(expressed in Hong Kong Dollars)

## 1. General information

The Urban Renewal Authority (the "Authority") is a statutory body established by the Government of the Hong Kong Special Administrative Region ("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 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 consolidated 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 ("HKFRSs") (which include all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) 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 Group'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.

# Notes to the Financial Statements

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

**(b) Relevant standards, amendments to standards and interpretations effective in current year**

In current year, the Group has adopted the following amendments to HKFRSs which are relevant to the Group and are mandatory for the financial year ended 31 March 2016:

Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The application of the above amendments in the current year had no material impact on the Group's consolidated financial statements.

**(c) Standards, amendments to standards and interpretations that are not yet effective**

The HKICPA has issued certain new standards and amendments to HKFRSs which are not yet effective for the year ended 31 March 2016. Those which are relevant to the Group are as follows:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Annual Improvements to HKFRSs 2012-2014 Cycle | Improvements to HKFRSs | 1 January 2016 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2016 |
| HKFRS 11 (Amendments) | Accounting for acquisitions of interests in joint operations | 1 January 2016 |
| HKAS 1 (Amendments) | Disclosure initiative | 1 January 2016 |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of acceptable methods of depreciation and amortisation | 1 January 2016 |
| HKFRS 9 | Financial instruments | 1 January 2018 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| HKFRS 16 | Leases | 1 January 2019 |

The Group has not early adopted the above new standards and amendments to standards in the consolidated financial statements for the year ended 31 March 2016. The Group will apply the above standards and amendments from the effective accounting period, 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 entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the 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 intercompany transactions, balances and cash flows within the Group are eliminated in full on consolidation.

In the Authority's statement of financial position, investments in subsidiaries are stated at cost less any provision for impairment losses (see Note 2(g)). Any such provisions are recognised as an expense in profit or loss.

### (e) Revenue recognition

Revenue is measured at fair value of consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in 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 Group receives its share of surplus from property development projects undertaken as joint development projects, sharing of such surplus is recognised in accordance with the terms of the joint development agreements, unless the significant risks and rewards of ownership of the underlying properties under development have not been transferred. Proceeds received in advance from sale of properties of joint development projects prior to their completion are included in trade and other payables.

(iii) Where the Group receives a distribution of the assets of a joint development project, surplus is recognised based on the fair value of such assets at the time when agreement to distribute the assets has been reached.

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (e) Revenue recognition (Continued)

(iv) When the developer is obligated to settle the upfront premium to the Group at the inception of joint development agreement, such upfront premium is recognised as revenue when the Group has no further substantial acts to complete. Generally, such revenue is 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.

(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.

(vii) Income from Urban Redevelopment Facilitating Services Company Limited (“Facilitating Services”) is recognised upon completion of the sale of the properties by the owners in accordance with the terms of the sale agreement.

### (f) Property, plant and equipment

Building comprises rehousing blocks, preservation properties and commercial premises held for self-use. Rehousing blocks represent properties held by the Group 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. Preservation properties are properties that are of historical or architectural interest to be preserved by the Group.

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see Note 2(g)). 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 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.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

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

Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated to write off their costs less residual values, if any, 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 | - | 50 years 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<br>Non-office : Over the period of the unexpired terms of the leases if less than 50 years |
| Plant and machinery | - | 10 years |
| Motor vehicles | - | 4 years |
| Furniture and office equipment | - | 3 to 5 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 (see Note 2(g)).

Gains and losses on disposals are determined by comparing net disposal proceeds with carrying amount. These are included in 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 of disposal 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.

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

**(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 profit or loss within 'other income, net', in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in profit or loss as part of 'other income, net' using the effective interest method.

**(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 asset's original effective interest rate. The amount of the provision is recognised in 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 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 profit or loss over the period of the borrowings using the effective interest method.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

**(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 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.

**(j) Properties under development**

Properties under development represent all costs incurred by the Group in connection with property development, and include mainly acquisition costs, cost of development, borrowing costs, costs of rehousing units (see Note 2(l)) and other direct costs incurred in connection with the development, less any provisions for impairment losses (see Note 2(g)). For preservation properties, the properties are transferred to property, plant and equipment at cost upon completion.

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 profit or loss at the inception of the joint development agreement.

**(k) 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.

**(l) 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 Group. In return, the Group will pay for the reservation fees until a tenant is moved into the unit and the allocation costs of the rehousing unit. These costs are recognised as part of the cost of properties under development referred to in Note 2(j).

**(m) 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 economic benefits will be required to settle the obligation; and the amount can be 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.

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (m) Provisions and contingencies (Continued)

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 of economic benefits with respect to any one item included in the same class of obligations may be small.

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 of 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 benefits 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 of economic benefits occurs so that the outflow is probable, it will then be recognised as a provision.

### (n) Current and deferred income tax

Income tax expenses comprise current tax and movements in deferred tax assets and liabilities.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expenses that are taxable or deductible and it further excludes 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 at substantially enacted at 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 at 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.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

**(o) 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.

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

**(p) 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 Group's 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 profit or loss.

**(q) Joint development projects**

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

Where property is received by the Group as its share of distribution of assets from joint 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.

