

# NOTES TO THE FINANCIAL STATEMENTS

(expressed in Hong Kong Dollars)

## 1. General information

The Urban Renewal Authority (the “Authority”) is a statutory body established by the Hong Kong SAR Government under the Urban Renewal Authority Ordinance (Chapter 563). The principal activities of the Authority and its subsidiaries (the “Group”) have been to promote urban renewal in Hong Kong by way of redevelopment, rehabilitation, revitalisation and heritage preservation. As a result of the new Urban Renewal Strategy promulgated on 24 February 2011, the Group is to focus on redevelopment and rehabilitation as its core business.

The address of the Authority is 26/F, COSCO Tower, 183 Queen’s Road Central, Hong Kong.

As part of the financial support for the Authority, the Government has agreed that all urban renewal sites for new projects set out in the Corporate Plans and Business Plans of the Authority, approved by the Financial Secretary (“FS”) from time to time, may in principle be granted to the Authority at nominal premium, subject to satisfying FS of the need therefor.

## 2. Significant accounting policies

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

### (a) Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and in accordance with accounting principles generally accepted in Hong Kong and comply with all applicable Hong Kong Financial Reporting Standards (which include all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (“HKFRSs”)) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Authority’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

### (b) Standards, amendments to standards and interpretations effective in current year

In current year, the Group has applied the new standards, amendments and interpretations issued by the HKICPA that have become effective. The adoption of these new standards has no impact on the Group’s results, financial position or accounting policies.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (c) Standards and amendments to standards that are not yet effective

The HKICPA has issued certain new standards, amendments and interpretations which are not yet effective as at 31 March 2013. Those which are relevant to the Group's operation are as follows:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income	1 July 2012
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013
HKAS 19 (2011)	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
Annual Improvements Project	Annual Improvements 2009-2011 Cycle	1 January 2013
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2014
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015

The Group has not early adopted the above standards, amendments and interpretations in the financial statement for the year ended 31 March 2013. The Group will apply the above standards, amendments and interpretations from 1 April 2013, and has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (d) Basis of consolidation

The consolidated financial statements include the financial statements of the Authority and all its subsidiaries made up to 31 March.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All material intercompany transactions and balances within the Group are eliminated on consolidation.

In the Authority's statement of financial position, investments in subsidiaries are stated at cost less any provision for impairment losses. Any such provisions are recognised as an expense in the profit or loss.

### (e) Revenue recognition

Revenue is measured at fair value of consideration received or receivable. Provided it is probable that the economic benefit will flow to the Group and the revenue can be measured reliably, revenue is recognised in the profit or loss as follows:

- (i) Income from sale of properties is recognised upon the risks and rewards of ownership have been passed.
- (ii) Where the Authority receives its share of surplus from property development projects undertaken in joint ventures, sharing of such surplus is recognised in accordance with the terms of the joint development agreements.
- (iii) Where the Authority receives a distribution of the assets of a joint venture, surplus is recognised based on the fair value of such assets at the time when agreement to distribute the assets has been reached.
- (iv) When the developer has obligated to settle the upfront premium to the Authority at the inception of joint development agreement, surpluses arising from such upfront premium are recognised when the Authority has no further substantial acts to complete. Generally, such surpluses are recognised as soon as the Group has performed its obligations in respect of the upfront premium, the events leading to the possible cancellation of the joint development agreements have lapsed, and the upfront premium have become non-refundable / non-cancellable.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (e) Revenue recognition (Continued)

- (v) Interest income is recognised on a time-proportion basis using the effective interest method.
- (vi) Rental income net of any incentives given to the lessee is recognised on a straight line basis over the periods of the respective leases.

### (f) Property, plant and equipment

Buildings comprise rehousing blocks, preservation properties and commercial premises held for self-use. Rehousing blocks represent properties held by the Authority for the intended purpose of providing interim accommodation for affected tenants of development projects who are normally charged a rent which is substantially below the market value, with a view to assisting the dispossessed tenants who are yet to obtain public housing units.

All 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit or loss during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use.

Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated to write off their costs less residual values over their anticipated useful lives on a straight line basis as follows:

Leasehold land classified as finance lease	-	Over the period of the unexpired lease
Buildings	-	2% per annum or over the period of the unexpired lease if less than 50 years
Leasehold improvements	-	Office : Over 10 years or the life of the respective lease, whichever is the shorter Non-office : Over the period of the unexpired terms of the leases if less than 50 years
Plant and machinery	-	10% per annum
Motor vehicles	-	25% per annum
Furniture and office equipment	-	20% to 33 1/3% per annum



(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (f) Property, plant and equipment (Continued)

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

### (g) Impairment of investments in subsidiaries and non-financial assets

Assets are reviewed for impairment whenever events or changes 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). Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (h) Financial assets and liabilities

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets designated at fair value through profit or loss on initial recognition or held for trading. Assets in this category are classified as current assets. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss within 'other income, net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss as part of 'other income, net' when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (h) Financial assets and liabilities (Continued)

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount 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 or loss.

Purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

#### (i) Leases

Leases are classified as finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to 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 profit or loss on a straight-line basis over the period of the lease except for those incurred for accommodation in project sites which have been capitalised in property under development.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (j) Properties acquired pending redevelopment

Properties acquired pending redevelopment are stated at cost less provision for impairment losses until a decision is reached as to whether the redevelopment is to be undertaken by the Group or through joint ventures.

When a property is to be redeveloped, the cost of the property is reclassified as properties under development or jointly controlled development projects for projects undertaken in joint ventures.

### (k) Properties under development

Properties under development represent all costs incurred by the Authority in connection with property redevelopment, and include acquisition costs, the cost of properties being reclassified from properties acquired pending redevelopment, borrowing costs, costs of rehousing units (see Note 2(m)) and other costs incurred in connection with the development, less any provisions for impairment losses.

Upon disposal of the development properties, the relevant cost of the properties will be apportioned between the part to be retained and the part to be sold on an appropriate basis.

