Financial Review

(I) Review of 2013/14 Results

(a) Revenues

The revenue for the year ended 31 March 2014 was $1,169 million and comprised of URA's share of sales proceeds from jointly controlled development projects. The amount represents a decrease of $4,172 million compared to the revenue of $5,341 million in 2012/13. Two redevelopment projects which were originally planned for tender in 2013/14 were delayed due to site clearance difficulties, and only one redevelopment project, Shun Ning Road, with total area of 836 m^2 was tendered out during the year but the revenue is to be accounted for in 2014/15. The revenue in 2012/13 was higher as it included both upfront payments from tendered projects plus URA's share of sales proceeds from jointly controlled development projects. Three redevelopment project sites with 4,940 m^2 in total area were tendered in 2012/13 with upfront payment totalling $4,709 million.

The share of sales proceeds of $1,169 million in 2013/14 (2012/13: $632 million) were revenues from jointly controlled development projects where the sales proceeds exceeded the thresholds stipulated in the development agreements. The projects contributed to the surplus during the year included Vision City in Tsuen Wan with the development agreement executed in 2002, Florient Rise in Tai Kok Tsui with the development agreement executed in 2004, The Zenith / One Wanchai in Wan Chai with the development agreements executed in 1996, and the sale of J Senses in Wan Chai.

(b) Other net income

Of the $127 million (2012/13: $183 million) in other net income for the year, $117 million (2012/13: $144 million) was interest income from the investment portfolio managed in-house, which included bank deposits and fixed income products, with an average yield of 1.55% p.a. (2012/13: 1.72% p.a.) Other net income included rental income from certain properties retained by the URA.

(c) Administrative expenses

Administrative expenses mainly covered staff costs, accommodation costs and depreciation charges. Administrative expenses before depreciation for the year 2013/14 was $367 million (2012/13: $316 million), with the increase largely due to the headcount growth. The depreciation charge for office capital expenditure was $34 million (2012/13: $21 million) for the year.

The staffing level was increased by 66 from 498 as of 31 March 2013 to 564 as of 31 March 2014. Of the 564 staff, 55 (31 March 2013: 82) were employed on contracts of less than three years. The headcount growth was a result of the expansion in both redevelopment and rehabilitation activities. On the redevelopment side, the increase in work volume and the complexity of the redevelopment projects have resulted in the need for additional staff. On the rehabilitation side, the increase was necessary to commensurate with the expansion of the building rehabilitation works as the URA has taken up the responsibilities from the Hong Kong Housing Society for Kowloon, Tsuen Wan and Kwai Tsing since April 2013, and is scheduled to expand the coverage for the whole territory by 2015.

(d) Provision for / write back of impairment on properties and committed projects

The URA's properties and committed projects are valued by in-house professionals at the end of each financial year. Based on the accounting policy detailed in Notes 2(g) and 2(n) to the financial statements, provision for loss for a project, if necessary, is made during the year. Provision for loss of $3,010 million was made in 2013/14, the amount of which included new provision of $2,283 million on five redevelopment projects plus $727 million on the other previously provided projects. Of the five redevelopment projects, three are located in Sham Shui Po and two are located in Yau Tsim Mong. Three are demand-led projects which started acquisition during the year. The provisions were necessary mainly due to the high acquisition costs, and the limited plot ratio gain together with the increase in construction costs have resulted in lower estimated upfront payments from tenderers.

(e) Operating deficit for the year

The revenue in 2013/14 included only surplus from jointly controlled development projects while a loss provision of $3,010 million was made, resulting in an operating deficit of $2,270 million. In comparison, the 2012/13 revenue included both upfront payments from tendered projects and surplus from jointly controlled development projects with a write back in provision of $1,727 million for the year. Before the provision for impairment on properties and committed projects, the surplus in 2013/14 was $740 million in comparison with $2,710 million reported in 2012/13.

(II) Financial Position at 31 March 2014

(a) Properties under development

Properties under development as at 31 March 2014 was at $27.7 billion (31 March 2013: $22.4 billion), representing the acquisition and related costs for redevelopment or preservation projects. This sum comprised of five projects under acquisition; six projects pending completion of resumption process; ten projects with ownership reverted to the Government pending final clearance; and two projects with site cleared and pending tender. The aforesaid value was off-set against the cumulative provision for loss totalling $6.2 billion (31 March 2013: $3.3 billion), resulting in a net value of $21.4 billion (31 March 2013: $19.1 billion). The increase in the net value reflected mainly the higher number of projects now being implemented and the higher acquisition costs of the projects.