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

**(r) Cash and cash equivalents**

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

**(s) 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.

**(t) Related parties**

(i) A person, or a close member of that person's family, is related to the Group if that person:
- (1) has control or joint control over the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:
- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (2) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (3) The entity is controlled or jointly controlled by a person identified in (i).
- (4) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(expressed in Hong Kong Dollars)

## 3. Financial risk management and fair value of financial instruments

### (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.

(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 most of the funds are placed in banks with credit ratings, 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 Group 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.

The credit risk on other receivables is limited as the Group is entitled to refund and has monitoring procedures to claim for refund of Buyer's Stamp Duty and Ad Valorem Double Stamp Duty from the Government upon the happening of the refund event in accordance with Stamp Duty Ordinance Chapter 117.

(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 on the basis of expected cash flow.

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 3. Financial risk management and fair value of financial instruments (Continued)

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

(iii) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period 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 amounts (except for debt securities issued which include interest element), as the impact of discounting is insignificant.

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| **Less than 1 year** | | |
| Trade and other payables | 2,511,016 | 2,363,838 |
| Amounts due to joint development projects | 216,902 | 192,916 |
| Debt securities issued | 73,469 | 1,376,863 |
| **Between 1 to 3 years** | | |
| Trade and other payables | 398,600 | 552,900 |
| Debt securities issued | 635,563 | 643,291 |
| **Between 3 to 5 years** | | |
| Trade and other payables | 277,900 | 189,800 |
| Debt securities issued | 1,806,550 | 1,127,037 |
| **Over 5 years** | | |
| Trade and other payables | 375,700 | 455,800 |
| Debt securities issued | 1,223,838 | 1,969,122 |

(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 2016, if the respective market price of the quoted investments had been increased/ decreased by 1% with all other variables held constant, the surplus of the Group would increase/ decrease by approximately $30,333,000 (2014/15: $29,949,000) resulting from the change in fair value of the financial assets at fair value through profit or loss.

(expressed in Hong Kong Dollars)

## 3. Financial risk management and fair value of financial instruments (Continued)

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

(v) Foreign exchange risk

The Group has certain cash and bank balances denominated in Renminbi in 2015, which are exposed to foreign currency 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

As at 31 March 2016, if Hong Kong dollar had weakened/strengthened by 1% against the Renminbi with all other variables held constant, there would have no effect on the surplus of the Group (2014/15: the surplus of the Group would increase/decrease by approximately $4,147,000) 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 measurement

(i) Financial assets and liabilities measured at fair value

The fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair value measurement" is set out in Note 15.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets including receivables from property developers, amounts due from joint development projects, cash and bank balances and trade and other receivables; and financial liabilities including amounts due to joint development projects and 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.

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 4. Critical accounting estimates and judgements

Estimates and judgments 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.

Impairment of properties and provision for committed projects

Properties 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(m). When the estimated value of the committed project is lower than the estimated development and related costs of the project, a provision would be recognised.

The valuations of properties 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 costs and allocation thereof; and (v) discount rate used in land value assessment, which is made with reference to the Prime Rate.

Impairment of properties and provision for committed projects sensitivity

As at 31 March 2016, if the respective estimated upfront premium to be received on the projects had been increased/decreased by 5% with all other variables held constant, the surplus of the Group would increase/decrease by approximately $222,000,000 (2014/15: $299,000,000) resulting from the change in provision written back/charge for impairment on properties and committed projects.

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

(expressed in Hong Kong Dollars)

## 5. Revenue and other income, net

**(a) Revenue**

Revenue recognised during the year represents:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Upfront premium from property developers | 2,972,292 | 9,167,433 |
| Share of property development surplus on joint development projects | 4,449,676 | 605,378 |
| Sale of properties | - | 130,871 |
| | 7,421,968 | 9,903,682 |

**(b) Other income, net**

Other income, net recognised during the year represents:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Interest income | 149,336 | 157,773 |
| Rental income | 35,880 | 24,838 |
| Miscellaneous income | 3 | - |
| Gain on financial assets at fair value through profit or loss | 7,504 | 13,430 |
| Loss on disposal of property, plant and equipment | (71) | (129) |
| Net foreign exchange losses | (34,789) | (738) |
| | 157,863 | 195,174 |

# Notes to the Financial Statements (Continued)

(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

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Cost of properties under joint development projects | 1,753,452 | 7,714,271 |
| Depreciation | 50,260 | 44,067 |
| Write back of provision for impairment on property, plant and equipment | (10,214) | (115,552) |
| Provision for impairment on properties under development | 774,622 | 399,800 |
| Provision for committed projects | - | 419,000 |
| Operating lease charges in respect of rental of office premises | 20,949 | 21,870 |
| Outgoings in respect of preservation properties and rehousing units | 34,103 | 31,331 |
| Staff costs (excluding directors' remuneration)* | 340,064 | 339,308 |
| Auditor's remuneration | | |
| - Audit services | 411 | 639 |
| - Non-audit services | 1,332 | 51 |
| Interest expenses on debt securities issued | 75,015 | 88,560 |
| Less: Interest expenses capitalised# | (75,015) | (88,560) |
| | - | - |

* Including salaries and other benefits of $316,639,000 (2014/15: $315,505,000).