The relevant cost for the part to be sold will be charged as 'direct costs' to the profit or loss at the inception of joint development agreement.

### (l) Properties held for sale

Property to be sold at the end of the reporting period will be stated at the lower of cost and net realisable value.

### (m) Costs of rehousing units provided by the Hong Kong Housing Authority and the Hong Kong Housing Society

The Hong Kong Housing Authority and the Hong Kong Housing Society have agreed to provide certain rehousing units to the Authority. In return, the Authority will pay for the reservation fees until a tenant is moved into the unit and the development costs of the rehousing unit. These costs are recognised as part of the cost of properties under development referred to in Note 2(k), or jointly controlled development projects for projects undertaken in joint ventures (Note 2(r)).

### (n) Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses, except for those cases where the Group has a present obligation as a result of committed events.

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (n) Provisions and contingencies (Continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow economic benefits is probable. When inflow is virtually certain, an asset is recognised.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

### (o) Current and deferred income tax

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expenses that are taxable or deductible in other years and it further exclude profit or loss items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised.

### (p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (p) Borrowing costs (Continued)

Other borrowing costs are charged to the profit or loss in the period in which they are incurred.

### (q) Translation of foreign currencies

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong Dollars, 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. 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 or loss.

### (r) Jointly controlled development projects

The arrangements entered into by the Group with property developers for redevelopment projects are considered to be jointly controlled operations pursuant to HKAS 31 "Interests in Joint Ventures" and are accounted for in accordance with the terms of the development agreements. The Group's share of income earned from such operations is recognised in the profit or loss in accordance with the bases set out in Notes 2(e) (ii), (iii) and (iv).

Where property is received by the Authority as its share of distribution of assets from jointly controlled development projects, such property is recorded within non-current assets at its fair value at the time when agreement is reached or, if a decision is taken for it to be disposed of, at the lower of this value and net realisable value within current assets.

### (s) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and deposits held at call with banks with maturities of three months or less.

### (t) Employee benefits

Salaries and annual leave are accrued and recognised as an expense in the year in which the associated services are rendered by the employees of the Group.

The Group operates defined contribution schemes and pays contributions to scheme administrators on a mandatory or voluntary basis. The contributions are recognised as an expense when they are due.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 3. Financial risk management

### (a) Financial risk factors

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

#### (i) Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits. Nevertheless, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

#### Interest rate sensitivity

As at 31 March 2013, if interest rates had been increased/decreased by 0.5% and all other variables were held constant, the surplus/deficit of the Group would increase/decrease by approximately \$37,179,000 (2012: \$45,018,500) resulting from the change in the interest income generated from the cash and bank balances (exclude cash and bank balances held under investment at fair value through profit or loss).

The Group's interest rate risk for "financial assets at fair value through profit or loss" is set out in Note 3(a)(iv).

#### (ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and bank balances, building rehabilitation loans, receivables from property developers, and trade and other receivables.

The credit risk on cash and bank balances is limited because all the funds are placed in banks with credit rankings, ranging from Aa1 to A3 and there is no concentration in any particular bank.

The credit risk on building rehabilitation loans is limited as the Authority has monitoring procedures to ensure that follow-up action is taken to recover overdue debts and place charges on the properties.

The credit risk on receivables from property developers is limited as all due performance of the property developers are guaranteed by their respective holding companies or joint venturers.

The credit risk on trade receivables is limited as rental deposit in the form of cash are usually received from tenants.

(expressed in Hong Kong Dollars)

### 3. Financial risk management (Continued)

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

##### (iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through committed credit facilities.

Management monitors rolling forecasts of the Group's cash and bank balances (Note 19) on the basis of expected cash flow.

The table below analyses the Group's and the Authority's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances (except for debt securities issued which include interest element), as the impact of discounting is insignificant.

	<u>Group</u>		<u>Authority</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Less than 1 year</b>				
Trade and other payables	1,860,483	1,318,165	1,859,865	1,317,534
Debt securities issued	<u>-</u>	<u>1,515,557</u>	<u>-</u>	<u>1,515,557</u>
<b>Between 1 to 3 years</b>				
Debt securities issued	<u>1,537,152</u>	<u>206,507</u>	<u>1,537,152</u>	<u>206,507</u>
<b>Between 3 to 5 years</b>				
Debt securities issued	<u>533,719</u>	<u>-</u>	<u>533,719</u>	<u>-</u>
<b>Over 5 years</b>				
Debt securities issued	<u>1,480,023</u>	<u>-</u>	<u>1,480,023</u>	<u>-</u>

##### (iv) Price risk

Price risk arising from uncertainties about future prices of the underlying investments held at fair value through profit or loss.

##### Price risk sensitivity

As at 31 March 2013, if the respective market price of the quoted investments had been increased/decreased by 1% and all other variables held constant, the surplus/deficit of the Group would increase/decrease by approximately \$16,820,700 (2012: \$13,049,500) resulting from the change in fair value of the financial assets at fair value through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 3. Financial risk management (Continued)

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

#### (v) Foreign exchange risk

The Group has certain cash and bank balances denominated in Renminbi, which are exposed to foreign currency translation risk. When the exchange rates of Renminbi against the Hong Kong dollar fluctuate, the value of the Renminbi-denominated cash and bank balances translated into Hong Kong dollar will vary accordingly.

#### Foreign exchange risk sensitivity

At 31 March 2013, if Hong Kong dollar had weakened/strengthened by 1% against the Renminbi with all other variables held constant, the surplus of the Group would increase/decrease by approximately \$635,000 (2012: \$4,912,000) resulting from the foreign exchange gains/losses on translation of Renminbi-denominated cash and bank balances.

### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to promote urban renewal in Hong Kong by way of redevelopment, rehabilitation, revitalisation and heritage preservation.

The Group's working capital is mainly financed by the Government's equity injection, accumulated surplus and debt securities issued. The Group also maintains committed credit facilities to ensure the availability of funding when needed.

