312)
Net book amount	<u>136,783</u>	<u>25,606</u>	<u>22,912</u>	<u>185,301</u>
Year ended 30 June 2010				
Opening net book amount	136,783	25,606	22,912	185,301
Additions	276,015	9,900	61,481	347,396
Disposals	(322)	(3)	-	(325)
- Cost	(4,384)	(12,588)	-	(16,972)
- Accumulated depreciation	4,062	12,585	-	16,647
Depreciation	(125,024)	(14,770)	(31,894)	(171,688)
Closing net book amount	<u>287,452</u>	<u>20,733</u>	<u>52,499</u>	<u>360,684</u>
At 30 June 2010				
Cost	1,272,232	285,871	858,934	2,417,037
Accumulated depreciation	(984,780)	(265,138)	(806,435)	(2,056,353)
Net book amount	<u>287,452</u>	<u>20,733</u>	<u>52,499</u>	<u>360,684</u>
Year ended 30 June 2011				
Opening net book amount	287,452	20,733	52,499	360,684
Additions	6,550	155,880	275,912	438,342
Disposals	(6,261)	(3,681)	(1,662)	(11,604)
- Cost	(26,235)	(182,060)	(353,719)	(562,014)
- Accumulated depreciation	19,974	178,379	352,057	550,410
Depreciation	(118,345)	(44,174)	(122,290)	(284,809)
Closing net book amount	<u>169,396</u>	<u>128,758</u>	<u>204,459</u>	<u>502,613</u>
At 30 June 2011				
Cost	1,252,547	259,691	781,127	2,293,365
Accumulated depreciation	(1,083,151)	(130,933)	(576,668)	(1,790,752)
Net book amount	<u>169,396</u>	<u>128,758</u>	<u>204,459</u>	<u>502,613</u>

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

5 Financial instruments by category

The Society's financial instruments include the following:

	2011	2010
Financial assets - loans and receivables		
Accounts receivable (note 6)	964,959	577,625
Other receivable (note 6)	2,657,134	4,011,428
Deposits (note 6)	642,717	309,972
Cash and cash equivalents (note 7)	39,810,298	17,195,464
	<u>44,075,108</u>	<u>22,094,489</u>
Total	<u>44,075,108</u>	<u>22,094,489</u>
	2011	2010
Financial liabilities - other financial liabilities at amortised cost		
Accounts and other payables (note 8)	8,045,468	5,451,764
	<u>8,045,468</u>	<u>5,451,764</u>

6 Accounts and other receivables

	2011	2010
Accounts receivable	964,959	577,625
Other receivable	2,657,134	4,011,428
Deposits	642,717	309,972
Prepayments	295,914	187,051
	<u>4,560,724</u>	<u>5,086,076</u>
	<u>4,560,724</u>	<u>5,086,076</u>

The carrying amounts of accounts and other receivables approximate their fair values as at 30 June 2011 and 2010 and are denominated in the following currencies:

	2011	2010
Hong Kong dollars	4,560,724	5,020,634
Renminbi	-	56,704
Pounds sterling	-	6,409
United States dollars	-	2,329
	<u>4,560,724</u>	<u>5,086,076</u>
	<u>4,560,724</u>	<u>5,086,076</u>

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

6 Accounts and other receivables (Continued)

Accounts receivables that are less than three months past due are not considered impaired. As at 30 June 2011, the following accounts receivables were past due but not impaired. These relate to a number of independent sponsors and donors for whom there is no recent history of default. The Society does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	2011	2010
<u>Ageing of past due but not impaired</u>		
Up to 90 days	533,115	21,185
91 to 120 days	-	-
Over 120 days	431,844	556,440
	<u>964,959</u>	<u>577,625</u>

The accounts and other receivables did not contain impaired assets.

7 Cash and cash equivalents

	2011	2010
Cash at banks and in hand	36,344,804	3,942,894
Short-term bank deposits (note)	3,465,494	13,252,570
	<u>39,810,298</u>	<u>17,195,464</u>
Maximum exposure to credit risk	<u>39,775,963</u>	<u>17,141,367</u>

Note: The effective interest rate of short-term bank deposits is 0.26% (2010: 0.05%) per annum; these deposits have an average maturity of 36 days (2010: 14 days) from the balance sheet date to the maturity date.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2011	2010
Hong Kong dollars	31,510,147	9,907,824
Euros	4,201,896	4,578,800
United States dollars	340,788	305,628
Pounds sterling	2,526,312	2,375,665
Renminbi	1,213,521	-
Other currencies	17,634	27,547
	<u>39,810,298</u>	<u>17,195,464</u>

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

8 Accounts and other payables

	2011	2010
Accounts payable	2,467,896	679,453
Accrued expenses	1,533,916	1,174,910
Tax for overseas artists	4,043,656	3,597,401
	<u>8,045,468</u>	<u>5,451,764</u>
Financial liabilities	8,045,468	5,451,764
Receipts in advance	2,194,649	4,300
Deposit received	-	500
	<u>10,240,117</u>	<u>5,456,564</u>

The carrying amounts of accounts and other payables approximate their fair values as at 30 June 2011 and 2010 and are denominated in the following currencies:

	2011	2010
Hong Kong dollars	7,891,277	5,067,748
United states dollars	-	384,516
Euros	2,348,840	-
	<u>10,240,117</u>	<u>5,452,264</u>

9 Deferred income

	2011	2010
Leisure and Cultural Services Department ("LCSD") subvention grants (note)	16,590,000	-
	<u>16,590,000</u>	<u>-</u>

Note: The amount represents unspent subventions received from LCSD for organising Hong Kong Arts Festival 2012.

10 Grants

	2011	2010
LCSD	33,180,000	19,148,000
Hong Kong Jockey Club Charities Trust	7,900,000	8,144,447
	<u>41,080,000</u>	<u>27,292,447</u>

HONG KONG ARTS FESTIVAL SOCIETY LIMITED
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

11 Executive Committee members' remuneration (equivalent to key management compensation)

None of the Executive Committee members, who are considered as key management of the Society, received or will receive any fees or other emoluments in respect of their services to the Society during the year (2010: Nil).

12 Income tax

Hong Kong profits tax has not been provided as the Society is exempted by virtue of section 88 of the Hong Kong Inland Revenue Ordinance.

13 Cash generated from/(used in) operations

	2011	2010
Surplus for the year	857,858	1,377,270
Adjustments for:		
- Depreciation	284,809	171,688
- Loss on disposal of property, plant and equipment	11,604	325
- Interest income	(15,267)	(21,268)
Changes in operating assets and liabilities:		
- Accounts and other receivables	525,352	(4,458,277)
- Accounts and other payables	4,783,553	(1,362,144)
- Deferred income	16,590,000	-
Cash generated from/(used in) operations	<u>23,037,909</u>	<u>(4,292,406)</u>

14 Commitments

(a) Capital commitments

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

	2011	2010
Property, plant and equipment	<u>2,395,668</u>	<u>-</u>

(b) Operating lease commitments

At 30 June, the Society had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and warehouse as follows:

	2011	2010
No later than one year	859,860	791,314
Later than one year and no later than five years	1,719,720	-
	<u>2,579,580</u>	<u>791,314</u>