\# The borrowing costs have been capitalised at rates of 1.15% - 3.85% per annum (2014/15: 1.15% - 3.85% per annum).

(expressed in Hong Kong Dollars)

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

### (b) Managing Directors, Executive Directors and senior management's remuneration paid or payable during the year

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salaries | Provident fund scheme contributions | Sub-total | Variable pay | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Managing Directors | | | | | | |
| - Daniel Lam Chun | | 3,645 | - | 3,645 | - | 3,645 |
| - Iris Tam Siu-ying | - | 588 | 5 | 593 | 176 | 769 |
| Executive Director (Commercial) | | | | | | |
| - Pius Cheng Kai-wah | - | 2,990 | 18 | 3,008 | 748 | 3,756 |
| 7 Senior management staff & | | | | | | |
| 1 Ex-senior management staff | - | 19,413 | 916 | 20,329 | 4,980 | 25,309 |
| Total** | - | 26,636 | 939 | 27,575 | 5,904 | 33,479 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salaries | Provident fund scheme contributions | Sub-total | Variable pay | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Managing Director | | | | | | |
| - Iris Tam Siu-ying | - | 3,527 | 17 | 3,544 | 1,058 | 4,602 |
| Executive Director | | | | | | |
| (Planning, Design & Works)# | | | | | | |
| - Calvin Lam Che-leung | - | 1,769 | 12 | 1,781 | 442 | 2,223 |
| Executive Director | | | | | | |
| (Commercial & Operations) | | | | | | |
| - Pius Cheng Kai-wah | - | 2,990 | 17 | 3,007 | 748 | 3,755 |
| 6 Senior management staff & | | | | | | |
| 2 Ex-senior management staff | - | 20,943 | 637 | 21,580 | 4,695 | 26,275 |
| Total** | - | 29,229 | 683 | 29,912 | 6,943 | 36,855 |

# The Executive Director has been vacant since 11 November 2014.

** Excluding compensation in lieu of leave in the aggregate sum of $1,116,000 (2014/15: $1,244,000).

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

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

### (b) Managing Directors, Executive Directors and senior management's remuneration paid or payable during the year (Continued)

| Their remuneration fell within the following bands: | 2016 No. of Individuals | 2015 No. of Individuals |
|---|---|---|
| $500,000 to $1,000,000 | 1 | - |
| $1,000,001 to $1,500,000 | - | - |
| $1,500,001 to $2,000,000 | 1 | - |
| $2,000,001 to $2,500,000 | 1 | 2 |
| $2,500,001 to $3,000,000 | 1 | 2 |
| $3,000,001 to $3,500,000 | 1 | 2 |
| $3,500,001 to $4,000,000 | 5 | 4 |
| $4,000,001 to $4,500,000 | 1 | - |
| $4,500,001 to $5,000,000 | - | 1 |
| Total | 11 | 11 |

There were no payments made or benefits provided in respect of the termination of director service or consideration provided to / receivable by third parties in respect of the services of directors, whether in the capacity of directors or in any other capacity while directors.

There were no loans, quasi-loans provided to the directors.

No significant transactions, arrangements or contracts in relation to the Group's business to which the Authority was a party, and in which a director of the Authority had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(expressed in Hong Kong Dollars)

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

### (c) Other members of the Board

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

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Chairman | | |
| Mr Victor So Hing-woh, JP | 100 | 100 |
| | | |
| Non-Executive Directors (non-public officers) | | |
| Dr the Honourable Ann Chiang Lai-wan, JP | 65 | 65 |
| Mr Edward Chow Kwong-fai, JP | 65 | 65 |
| Mr Laurence Ho Hoi-ming | 65 | 65 |
| Mr Lester Garson Huang, JP | 65 | 65 |
| Professor Desmond Hui Cheuk-kuen *(up to 30 Nov 2014)* | - | 43 |
| Professor Eddie Hui Chi-man, MH | 65 | 65 |
| Mr Philip Kan Siu-lun | 65 | 65 |
| The Honourable Dennis Kwok | 65 | 65 |
| Mr Nelson Lam Chi-yuen | 65 | 65 |
| Mr Daniel Lam Chun, SBS, JP *(up to 11 Jun 2015)* | 13 | 65 |
| Mr Philip Liao Yi-kang | 65 | 65 |
| Dr Gregg Li G. Ka-lok *(from 1 Dec 2014)* | 65 | 22 |
| Mr Laurence Li Lu-jen, JP | 65 | 65 |
| Mr Timothy Ma Kam-wah, JP | 65 | 65 |
| The Honourable Alice Mak Mei-kuen, BBS, JP *(from 1 Dec 2014)* | 65 | 22 |
| Dr Billy Mak Sui-choi | 65 | 65 |
| Dr Lawrence Poon Wing-cheung, JP *(from 1 Dec 2014)* | 65 | 22 |
| Mr David Tang Chi-fai | 65 | 65 |
| The Honourable James To Kun-sun *(up to 30 Nov 2014)* | - | 43 |
| The Honourable Wong Kwok-kin, SBS *(up to 30 Nov 2014)* | - | 43 |
| Dr John Wong Yee-him *(up to 30 Nov 2014)* | - | 43 |
| Mr Stanley Wong Yuen-fai, SBS, JP | 65 | 65 |
| The Honourable Wu Chi-wai, MH *(from 1 Dec 2014)* | 65 | 22 |
| | 1,283 | 1,335 |

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

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

### (d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2016 include the Managing Director, Executive Director and three senior management staff.