### (c) Fair value estimation

The carrying amounts of the Group's financial assets including receivables from property developers, cash and bank balances and trade and other receivables; and financial liabilities including trade and other payables, approximate their fair values due to their short maturities.

The carrying amounts of the Group's building rehabilitation loans and debt securities issued approximate their fair value as the impact of discounting is insignificant.



(expressed in Hong Kong Dollars)

#### 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### Estimated impairment of properties under development and provision for committed projects

Properties under development are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired in accordance with the accounting policy stated in Note 2(g).

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past and committed events in accordance with the accounting policy stated in Note 2(n). When the estimated valuation of the committed project is lower than the present legal or constructive obligation, a provision would be recognised.

The valuation of properties under development and provision for committed projects are made on the basis of the "Market Value" adopted by the Hong Kong Institute of Surveyors ("HKIS"). The valuation is performed annually by internal valuers who are qualified members of the HKIS. The Group's management review the assumptions used by the internal valuers by considering the information from a variety of sources including (i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; (ii) recent prices of comparable properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; (iii) expected arrangement with property developers on tender awarded; (iv) estimated development and related cost and allocation thereof; and (v) discount rate used in land value assessment, which is made with reference to the Prime Rate.

##### Estimated impairment of properties under development and provision for committed projects sensitivity

As at 31 March 2013, if the respective estimated upfront premium to be received on the projects had been increased/decreased by 5% and all other variables held constant, the surplus of the Group would increase by approximately \$342,000,000 (2012: \$237,000,000)/decrease by approximately \$394,000,000 (2012: \$238,000,000) resulting from the change in provision written back/charge for impairment on properties under development and provision for committed projects.

The final impairment amount for properties under development and the ultimate losses arise from the committed projects would be affected by the actual realised value and development and related cost and the final arrangements with the property developers.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 5. Revenues and other income

### (a) Revenues

Turnover recognised during the year represents:

	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Share of property development surplus on jointly controlled development projects	631,856	3,238,331
Upfront premium from property developers	<u>4,709,203</u>	<u>451,900</u>
	<u>5,341,059</u>	<u>3,690,231</u>

### (b) Other income, net

Other income, net recognised during the year represents:

	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Interest income	144,432	153,182
Rental income	9,672	8,480
Gain on financial assets at fair value through profit or loss	19,920	12,395
Gain on disposal of property, plant and equipment	18	1
Net foreign exchange gains	<u>9,190</u>	<u>16,110</u>
	<u>183,232</u>	<u>190,168</u>

(expressed in Hong Kong Dollars)

## 6. Operating surplus before income tax

Operating surplus before income tax is arrived at after charging/(crediting) the following items:

### (a) Other items

	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Cost of properties under jointly controlled development projects charged	2,347,639	317,865
Depreciation	20,711	19,245
Provision for impairment on property, plant and equipment	14,756	6,978
Write back of impairment on properties held for sale	-	(355)
(Write back of)/provision for impairment on properties under development	(2,186,738)	149,200
Provision for committed projects	444,800	396,800
Operating lease charges in respect of rental of office premises	13,727	12,746
Outgoings in respect of properties	15,951	14,933
Staff costs (excluding directors' remuneration)	258,667	225,719
Auditor's remuneration	<u>550</u>	<u>522</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 6. Operating surplus before income tax (Continued)

### (b) Board and directors' remuneration during the year

	2013				
	Salaries	Provident fund scheme contributions	Sub-total	Variable pay	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Managing Director					
- Quinn Law Yee-kwan	3,593	13	3,606	1,078	4,684
- Iris Tam Siu-ying	294	1	295	88	383
Executive Director (Planning & Project Control) <sup>#</sup>					
- Iris Tam Siu-ying	2,629	13	2,642	657	3,299
Executive Director (Operations & Project Control)					
- Calvin Lam Che-leung	2,895	15	2,910	724	3,634
9 Directors	<u>21,196</u>	<u>266</u>	<u>21,462</u>	<u>5,526</u>	<u>26,988</u>
Total*	<u>30,607</u>	<u>308</u>	<u>30,915</u>	<u>8,073</u>	<u>38,988</u>
	2012				
	Salaries	Provident fund scheme contributions	Sub-total	Variable pay	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Managing Director					
- Quinn Law Yee-kwan	3,920	12	3,932	1,176	5,108
Executive Director (Planning & Project Control)					
- Iris Tam Siu-ying	2,720	12	2,732	680	3,412
Executive Director (Operations & Project Control)					
- Calvin Lam Che-leung	2,788	12	2,800	697	3,497
8 Directors	<u>18,928</u>	<u>96</u>	<u>19,024</u>	<u>4,890</u>	<u>23,914</u>
Total*	<u>28,356</u>	<u>132</u>	<u>28,488</u>	<u>7,443</u>	<u>35,931</u>

<sup>#</sup> The position of Executive Director (Planning & Project Control) was vacated from 1 March 2013.

\* Excluding compensation in lieu of leave and other benefit in the aggregate sum of \$974,000 (2012: \$392,000).

(expressed in Hong Kong Dollars)

## 6. Operating surplus before income tax (Continued)

### (b) Board and directors' remuneration during the year (Continued)

Their remuneration fell within the following bands:	<u>2013</u> No. of individuals	<u>2012</u> No. of individuals
\$1,500,001 to \$2,000,000	1	-
\$2,500,001 to \$3,000,000	4	4
\$3,000,001 to \$3,500,000	2	6
\$3,500,001 to \$4,000,000	4	-
\$4,500,001 to \$5,000,000	1	-
\$5,000,001 to \$5,500,000	-	1
Total	<u>12</u>	<u>11</u>

Fees for non-executive members of the Board (excluding the government public officers who are not entitled to receive any fees) are as follows:

	<u>2013</u> \$'000	<u>2012</u> \$'000
<u>Chairman</u>		
Mr Barry Cheung Chun-yuen, GBS, JP	100	100
<u>Non-Executive Directors (non-public officers)</u>		
Mr Victor Chan Hin-fu	65	65
Mr Walter Chan Kar-lok, SBS, JP	65	65
Ms Tanya Chan ( <i>up to 30 November 2012</i> )	43	65
Professor Ho Pui-yin	65	65
Professor Desmond Hui Cheuk-kuen	65	65
The Honourable Ip Kwok-him, GBS, JP	65	65
Mr Philip Kan Siu-lun	65	65
Mr Daniel Lam Chun, BBS, JP	65	65
Mr Philip Liao Yi-kang	65	65
Dr Billy Mak Sui-choi ( <i>from 1 December 2011</i> )	65	22
Dr Isaac Ng Ka-chui	65	65
Mr Ng Shui-lai, BBS, MBE, JP	65	65
Mr Almon Poon Chin-hung, JP ( <i>up to 30 November 2011</i> )	-	43
The Honourable James To Kun-sun	65	65
Mr Peter To	65	65
The Honourable Wong Kwok-kin, BBS	65	65
The Honourable Dennis Kwok Wing-hang ( <i>from 1 December 2012</i> )	22	-
Dr John Wong Yee-him	65	65
Mr Douglas Young Chi-chiu	65	65
	<u>1,205</u>	<u>1,205</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 6. Operating surplus before income tax (Continued)

### (c) Five highest paid individuals

	<u>2013</u>	<u>2012</u>
	\$'000	\$'000

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2013 include the Managing Director, two Executive Directors and two Directors (among the five highest paid individuals, one of them ceased to be an Executive Director during the year, but continued to serve the Authority as Managing Director). (2012: the Managing Director, two Executive Directors and two Directors).

The total emoluments earned by the five highest paid individuals during the year are as follow:

Fixed - Salaries	15,136	14,881
- Provident fund scheme contributions	<u>71</u>	<u>60</u>
Sub-total	15,207	14,941
Variable pay	<u>4,032</u>	<u>3,953</u>
Total##	<u>19,239</u>	<u>18,894</u>

Their remuneration fell within the following bands:

	<u>No. of individuals</u>	<u>No. of individuals</u>
\$3,000,001 to \$3,500,000	-	4
\$3,500,001 to \$4,000,000	4	-
\$4,500,001 to \$5,000,000	1	-
\$5,000,001 to \$5,500,000	<u>-</u>	<u>1</u>
Total	<u>5</u>	<u>5</u>

## For the year ended 31 March 2013, compensation in lieu of leave and other benefit of \$921,000 (2012: \$220,000) were excluded from the aggregate sum.

(expressed in Hong Kong Dollars)

## **7. Income tax expenses**

- (a) In accordance with Section 19 of the Urban Renewal Authority Ordinance, the Authority is exempted from taxation under the Inland Revenue Ordinance (Chapter 112).

No provision for Hong Kong profits tax has been made for the Group's subsidiaries as there are no assessable income for the year (2012: Nil).

- (b) As at 31 March 2013, the subsidiaries of the Group have unrecognised deductible temporary differences arising from capital allowance and tax losses of \$10,396,000 and \$8,361,000 respectively (2012: \$11,206,000 and \$5,830,000 respectively) to carry forward against future taxable income. These tax losses have no expiry date.

## **8. Surplus for the year**

The consolidated surplus for the year includes a surplus of \$4,436,594,000 (2012: \$2,584,047,000) which has been dealt with in the financial statements of the Authority.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 9. Property, plant and equipment

### Group

	Other Properties					Total
	Preservation properties	Land and buildings	Leasehold improvements	Plant and machinery	Furniture and equipments and motor vehicle	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 April 2011</b>						
Cost	62,702	569,542	41,137	38,792	20,262	732,435
Accumulated depreciation	(60,821)	(254,116)	(18,862)	(32,034)	(13,207)	(379,040)
Net book amount	1,881	315,426	22,275	6,758	7,055	353,395
<b>Year ended 31 March 2012</b>						
Opening net book amount	1,881	315,426	22,275	6,758	7,055	353,395
Additions	12,460	52,662	11,091	4,767	3,743	84,723
Disposals	-	-	-	-	(3)	(3)
Additional amounts written off	-	(2,128)	(680)	(18)	-	(2,826)
Depreciation	(2,573)	(8,913)	(2,991)	(1,460)	(3,308)	(19,245)
Impairment	(6,978)	-	-	-	-	(6,978)
Closing net book amount	4,790	357,047	29,695	10,047	7,487	409,066
<b>At 31 March 2012</b>						
Cost	75,162	622,204	52,228	43,559	21,591	814,744
Accumulated depreciation	(63,394)	(265,157)	(22,533)	(33,512)	(14,104)	(398,700)
Impairment	(6,978)	-	-	-	-	(6,978)
Net book amount	4,790	357,047	29,695	10,047	7,487	409,066
<b>Year ended 31 March 2013</b>						
Opening net book amount	4,790	357,047	29,695	10,047	7,487	409,066
Additions	-	-	13,390	2,604	2,692	18,686
Transfer from properties under development	105,122	-	-	-	-	105,122
Depreciation	(3,085)	(9,284)	(3,616)	(1,448)	(3,278)	(20,711)
Impairment	(14,756)	-	-	-	-	(14,756)
Closing net book amount	92,071	347,763	39,469	11,203	6,901	497,407
<b>At 31 March 2013</b>						
Cost	180,284	622,204	65,189	46,049	23,446	937,172
Accumulated depreciation	(66,479)	(274,441)	(25,720)	(34,846)	(16,545)	(418,031)
Impairment	(21,734)	-	-	-	-	(21,734)
Net book amount	92,071	347,763	39,469	11,203	6,901	497,407



(expressed in Hong Kong Dollars)