In accordance with the Urban Renewal Strategy (URS), the URA launched the Flat-for-Flat (FFF) scheme for redevelopment projects commenced after 24 February 2011, to provide domestic owner-occupiers affected by the URA's development projects an additional option after cash compensation. The Government has provided URA with a site at Kai Tak to develop about 500 small to medium sized flats under the FFF scheme. As at 31 March 2014, land premium and construction cost totalling $1.7 billion for Kai Tak development were also recorded as "Properties under development".

(b) Cash and bank balances

As at 31 March 2014, the URA's cash and bank balances and the fair value of the funds managed by the investment manager and in-house totaled $8.0 billion (31 March 2013: $9.4 billion).

The URA placed the surplus cash on short-term deposits with a number of financial institutions. The URA also invested in HK$ and RMB bonds meeting the required credit rating in accordance with the investment guidelines approved by the Financial Secretary with capital preservation as the priority. The investment manager who manages a portion of the surplus funds also adhered to the same guidelines.

The cash position, off-set by the borrowings of $4.8 billion (31 March 2013: $3.3 billion) mentioned in paragraph II (c) below, resulted in the net cash position including the fair value of the financial assets at 31 March 2014 of $3.2 billion (31 March 2013: $6.1 billion).

(c) Debt securities issued

The URA is rated AAA by Standard & Poor's (S&P). This rating was reaffirmed after an annual review in March 2014. As at 31 March 2014, the outstanding debt securities issued by the URA was $4.8 billion with $1.5 billion issued during the year under the US$1 billion Medium Term Note (MTN) Programme.

(d) Net assets value

The URA's net assets value as at 31 March 2014 was $23.9 billion (31 March 2013: $26.2 billion), representing the Government's capital injection of $10 billion (31 March 2013: $10 billion) and an accumulated surplus from operations of $13.9 billion (31 March 2013: $16.2 billion).

The financial highlights of the past ten years are summarized on page 101 of this Annual Report.

(III) Capital Injection, and Tax Exemption

Following approval by the Finance Committee of the Legislative Council on 21 June 2002, the Government injected $10 billion of equity capital into the URA in five tranches of $2 billion each over a five-year period from 2002/03 to 2006/07. The Government has exempted the URA from taxation.

(IV) Waiver of Land Premia by the Government

The Government waives the land premia for redevelopment sites granted to the URA. Since May 2001, a total of 21 land grants have been waived in respect of all the tendered projects with aggregate land premia totalling $6.5 billion.

Without this waiver, the URA's accumulated surplus as at 31 March 2014 would have been lowered by $6.5 billion to $7.4 billion; and its net assets value as at 31 March 2014 would have been decreased to $17.4 billion.

(V) Financial Resources, Liquidity and Commitments

As at 31 March 2014, the URA's net cash position, including the fair value of the funds managed by both the investment manager and in-house totaled $3.2 billion. At the same date, the URA's accruals and estimated outstanding commitments to the commenced projects, together with the construction cost for Kai Tak Site based on the valuation carried out by the URA's in-house professionals, stood at $13.4 billion.

In addition to the US$1 billion MTN Programme mentioned in paragraph II (c) above, the URA maintained $1.0 billion and $0.7 billion in committed and uncommitted bank facilities as at 31 March 2014. Securing the external funding and the credit facilities ensured the URA will have sufficient financial resources to carry out its urban renewal programme as planned.

When implementing its urban renewal programme, the URA is necessarily exposed to financial risks arising from property market fluctuations. Individual projects, with various development potentials, are tendered out at different times during property cycles after the site clearance. Subject to the market conditions prevailing at the time of tender submission, the upfront payments may be higher or lower than the URA's acquisition costs. As at 31 March 2014, the total costs of properties under development was $27.7 billion.

The URA estimates, in its latest Corporate Plan that from 1 April 2014, a total cash outlay of about $33.0 billion, excluding operational overheads, will be required in the next five years to meet the costs of both its outstanding commitments and its forthcoming expenditure for the implementation of the projects in the Plan. This expenditure covers the URA's work in redevelopment, rehabilitation, preservation and revitalisation. It should be noted that the expenditure may vary subject to the level of interest shown in the various initiatives, including the demand-led redevelopments, the FFF initiatives, the expanded programme of building rehabilitation and other additional initiatives which may be added subsequent to the preparation of the Plan.

The URA is undergoing a review of its operating programme with the goal to maintain a highly prudent financial position and have due regard for commercial principles in its operations such that the urban renewal programme may be sustainable in the long term.