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Fixed - Salaries | 15,591 | 15,509 |
| - Provident fund scheme contributions | 430 | 428 |
| Sub-total | 16,021 | 15,937 |
| Variable pay | 3,078 | 4,075 |
| Total ** | 19,099 | 20,012 |

Their remuneration fell within the following bands:

| | No. of Individuals | No. of Individuals |
|---|---|---|
| $3,500,001 to $4,000,000 | 4 | 4 |
| $4,000,001 to $4,500,000 | 1 | - |
| $4,500,001 to $5,000,000 | - | 1 |
| Total | 5 | 5 |

** For the years ended 31 March 2016 and 31 March 2015, no compensation in lieu of leave and other benefits were excluded from the aggregate sum.

## 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 they have no estimated assessable income for the year (2014/15: Nil).

(b) As at 31 March 2016, the subsidiaries of the Group have unrecognised deductible temporary differences arising from capital allowance and tax losses of $7,983,000 and $12,129,000 respectively (31 March 2015: $8,785,000 and $9,167,000 respectively) to carry forward against future taxable income. These tax losses have no expiry date.

(expressed in Hong Kong Dollars)

## 8. Property, plant and equipment

| | Preservation properties | Other property, plant and equipment: Land and buildings | Leasehold improvements | Plant and machinery | Furniture and equipments and motor vehicles | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At 1 April 2014** | | | | | | |
| Cost | 646,696 | 622,204 | 68,895 | 52,753 | 26,662 | 1,417,210 |
| Accumulated depreciation | (75,261) | (283,725) | (27,839) | (35,895) | (18,464) | (441,184) |
| Accumulated impairment | (103,993) | - | - | - | - | (103,993) |
| Net book value | 467,442 | 338,479 | 41,056 | 16,858 | 8,198 | 872,033 |
| **Year ended 31 March 2015** | | | | | | |
| Opening net book value | 467,442 | 338,479 | 41,056 | 16,858 | 8,198 | 872,033 |
| Additions | 10,301 | - | 1,409 | 605 | 2,644 | 14,959 |
| Transfer from properties under development | 240,706 | - | - | - | - | 240,706 |
| Disposals | - | - | (31) | (13) | (128) | (172) |
| Depreciation | (16,264) | (9,284) | (10,222) | (4,647) | (3,650) | (44,067) |
| Write back of provision for impairment | 73,955 | 41,597 | - | - | - | 115,552 |
| Closing net book value | 776,140 | 370,792 | 32,212 | 12,803 | 7,064 | 1,199,011 |
| **At 31 March 2015** | | | | | | |
| Cost | 996,688 | 661,588 | 68,083 | 52,165 | 26,913 | 1,805,437 |
| Accumulated depreciation | (91,525) | (290,796) | (35,871) | (39,362) | (19,849) | (477,403) |
| Accumulated impairment | (129,023) | - | - | - | - | (129,023) |
| Net book value | 776,140 | 370,792 | 32,212 | 12,803 | 7,064 | 1,199,011 |
| **Year ended 31 March 2016** | | | | | | |
| Opening net book value | 776,140 | 370,792 | 32,212 | 12,803 | 7,064 | 1,199,011 |
| Additions | - | - | 446 | 22 | 3,184 | 3,652 |
| Transfer from properties under development | 207,929 | - | - | - | - | 207,929 |
| Disposals | - | - | (16) | (7) | (121) | (144) |
| Depreciation | (22,964) | (9,769) | (9,432) | (4,504) | (3,591) | (50,260) |
| Write back of provision for impairment | 10,214 | - | - | - | - | 10,214 |
| Closing net book value | 971,319 | 361,023 | 23,210 | 8,314 | 6,536 | 1,370,402 |
| **At 31 March 2016** | | | | | | |
| Cost | 1,284,919 | 661,588 | 68,438 | 52,146 | 27,026 | 2,094,117 |
| Accumulated depreciation | (114,489) | (300,565) | (45,228) | (43,832) | (20,490) | (524,604) |
| Accumulated impairment | (199,111) | - | - | - | - | (199,111) |
| Net book value | 971,319 | 361,023 | 23,210 | 8,314 | 6,536 | 1,370,402 |

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

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 9. Properties under development

As at 31 March 2016, the properties under development are analysed as follows:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Cost, including Home Purchase Allowance ("HPA") (Note (i)) | | |
| At 1 April | 20,983,788 | 27,668,724 |
| Add: Additions during the year | 4,758,203 | 3,623,615 |
| Less: Transfer to property, plant and equipment and properties held for sale | (2,706,576) | (381,288) |
| Less: Charged to profit or loss during the year | (2,836,452) | (9,927,263) |
| At 31 March* | 20,198,963 | 20,983,788 |
| Provision for impairment at 31 March | (4,765,200) | (4,694,880) |
| Balances as at 31 March | 15,433,763 | 16,288,908 |

* The amount includes accumulated interest and other borrowing costs capitalised of $209,394,000 (31 March 2015: $182,037,000).