## 9. Property, plant and equipment (Continued)

### Authority

	Other Properties					Total \$'000
	Preservation properties \$'000	Land and buildings \$'000	Leasehold improvements \$'000	Plant and machinery \$'000	Furniture and equipments and motor vehicle \$'000	
<b>At 1 April 2011</b>						
Cost	-	569,542	41,137	38,792	20,262	669,733
Accumulated depreciation	-	(254,116)	(18,862)	(32,034)	(13,207)	(318,219)
Net book amount	-	315,426	22,275	6,758	7,055	351,514
<b>Year ended 31 March 2012</b>						
Opening net book amount	-	315,426	22,275	6,758	7,055	351,514
Additions	-	52,662	11,091	4,767	3,743	72,263
Disposals	-	-	-	-	(3)	(3)
Additional amounts written off	-	(2,128)	(680)	(18)	-	(2,826)
Depreciation	-	(8,913)	(2,991)	(1,460)	(3,308)	(16,672)
Closing net book amount	-	357,047	29,695	10,047	7,487	404,276
<b>At 31 March 2012</b>						
Cost	-	622,204	52,228	43,559	21,591	739,582
Accumulated depreciation	-	(265,157)	(22,533)	(33,512)	(14,104)	(335,306)
Net book amount	-	357,047	29,695	10,047	7,487	404,276
<b>Year ended 31 March 2013</b>						
Opening net book amount	-	357,047	29,695	10,047	7,487	404,276
Additions	-	-	13,390	2,604	2,692	18,686
Transfer from properties under development	105,122	-	-	-	-	105,122
Depreciation	(1,394)	(9,284)	(3,616)	(1,448)	(3,278)	(19,020)
Impairment	(14,756)	-	-	-	-	(14,756)
Closing net book amount	88,972	347,763	39,469	11,203	6,901	494,308
<b>At 31 March 2013</b>						
Cost	105,122	622,204	65,189	46,049	23,446	862,010
Accumulated depreciation	(1,394)	(274,441)	(25,720)	(34,846)	(16,545)	(352,946)
Impairment	(14,756)	-	-	-	-	(14,756)
Net book amount	88,972	347,763	39,469	11,203	6,901	494,308

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 9. Property, plant and equipment (Continued)

An analysis of net book value of properties, which are located in Hong Kong, is as follows :

	<u>Group</u>		<u>Authority</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	\$'000	\$'000	\$'000	\$'000
Leases of over 50 years	124,868	36,389	124,868	36,389
Leases of between 10 to 50 years	311,867	320,658	311,867	320,658
Leases of less than 10 years	<u>3,099</u>	<u>4,790</u>	<u>-</u>	<u>-</u>
	<u>439,834</u>	<u>361,837</u>	<u>436,735</u>	<u>357,047</u>

The Group's and the Authority's land and buildings comprise mainly rehousing blocks held for the purpose of rehousing affected tenants of development projects, preservation properties and commercial premises held for self-use.

## 10. Properties acquired pending redevelopment

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
At 1 April and 31 March	<u>7,733</u>	<u>7,733</u>

(expressed in Hong Kong Dollars)

## 11. Properties under development

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Cost of properties acquired, including Home Purchase Allowance (“HPA”) (Note)	20,680,575	18,878,062
Development expenditure	<u>1,733,042</u>	<u>326,098</u>
Total cost (includes accumulated interest and other borrowing costs capitalised of \$116,634,000 (2012: \$97,320,000))	22,413,617	19,204,160
Provision for impairment	<u>(3,268,062)</u>	<u>(5,628,000)</u>
Balances as at 31 March	<u><u>19,145,555</u></u>	<u><u>13,576,160</u></u>

At 31 March 2013, the properties under development are analysed as follows:

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Redevelopment projects	14,478,411	12,246,209
Kai Tak development	1,508,579	7,295
Self-developed projects	1,164,567	813,453
Preservation projects	849,613	509,203
The Authority’s retention properties	<u>1,144,385</u>	<u>-</u>
	<u><u>19,145,555</u></u>	<u><u>13,576,160</u></u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 11. Properties under development (Continued)

Note:

In March 2001, the Finance Committee of the Legislative Council approved, inter alia, the revised basis for calculating the HPA payable to owners of domestic properties and ex-gratia allowances payable to owners and owner-occupiers affected by land resumption. The relevant policies governing the Authority's payment of HPA and ex-gratia allowances for properties acquired/resumed and the clearance of occupiers are based on the above framework which have resulted in a high cost base for the Authority's redevelopment projects.

In respect of domestic properties, the assessment of HPA is based on a notional replacement flat of 7 years old which is assumed to be in a comparable quality building, situated in a similar locality in terms of characteristics and accessibility, being at the middle floor with average orientation not facing south or west, and without seaview. The HPA paid to the owner-occupiers represents the difference between the assessed value of the notional 7-year-old flat and estimated market value of the acquired property at the offer date. The owner will also receive the estimated market value of his flat in addition to the HPA.

As at 31 March 2013, the Authority's estimated cash outflow in respect of project under acquisition and resumption stood at \$14.3 billion (2012: \$13.1 billion), without accounting for any future inflow for the projects.

The Authority launched the Flat-for-Flat (FFF) Scheme to provide domestic owner-occupiers affected by the Authority's redevelopment projects commenced after 24 February 2011 with an alternative option to cash compensation. The owner-occupier taking the option of FFF will have to top up if the price of the new flat is higher than the cash compensation for his old flat. The domestic owner-occupiers could have a choice of 'in-situ' flats on the lower floors of the new development or flats in an FFF Scheme being developed by the Authority on a site at Kai Tak, which will provide about 500 small to medium sized flats. The Authority has paid a land premium to obtain a land grant for the site at Kai Tak earmarked for the FFF Scheme during the year.