Notes:

(i) 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 Group'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 2016, the Group's estimated cash outflow in respect of project under acquisition and resumption as well as construction cost for self-developed projects stood at $10.0 billion (31 March 2015: $13.3 billion), without accounting for any future cash inflow for the projects.

(ii) The Group launched the Flat-for-Flat ("FFF") Scheme to provide domestic owner-occupiers affected by the Group'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 at Kai Tak.

(expressed in Hong Kong Dollars)

## 10. Receivables from property developers

As at 31 March 2016, the upfront payment receivables from property developers are analysed as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Non-current portion | - | 1,716,000 |
| Current portion | 1,716,000 | 2,996,000 |
| | 1,716,000 | 4,712,000 |

As at 31 March 2015 and 2016, no receivables from property developers were past due.

## 11. Building rehabilitation loans

As at 31 March 2016, the building rehabilitation loans are analysed as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Non-current portion | 19,543 | 24,005 |
| Current portion | 10,964 | 13,041 |
| | 30,507 | 37,046 |

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 Group 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 at 31 March 2016, instalments of building rehabilitation loans of $296,000 (31 March 2015: $499,000) were past due but not impaired. These relate to a number of borrowers for whom there are no recent history of bad debt. The ageing analysis of these building rehabilitation loans is as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Less than 3 months | 180 | 43 |
| 3 to 6 months | 12 | 101 |
| 6 to 12 months | 20 | 17 |
| Over 1 year | 84 | 338 |
| Balance at 31 March | 296 | 499 |

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

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 12. Trade and other receivables

**(a) Other receivables**

Other receivables under non-current assets represent Buyer's Stamp Duty and Ad Valorem Double Stamp Duty that the Group will claim for refund from the Government upon the happening of the refund event in accordance with Stamp Duty Ordinance Chapter 117.

**(b) Trade and other receivables**

As at 31 March 2016, the trade and other receivables are current in nature and analysed as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Trade receivables and prepayments | 37,243 | 24,160 |
| Interest receivables | 30,754 | 52,641 |
| Other receivables and deposits | 25,656 | 26,351 |
| Balance at 31 March | 93,653 | 103,152 |

As at 31 March 2016, trade receivables of $2,125,000 (31 March 2015: $1,134,000) were past due but not impaired. These relate to a number of tenants for whom there are no recent history of bad debt. The ageing analysis of these trade receivables is as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| 3 months or less | 1,554 | 716 |
| 3 to 6 months | 173 | 121 |
| 6 to 12 months | 159 | 94 |
| Over 1 year | 239 | 203 |
| Balance at 31 March | 2,125 | 1,134 |

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

## 13. Properties held for sale

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| At 1 April | 15,270 | 15,270 |
| Add: Transfer from properties under development | 2,418,345 | - |
| At 31 March | 2,433,615 | 15,270 |

(expressed in Hong Kong Dollars)

## 14. Balances with joint development projects

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Amounts due from joint development projects | 713,261 | 725,563 |
| Amounts due to joint development projects | (216,902) | (192,916) |
| | 496,359 | 532,647 |

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

The Group have the following active joint development projects as at 31 March 2016.

| Project Name / Location | Land use | Total gross floor area ($m^2$) | Actual completion date (calendar year) | Expected completion date (calendar year) |
|---|---|---|---|---|
| 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 | - |
| # 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 | - |
| Florient Rise (Tai Kok Tsui) | Commercial / Residential | 43,231 | 2009 | - |
| Lime Stardom (Tai Kok Tsui) | Commercial / Residential | 19,735 | 2011 | - |
| Baker Residences (Hung Hom) | Commercial / Residential | 2,338 | 2011 | - |
| * Park Summit (Tai Kok Tsui) | Commercial / Residential | 21,402 | 2013 | - |
| MacPherson Place (Mong Kok) | Commercial / Stadium and Youth Centre / Residential | 24,767 | 2013 | - |
| Park Metropolitan (Kwun Tong) | Residential | 27,830 | 2014 | - |
| Park Ivy (Tai Kok Tsui) | Commercial / Residential | 4,843 | 2014 | - |
| Trinity Towers (Sham Shui Po) | Commercial / Residential | 30,300 | 2015 | - |
| * The Avenue (Wan Chai) | Commercial / Residential | 83,900 | 2015 | - |

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 14. Balances with joint development projects (Continued)

| Project Name / Location | Land use | Total gross floor area ($m^2$) | Actual completion date (calendar year) | Expected completion date (calendar year) |
|---|---|---|---|---|
| My Place (Ma Tau Kok) | Commercial / Residential | 6,944 | - | 2016 |
| The Nova (Sai Ying Pun) | Commercial / Residential | 17,767 | - | 2016 |
| SKYPARK (Mong Kok) | Commercial / Residential | 22,301 | - | 2017 |
| Chi Kiang Street / Ha Heung Road (To Kwa Wan) | Commercial / Residential | 8,376 | - | 2017 |
| Peel Street / Graham Street (Sheung Wan) | Commercial / Residential | 18,240 | - | 2018 |
| Shun Ning Road (Sham Shui Po) | Commercial / Residential | 7,159 | - | 2018 |
| San Shan Road / Pau Chung Street (Ma Tau Kok) | Commercial / Residential | 10,346 | - | 2018 |
| 229A-G Hai Tan Street (Sham Shui Po) | Commercial / Residential | 3,639 | - | 2018 |
| @ Fuk Wing Street (Sham Shui Po) | Commercial / Residential | 5,030 | - | 2018 |
| @ Anchor Street / Fuk Tsun Street (Tai Kok Tsui) | Hotel | 6,529 | - | 2018 |
| @ Pak Tai Street / San Shan Road (Ma Tau Kok) | Commercial / Residential | 9,782 | - | 2019 |
| @ Sai Wan Ho Street (Sai Wan Ho) | Commercial / Residential | 5,960 | - | 2019 |
| @ 205-211A Hai Tan Street (Sham Shui Po) | Commercial / Residential | 3,556 | - | 2019 |
| @ Kowloon City Road / Sheung Heung Road (Ma Tau Kok) | Commercial / Residential | 12,456 | - | 2019 |
| Hai Tan Street / Kweilin Street / Pei Ho Street (Sham Shui Po) | Commercial / Residential | 58,900 | - | 2020 |
| Kwun Tong Town Centre Areas 2 and 3 (Kwun Tong) | Commercial / Residential | 178,600 | - | 2021 |

* Projects with commercial portions jointly held by the developer and the Group for letting and pending for sale
\# Owner participation project
@ Newly awarded project during the year

(expressed in Hong Kong Dollars)

## 14. Balances with joint development projects (Continued)

The Group is entitled to returns which are predetermined in accordance with the provisions of the joint development agreements.

In respect of the commercial portions of certain projects, the Group has reached supplemental agreements with the respective developers to extend the sale of the commercial portions to a few years after the issuance of the occupation permits. The Group shares certain 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 2016, by reference to the valuation of the open market value of these commercial portions carried out by internal professional valuer, the gross fair value of the commercial portions (before the Group's share) was $9,852,052,000 (31 March 2015: $6,497,152,000) in aggregate and the Group would account for its share of sales proceeds as surplus from the joint development projects when these commercial portions are sold in the future.

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

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Debt securities, listed | | |
| - Overseas | 91,766 | 84,554 |
| - Hong Kong | 463,625 | 418,332 |
| Debt securities, unlisted | 2,477,861 | 2,492,000 |
| | 3,033,252 | 2,994,886 |
| Cash and bank deposits | 54,490 | 35,568 |
| | 3,087,742 | 3,030,454 |

As at 31 March 2016, the Group's debt securities represent high quality corporate and government bonds.

The following table presents the Group's assets that are measured at fair value at 31 March 2016. The different fair value hierarchy of the Group's investments have been defined as follows:

- Level 1 valuations: Quoted prices in active markets for identical assets or liabilities. No adjustments are made to the quoted price for these investments.
- Level 2 valuations: Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotation or alternative pricing sources supported by observable inputs.
- Level 3 valuations: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

| | Level 1 | | Level 2 | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Debt securities | 555,391 | 502,886 | 2,477,861 | 2,492,000 | 3,033,252 | 2,994,886 |

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 16. Cash and bank balances

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Time deposits with banks | | |
| Original maturities of 3 months or less | 530,886 | 356,226 |
| Original maturities of more than 3 months | 10,217,000 | 9,184,963 |
| | 10,747,886 | 9,541,189 |
| Less: Amounts held in trust for joint development projects | (3,510) | (3,533) |
| | 10,744,376 | 9,537,656 |
| Cash at banks and in hand | 23,884 | 57,480 |
| Less: Amounts held in trust for joint development projects | (2) | (1) |
| | 23,882 | 57,479 |
| | 10,768,258 | 9,595,135 |
| Maximum exposure to credit risk | 10,768,243 | 9,595,120 |

As at 31 March 2016, all cash and bank balances of the Group are denominated in Hong Kong Dollars. As at 31 March 2015, cash and bank balances of the Group are denominated in Hong Kong Dollars except for an amount of $414,665,000 which is denominated in Renminbi.

The average effective interest rate of time deposits with banks was 1.08% per annum (2014/15: 1.57% per annum). These deposits have an average maturity of 160 days (2014/15: 119 days).

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

| Rating (Moody's) | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Aa1 – Aa3 | 2,687,882 | 4,315,209 |
| A1 – A3 | 7,883,425 | 5,242,331 |
| Baa1 – Baa2 | 177,000 | 754 |
| Others | 19,936 | 36,826 |
| | 10,768,243 | 9,595,120 |

## 17. 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 2016, the Authority had received all five tranches of equity injection of $10 billion in total.