(expressed in Hong Kong Dollars)

## 12. Subsidiaries

	<u>Authority</u>	
	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>
Unlisted shares, at cost	1	1
Amounts due from subsidiaries (Note)	34,131	32,384
Less: Provision	<u>(31,392)</u>	<u>(27,979)</u>
	<u>2,740</u>	<u>4,406</u>

Note:

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The names of the principal subsidiaries, all of which are wholly and directly owned by the Authority and are incorporated in Hong Kong, are as follows:

<u>Name</u>	<u>Issued share capital</u>	
	<u>Number</u>	<u>Par value per share</u>
Ally Town Investment Limited	2	\$1
Opalman Limited	2	\$1
Sunfield Investments Limited	2	\$1
Western Market Company Limited	2	\$1
Urban Redevelopment Facilitating Services Company Limited	1	\$10

Western Market Company Limited is engaged in the operation of the Western Market. Urban Redevelopment Facilitating Services Company Limited is engaged in the provision of facilitating services to interested owners in amalgamating their property interests for joint sale in the market or for disposal under the prevailing market mechanism and other relevant legislation. The other subsidiaries are acting as mere trustees for holding properties under certain jointly controlled development projects.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 13. Building rehabilitation loans

At 31 March 2013, the building rehabilitation loans are analysed as follows:

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>
Non-current portion	43,098	58,024
Current portion	<u>21,993</u>	<u>28,476</u>
	<u>65,091</u>	<u>86,500</u>

The building rehabilitation loans are interest-free, except for default, in which case interest will be charged on the overdue amount at the Prime Lending Rate quoted by The Hongkong and Shanghai Banking Corporation Limited. The Authority reserves the right to impose legal charges over the properties for loans of amounts between \$25,001 and \$100,000. All non-current portion of building rehabilitation loans are due within five years from the end of the reporting period.

As of 31 March 2013, instalments of building rehabilitation loans of \$101,000 (2012: \$129,000) were past due but not impaired. These relate to a number of borrowers for whom there are no recent history of bad debt. The aging analysis of these building rehabilitation loans is as follows:

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>
Less than 3 months	29	61
3 to 6 months	10	15
6 to 12 months	18	20
Over 1 year	<u>44</u>	<u>33</u>
Balance at 31 March	<u>101</u>	<u>129</u>

The maximum exposure to credit risk is the carrying value of the building rehabilitation loans.

(expressed in Hong Kong Dollars)

#### 14. Properties held for sale

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Cost		
At 1 April and 31 March	<u>15,420</u>	<u>15,420</u>
Provision for impairment		
At 1 April	-	(355)
Less: Write back of impairment	<u>-</u>	<u>355</u>
At 31 March	<u>-</u>	<u>-</u>
Balance at 31 March	<u>15,420</u>	<u>15,420</u>

#### 15. Receivables from property developers

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Balance at 31 March	<u>2,240,340</u>	<u>225,950</u>

As of 31 March 2012 and 2013, no receivables from property developers were past due and the balance is current in nature.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 16. Jointly controlled development projects

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Amounts due from jointly controlled development projects	201,733	26,015
Amounts due to jointly controlled development projects	<u>(191,676)</u>	<u>(171,700)</u>
	<u>10,057</u>	<u>(145,685)</u>

All amounts due from/(to) jointly controlled development projects are expected to be recovered/settled within one year.

The Group and the Authority have the following active jointly controlled development projects as at 31 March 2013.

<u>Project Name / Location</u>	<u>Land use</u>	<u>Total gross floor area (m<sup>2</sup>)</u>	<u>Actual completion date (calendar year)</u>	<u>Expected completion date (calendar year)</u>
The Zenith / One Wanchai (Wan Chai)	Commercial / Residential	62,310	2006 (Site A & B) 2013 (Site C)	-
* Vision City / Citywalk (Tsuen Wan)	Commercial / Residential	137,885	2007	-
* J Residence / J Senses (Wan Chai)	Commercial / Residential	20,567	2007	-
# The Masterpiece / K11 (Tsim Sha Tsui)	Commercial / Hotel / Service Apartment	103,844	2008	-
* The Dynasty / Citywalk 2 (Tsuen Wan)	Commercial / Residential	44,404	2008	-
* Vista (Sham Shui Po)	Commercial / Residential	12,703	2008	-
Beacon Lodge (Sham Shui Po)	Commercial / Residential	12,784	2008	-
Floriant Rise (Tai Kok Tsui)	Commercial / Residential	43,231	2009	-
Island Crest (Sai Ying Pun)	Commercial / Residential	38,878	2009	-
Lime Stardom (Tai Kok Tsui)	Commercial / Residential	19,735	2011	-
Baker Residence (Hung Hom)	Commercial / Residential	2,338	2011	-
Park Summit (Tai Kok Tsui)	Commercial / Residential	21,402	2012	-



(expressed in Hong Kong Dollars)

## 16. Jointly controlled development projects (Continued)

<u>Project Name / Location</u>	<u>Land use</u>	<u>Total gross floor area (m<sup>2</sup>)</u>	<u>Actual completion date (calendar year)</u>	<u>Expected completion date (calendar year)</u>
Macpherson Indoor Stadium (Mong Kok)	Commercial / Stadium and Youth Centre / Residential	24,768	2012	-
Park Metropolitan (Kwun Tong)	Residential	27,830	-	2014
Lai Chi Kok Road / Kweilin Street / Yee Kuk Street (Sham Shui Po)	Commercial / Residential	30,300	-	2014
Third Street / Yu Lok Lane / Centre Street (Sai Ying Pun)	Commercial / Residential	17,766	-	2014
Park Ivy (Tai Kok Tsui)	Commercial / Residential	4,843	-	2014
The Avenue (Wan Chai)	Commercial / Residential	83,897	-	2015
Chi Kiang Street / Ha Heung Road (To Kwa Wan)	Commercial / Residential	8,379	-	2016
Pak Tai Street / Mok Cheong Street (Ma Tau Kok)	Commercial / Residential	6,946	-	2016
Peel Street / Graham Street (Sheung Wan)	Commercial / Residential	18,240	-	2017
Sai Yee Street (Mong Kok)	Commercial / Residential	22,302	-	2017

\* Projects with commercial portions jointly held by the Developer and the Authority for letting and pending for sale  
# Owner participation project

The Authority is entitled to returns which are predetermined in accordance with the provisions of the jointly controlled development agreements.