(expressed in Hong Kong Dollars)

## 18. Trade and other payables

As at 31 March 2016, the trade and other payables are analysed as follows:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Trade payables | 62,717 | 67,750 |
| Proceeds received in advance from sale of properties of joint development projects | - | 2,826,500 |
| Rental and other deposit received | 196,784 | 410,387 |
| Other payables | 13,102 | 14,980 |
| Accrued expenses | 3,290,613 | 3,069,221 |
| Balance at 31 March | 3,563,216 | 6,388,838 |
| Non-current portion | 1,052,200 | 1,198,500 |
| Current portion | 2,511,016 | 5,190,338 |
| | 3,563,216 | 6,388,838 |

## 19. Debt securities issued

As at 31 March 2016, the Group has issued the following fixed rate notes under a Medium Term Note programme.

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Non-current portion | | |
| HK dollar Fixed rate notes with coupon of 1.50% due 2017 | 500,000 | 500,000 |
| HK dollar Fixed rate notes with coupon of 1.75% due 2019 | 500,000 | 500,000 |
| HK dollar Fixed rate notes with coupon of 1.64% due 2020 | 300,000 | 300,000 |
| HK dollar Fixed rate notes with coupon of 1.65% due 2020 | 500,000 | 500,000 |
| HK dollar Fixed rate notes with coupon of 2.92% due 2021 | 400,000 | 400,000 |
| HK dollar Fixed rate notes with coupon of 2.18% due 2023 | 300,000 | 300,000 |
| HK dollar Fixed rate notes with coupon of 2.15% due 2023 | 300,000 | 300,000 |
| HK dollar Fixed rate notes with coupon of 3.85% due 2026 | 500,000 | 500,000 |
| Less: Unamortised finance charges | (15,127) | (18,212) |
| | 3,284,873 | 3,281,788 |
| Current portion | | |
| HK dollar Fixed rate notes with coupon of 1.15% due 2015 | - | 1,300,000 |
| Less: Unamortised finance charges | - | (133) |
| | - | 1,299,867 |

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 20. Provision for committed projects

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Balance at 1 April | 459,000 | 405,000 |
| Reversed during the year | (459,000) | (365,000) |
| Charged to profit or loss | - | 419,000 |
| Balance at 31 March | - | 459,000 |

The amount represents the provision for committed projects where acquisition was commenced before financial year end. The provision charge is recognised in profit or loss.

As at 31 March 2016, the total provision for impairment on projects are analysed as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Provision for impairment classified under properties under development as set out in Note 9 | 4,765,200 | 4,694,880 |
| Provision for committed projects as set out above | - | 459,000 |
| Total provision for projects | 4,765,200 | 5,153,880 |

## 21. Reserve for Facilitation Service

Fee paid by the owners and the purchasers to the Urban Redevelopment Facilitating Services Company Limited, a wholly owned subsidiary of the Authority, is set aside in a reserve account for other facilitation projects.

## 22. 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 2016 was $24,364,000 (2014/15: $24,486,000), net of forfeitures of $2,127,000 (2014/15: $1,514,000), which has been charged to the Group's profit or loss for the year.

(expressed in Hong Kong Dollars)

## 23. Commitments

### (a) Capital commitments

Capital commitments in respect of acquisition of property, plant and equipment at 31 March 2016 are as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Contracted but not yet incurred | 95 | 355 |

### (b) Operating lease commitments

As at 31 March 2016, the total future minimum lease payments under non-cancellable operating leases in respect of office premises, in which $33,069,000 (31 March 2015: $60,848,000) is related to costs to be incurred for accommodating certain Government offices in a project site pursuant to a reprovision arrangement with the Government, are payable as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Within 1 year | 47,218 | 45,001 |
| After 1 year but within 5 years | 26,747 | 51,706 |
| | 73,965 | 96,707 |

### (c) Operating lease rental receivable

As at 31 March 2016, the total future aggregate minimum lease rental receipts under non-cancellable operating leases in respect of properties, except for those commercial portions jointly developed by the developer and the Group, are receivable as follows:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Within 1 year | 23,756 | 20,417 |
| After 1 year but within 5 years | 12,951 | 20,334 |
| | 36,707 | 40,751 |

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 24. Significant related party transactions

Transactions entered into by the Group 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 (Revised) "Related Party Disclosures".

During the year, the Authority reimbursed the Government an amount of $52,717,000 (2014/15: $47,833,000) 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 2016, there is an amount of $4,755,000 (31 March 2015: $3,985,000) 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 2011/12, 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 for $948,000 (2014/15: $1,011,000). The amount for 2014/15 was a memorandum record and the Authority had not charged the said Fund for the services provided.

During the year, the Authority received $993,000 from the said Fund for office fitting out and rental of an office premise (2014/15: $739,000).

As at 31 March 2016, there is an amount of $449,222,000 (31 March 2015: $468,242,000) remained in the Fund. The Authority 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 Notes 6(b) and (c).

## 25. Commitments for revitalisation projects

In August 2009, the Authority announced its proposal to implement a major revitalisation plan to uphold and enhance the local characteristics of a number of themed streets in Mong Kok. The improvement work at Flower Market Road has been completed. The improvement work at Tung Choi Street will commence upon completion of gazettal procedures.