In respect of the commercial portions of certain projects, the Authority has reached supplemental agreements with the respective developers to extend the sale of the commercial portions to a few years after the issue of the occupation permits. The Authority shares percentage of any net proceeds derived from the operation of the commercial portions before the sale and includes it as surplus for the year and would also share the future sales proceeds at the same ratio. As at 31 March 2013, by reference to the valuation of the open market value of the commercial portions carried out by internal professional valuer, the fair value of the commercial portions was \$6,463,311,000 (2012: \$5,155,783,000) in aggregate and the Authority would account for its share of sales proceeds as surplus from the jointly controlled development projects when the commercial portions are sold in future.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 17. Trade and other receivables

At 31 March 2013, the trade and other receivables are analysed as follows:

	<u>Group</u>		<u>Authority</u>	
	<u>2013</u> \$'000	<u>2012</u> \$'000	<u>2013</u> \$'000	<u>2012</u> \$'000
Trade receivables and prepayments	20,313	21,572	20,212	21,483
Interest receivables	18,692	95,672	18,692	95,672
Other receivables and deposit	<u>67,874</u>	<u>10,394</u>	<u>67,856</u>	<u>10,376</u>
Balance at 31 March	<u>106,879</u>	<u>127,638</u>	<u>106,760</u>	<u>127,531</u>

As of 31 March 2013, trade receivables of \$1,140,000 (2012: \$1,472,000) were past due but not impaired. These relate to a number of tenants for whom there are no recent history of bad debt. The aging analysis of these trade receivables is as follows:

	<u>Group and Authority</u>	
	<u>2013</u> \$'000	<u>2012</u> \$'000
3 months or less	698	786
3 to 6 months	99	168
6 to 12 months	72	227
Over 1 year	<u>271</u>	<u>291</u>
Balance at 31 March	<u>1,140</u>	<u>1,472</u>

The maximum exposure to credit risk of the Group and of the Authority is the carrying amount of trade and other receivables.

(expressed in Hong Kong Dollars)

## 18. Financial assets at fair value through profit or loss

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>
Debt securities, listed		
- Overseas	263,353	217,742
- Hong Kong	321,447	338,462
Debt securities, unlisted	<u>1,097,269</u>	<u>748,742</u>
	1,682,069	1,304,946
Structured deposits	290,253	303,706
Cash and bank deposits	<u>8,683</u>	<u>8,152</u>
	<u>1,981,005</u>	<u>1,616,804</u>

The following table presents the Group's and the Authority's assets that are measured at fair value at 31 March 2013. The different levels have been defined as follows:

- Quoted prices 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).

	<u>Level 1</u>		<u>Level 2</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Debt securities	1,682,069	1,304,946	-	-	1,682,069	1,304,946
Structured deposits	<u>-</u>	<u>-</u>	<u>290,253</u>	<u>303,706</u>	<u>290,253</u>	<u>303,706</u>
Total assets	<u>1,682,069</u>	<u>1,304,946</u>	<u>290,253</u>	<u>303,706</u>	<u>1,972,322</u>	<u>1,608,652</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 19. Cash and bank balances

	<u>Group</u>		<u>Authority</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Time deposits with banks				
Maturities of 3 months or less	4,000,642	4,337,733	3,997,106	4,334,210
Maturities of more than 3 months	3,404,000	4,659,168	3,404,000	4,659,168
Sub-total	7,404,642	8,996,901	7,401,106	8,993,378
Less: Amounts held in trust for jointly controlled development projects	(3,535)	(3,523)	-	-
	<u>7,401,107</u>	<u>8,993,378</u>	<u>7,401,106</u>	<u>8,993,378</u>
Cash at banks and in hand	34,650	10,327	34,510	10,186
Less: Amounts held in trust for jointly controlled development projects	(1)	(1)	-	-
	<u>34,649</u>	<u>10,326</u>	<u>34,510</u>	<u>10,186</u>
	<u>7,435,756</u>	<u>9,003,704</u>	<u>7,435,616</u>	<u>9,003,564</u>
Maximum exposure to credit risk	<u>7,435,741</u>	<u>9,003,689</u>	<u>7,435,601</u>	<u>9,003,549</u>

As at 31 March 2013, cash and bank balances of the Group and of the Authority are denominated in Hong Kong Dollars except for an amount of \$63,457,000 (2012: \$491,246,000) which are denominated in Renminbi.

The average effective interest rate of time deposits with banks was 1.64% per annum (2012: 1.68% per annum). These deposits have an average maturity of 83 days (2012: 83 days).

The credit quality of the cash and bank balances, deposited with financial institutions, which are Hong Kong Dollars, can be assessed by reference to external credit ratings and are analysed as follows:

	<u>Group</u>		<u>Authority</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<u>Rating (Moody's)</u>				
Aa1 – Aa3	1,902,196	4,651,269	1,902,196	4,651,269
A1 – A3	<u>5,533,545</u>	<u>4,352,420</u>	<u>5,533,405</u>	<u>4,352,280</u>
	<u>7,435,741</u>	<u>9,003,689</u>	<u>7,435,601</u>	<u>9,003,549</u>

(expressed in Hong Kong Dollars)

## 20. Capital

On 21 June 2002, the Finance Committee of the Legislative Council approved a commitment of \$10 billion for injection as equity into the Authority. The Government injected the equity into the Authority in phases over the five financial years from 2002-03 to 2006-07. At 31 March 2013, the Authority had received all five tranches of equity injection of \$10 billion in total.

## 21. Debt securities issued

As at 31 March 2013, the Authority has issued the following fixed rate notes under a Medium Term Note programme.

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>
<u>Non-current portion</u>		
HK dollar Fixed rate notes with a coupon of 1.45% due 2014	200,000	200,000
HK dollar Fixed rate notes with a coupon of 1.15% due 2015	1,300,000	-
HK dollar Fixed rate notes with a coupon of 1.50% due 2017	500,000	-
HK dollar Fixed rate notes with a coupon of 1.75% due 2019	500,000	-
HK dollar Fixed rate notes with a coupon of 1.65% due 2020	500,000	-
HK dollar Fixed rate notes with a coupon of 2.18% due 2023	300,000	-
Less: Unamortised finance charges	<u>(12,413)</u>	<u>(163)</u>
	<u>3,287,587</u>	<u>199,837</u>
<u>Current portion</u>		
HK dollar Fixed rate notes with a coupon of 2.08% due 2012	-	1,500,000
Less: Unamortised finance charges	<u>-</u>	<u>(432)</u>
	<u>-</u>	<u>1,499,568</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 22. Provision for committed projects

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>
Balance at 1 April	399,000	237,000
Utilised during the year	(396,800)	(234,800)
Charged to the profit or loss	<u>444,800</u>	<u>396,800</u>
Balance at 31 March	<u>447,000</u>	<u>399,000</u>

The amount represents the provision for committed projects where acquisition was commenced before financial year end. The provision charge is recognised in the profit or loss. The balance at 31 March 2013 is current in nature.

As at 31 March 2013, the total provision for impairment on projects are analysed as follows:

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	<u>\$'000</u>	<u>\$'000</u>
Provision for impairment classified under properties under development as set out in Note 11	3,268,062	5,628,000
Provision for committed projects as set out above	<u>447,000</u>	<u>399,000</u>
Total provision for projects	<u>3,715,062</u>	<u>6,027,000</u>

## 23. Provident fund scheme

The Group provides retirement benefits to its eligible employees under defined contribution schemes. In accordance with the Mandatory Provident Fund Schemes Ordinance, the eligible employees enjoy retirement benefits under the Mandatory Provident Fund Exempted ORSO Scheme or the Mandatory Provident Fund Scheme (the "Schemes") under which employer's voluntary contributions have been made. The assets of the Schemes are held separately from those of the Group and managed by independent administrators. The Group normally makes voluntary contributions ranging from 5% to 10% of the employees' monthly salaries depending on the years of service of the employees.

The total amount contributed by the Group into the Schemes for the year ended 31 March 2013 was \$17,394,000 (2012: \$14,766,000), net of forfeitures of \$1,441,000 (2012: \$917,000), which has been charged to the Group's profit or loss for the year.

(expressed in Hong Kong Dollars)

## 24. Commitments

### (a) Capital commitments

Capital commitments in respect of property, plant and equipment at 31 March 2013 are as follows:

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Contracted but not provided for	<u>15,641</u>	<u>175</u>

### (b) Operating lease commitments

At 31 March 2013, the total future minimum lease payments under non-cancellable operating leases in respect of office premises, in which \$85,086,000 (2012: \$103,982,000) is related to costs to be incurred for accommodating certain Government offices in a project site pursuant to a re-provision arrangement with the Government, are payable as follows:

	<u>Group and Authority</u>	
	<u>2013</u>	<u>2012</u>
	\$'000	\$'000
Within 1 year	35,207	31,894
After 1 year but within 5 years	78,819	93,848
After 5 years	<u>-</u>	<u>3,755</u>
	<u>114,026</u>	<u>129,497</u>

### (c) Operating lease rental receivable

At 31 March 2013, the total future aggregate minimum lease rental receipts under non-cancellable operating leases in respect of properties, except for those commercial portions jointly held by the Developer and the Authority, are receivable as follows:

	<u>Group</u>		<u>Authority</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	\$'000	\$'000	\$'000	\$'000
Within 1 year	3,806	5,068	2,114	3,376
After 1 year but within 5 years	<u>2,208</u>	<u>3,727</u>	<u>793</u>	<u>620</u>
	<u>6,014</u>	<u>8,795</u>	<u>2,907</u>	<u>3,996</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 25. Significant related party transactions

Transactions entered into by the Authority with members of the Board and directors, parties related to them, Government Departments, agencies or Government controlled entities, other than those transactions which are entered into by parties in general in the course of their normal dealings, are considered to be related party transactions pursuant to HKAS 24 "Related Party Disclosures".

During the year, the Authority reimbursed the Government an amount of \$43,362,000 (2012: \$37,164,000) for actual costs incurred by the Lands Department of the Government (the "Lands Department") in connection with statutory resumption and site clearance work conducted for the redevelopment projects of the Authority. As at 31 March 2013, there is an amount of \$3,436,000 (2012: \$3,073,000) due to the Lands Department yet to be settled. The amount is unsecured, interest free and repayable on demand and included in trade and other payables.

In 2012, the Authority has contributed \$500,000,000 to Urban Renewal Trust Fund (the "Fund"). During the year, the Authority provided administrative and support services to the Fund valued at \$737,000 (2012: \$625,000). This is a memorandum record and the Authority will not charge the said Fund for the services provided. During the year, the Authority received \$411,000 from the said Fund for office fitting out and rental of an office premise (2012: Nil).

As at 31 March 2013, there is an amount of \$491,813,000 remained in the Fund. The URA has committed to make further contribution to the Fund in future in the event that its fund balance is fully utilised.

The key management of the Authority refers to directors and members of the Board and their compensations are set out in Note 6(b).

## 26. Commitments for revitalisation projects

In August 2009, the Authority announced its proposal to implement a major revitalisation plan to uphold and enhance the local characters of a number of themed streets in Mong Kok at a cost of about \$100 million. The initial phase of the plan commenced in March 2011 and is substantially complete. The second phase is scheduled to commence in late 2013, subject to obtaining approvals from various government departments.

In October 2009 CE policy address, the Authority was tasked by the Development Bureau to revitalise the Central Market into "Central Oasis" under "Conserving Central". Total cost for the project at that time was estimated to be about \$500 million. Preparation works for planning and architectural design work is in an advanced stage for submission to Town Planning Board in May 2013. The whole project anticipated to be completed in two phases.

As at 31 March 2013, the cost incurred for these revitalisation projects has been accounted for in the current year, but has no significant financial impact to the Group.

## 27. Approval of financial statements





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