In October 2009 Chief Executive Policy Address, the Authority was tasked by the Development Bureau to revitalise the Central Market. With a view to shorten the implementation timeframe for public enjoyment, a revitalisation scheme with less interventions was approved by Town Planning Board in March 2016. Preparation of submissions to discharge major planning approval conditions pertaining to the approval of the general building plans were underway.

As at 31 March 2016, the costs incurred for these revitalisation projects has been accounted for, with no significant financial impact to the Group.

(expressed in Hong Kong Dollars)

## 26. Statement of Financial Position of Urban Renewal Authority

In accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the statement of financial position of the Authority as at 31 March 2016 is set out as follows:

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | $'000 | $'000 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 1,367,785 | 1,193,253 |
| Properties under development | | 15,433,763 | 16,288,908 |
| Interest in subsidiaries | (a) | 2,186 | 5,324 |
| Receivables from property developers | | - | 1,716,000 |
| Building rehabilitation loans | | 19,543 | 24,005 |
| Prepayments | | 238,853 | 403,906 |
| Other receivables | | 642,349 | 524,716 |
| | | 17,704,479 | 20,156,112 |
| **Current assets** | | | |
| Properties held for sale | | 2,433,615 | 15,270 |
| Receivables from property developers | | 1,716,000 | 2,996,000 |
| Amounts due from joint development projects | | 713,261 | 725,563 |
| Building rehabilitation loans | | 10,964 | 13,041 |
| Trade and other receivables | | 93,591 | 103,098 |
| Financial assets at fair value through profit or loss | | 3,087,742 | 3,030,454 |
| Cash and bank balances | | 10,764,719 | 9,590,666 |
| | | 18,819,892 | 16,474,092 |
| **Total assets** | | 36,524,371 | 36,630,204 |
| **Capital and reserves** | | | |
| Capital | | 10,000,000 | 10,000,000 |
| Accumulated surplus | | 19,461,142 | 15,008,930 |
| | (b) | 29,461,142 | 25,008,930 |
| **Non-current liabilities** | | | |
| Trade and other payables | | 1,052,200 | 1,198,500 |
| Debt securities issued | | 3,284,873 | 3,281,788 |
| | | 4,337,073 | 4,480,288 |
| **Current liabilities** | | | |
| Amounts due to joint development projects | | 216,902 | 192,916 |
| Trade and other payables | | 2,509,254 | 5,189,203 |
| Debt securities issued | | - | 1,299,867 |
| Provision for committed projects | | - | 459,000 |
| | | 2,726,156 | 7,140,986 |
| **Total capital, reserves and liabilities** | | 36,524,371 | 36,630,204 |

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 26. Statement of Financial Position of Urban Renewal Authority (Continued)

(a) Interest in subsidiaries

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Unlisted shares, at cost | 1 | 1 |
| Amounts due from subsidiaries (Note) | 43,907 | 43,316 |
| Less: Provision for impairment | (41,722) | (37,993) |
| | 2,186 | 5,324 |

Note:
The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The balances are expected to be recovered more than one year.

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

| Name | Number of shares | Total share capital |
|---|---|---|
| Opalman Limited | 2 | $2 |
| Sunfield Investments Limited | 2 | $2 |
| Western Market Company Limited | 2 | $2 |
| 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 joint development projects.

# Notes to the Financial Statements (Continued)

(expressed in Hong Kong Dollars)

## 26. Statement of Financial Position of Urban Renewal Authority (Continued)

(b) Statement of Changes in Equity

| | Capital | Accumulated Surplus | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Balance at 1 April 2014 | 10,000,000 | 13,933,000 | 23,933,000 |
| Surplus and total comprehensive income for the year | - | 1,075,930 | 1,075,930 |
| Balance at 31 March 2015 | 10,000,000 | 15,008,930 | 25,008,930 |
| Balance at 1 April 2015 | 10,000,000 | 15,008,930 | 25,008,930 |
| Surplus and total comprehensive income for the year | - | 4,452,212 | 4,452,212 |
| Balance at 31 March 2016 | 10,000,000 | 19,461,142 | 29,461,142 |

## 27. Comparative figures

In prior years, time deposits with maturity over three months at acquisition but within three months from the end of the reporting period were included under "cash and cash equivalents" in the consolidated statement of cash flows. In the current year, the Group reassessed the classification of these time deposits and has excluded these amounts from "cash and cash equivalents". The comparative figures have been reclassified accordingly:

| | As previously presented | Reclassification adjustments | As reclassified |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Consolidated statement of cash flows for the year ended 31 March 2015** | | | |
| Net cash used in investing activities | (2,981,216) | (1,612,193) | (4,593,409) |
| Cash and cash equivalents at 1 April 2014 | 4,775,318 | (3,236,770) | 1,538,548 |
| Cash and cash equivalents at 31 March 2015 | 5,259,135 | (4,848,963) | 410,172 |

## 28. Approval of financial statements

The financial statements were approved by the Board on 14 June 2016.