

# 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, amendment to standard and interpretations effective in current year

The following standards, amendment to existing standard and interpretations have been published that are effective for the accounting period of the Group beginning on 1 April 2010 and are relevant to the Group’s operation.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (b) Standards, amendment to standard and interpretations effective in current year (Continued)

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combination
HKAS 17 (Amendment)	Leases
HK(IFRIC) - Interpretation 17	Distribution of Non-cash Assets to Owners
Improvements to HKFRS 2008 and 2009	

Except for HKAS 17 (Amendment), the adoption of the above standards, amendment to standard and interpretations does not have a material impact on the Group's accounting policies.

HKAS 17 (Amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land" if the land is held for own use or under "Properties under development", "Properties acquired pending redevelopment" and "Properties held for sale" if the land is held for redevelopment or sale respectively, and amortised over the lease term.

HKAS 17 (Amendment), "Leases" has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 April 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified leasehold land from operating lease to finance lease.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (b) Standards, amendment to standard and interpretations effective in current year (Continued)

The effect on adoption of this amendment as follows:

#### Consolidated statement of comprehensive income

	For the year end 31 March 2010
	\$'000
Decrease in amortisation	155,472
Increase in write back of impairment on properties and committed projects	<u>12</u>
Increase in surplus and total comprehensive income for the year	<u>155,484</u>

#### Consolidated balance sheet

	As at 31 March 2010	As at 1 April 2009
	\$'000	\$'000
Decrease in leasehold land	(256,117)	(262,369)
Increase in property, plant and equipment	256,117	262,369
Increase in properties under development	247,441	87,131
Increase in properties held for sale	209	64
Increase in properties acquired pending redevelopment	259	230
Decrease in provision for committed projects	<u>2,000</u>	<u>7,000</u>
Increase in accumulated surplus	<u>249,909</u>	<u>94,425</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (c) 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 2011. Those which are relevant to the Group's operations are as follows:

		Effective for accounting periods beginning on or after
HKFRS 9	Financial instruments	1 January 2013
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HK(IFRIC) - Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Group has not early adopted the above standards in the financial statements for the year ended 31 March 2011. The Group will apply the above standards and amendment from 1 April 2011, but it is not expected to have a significant impact on the Group's consolidated financial statements.

### (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 balance sheet, investments in subsidiaries are stated at cost less any provision for impairment losses. Any such provisions are recognised as an expense in the statement of comprehensive income.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (e) Revenue recognition

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 statement of comprehensive income as follows:

- (i) Income from sale of properties is recognised upon the risks and rewards of ownership have been passed. For instalment sales, under which the consideration is receivable in instalments, revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sales price is the present value of the consideration, determined by discounting the instalments receivable at the effective rate of interest. The interest element is recognised as other income as it is earned, on a time proportion basis using the effective interest method.
- (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 upfront payments from developers becomes payable to the Authority at the inception of joint development agreement, surpluses arising from such upfront payments 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 payments, the events leading to the possible cancellation of the joint development agreements have lapsed, and the upfront payments 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) Property management income is recognised when the services are provided.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (f) Property, plant and equipment

Buildings comprise rehousing blocks 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 statement of comprehensive income 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 if less than 50 years
Buildings	-	2% per annum
Leasehold improvements	-	Office : 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 statement of comprehensive income.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (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 held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. 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 statement of comprehensive income 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 statement of comprehensive income 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.

#### (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 balance sheet date, which are classified as non-current assets.

# 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 (Continued)

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 statement of comprehensive income.

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 statement of comprehensive income. 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 statement of comprehensive income 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 statement of comprehensive income on a straight-line basis over the period of the lease.

#### (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.

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (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.

On completion of the development, the relevant cost of the developed property 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 to direct cost of the statement of comprehensive income at the inception of joint development agreement.

### (l) Properties held for sale

Property to be sold at the balance sheet date 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(s)).

### (n) Provisions

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)

### (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 income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further exclude income statement 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 balance sheet date.

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 balance sheet date 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.

Other borrowing costs are charged to the statement of comprehensive income in the period in which they are incurred.

### (q) Trade and other payables

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

(expressed in Hong Kong Dollars)

## 2. Significant accounting policies (Continued)

### (r) 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 statement of comprehensive income.

### (s) 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 statement of comprehensive income 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.

### (t) Cash and cash equivalents

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

### (u) Employee benefits

Salaries, annual leave and other costs of non-monetary benefits 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 and fair value interest rate risk, credit risk, liquidity risk and price 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 and fair value 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 which carry at prevailing market interest rate. Nevertheless, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

#### Interest rate sensitivity

At the balance sheet dates, if interest rates had been increased / decreased by 1% and all other variables were held constant, the surplus / deficit of the Group would increase / decrease by approximately \$58,318,000 (2010: \$45,238,000) resulting from the change in the interest income generated from the cash and bank balances.

The Group's fair value 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 the property developers are guaranteed by their respective holding companies.

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 20) 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 balance sheet 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, as the impact of discounting is insignificant.

	<u>Group</u>		<u>Authority</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Less than 1 year</b>				
Trade and other payables	<u>1,250,998</u>	<u>676,909</u>	<u>1,250,557</u>	<u>676,468</u>
<b>Between 1 to 2 years</b>				
Debt securities issued	<u>1,546,757</u>	<u>-</u>	<u>1,546,757</u>	<u>-</u>
<b>Between 2 to 5 years</b>				
Debt securities issued	<u>-</u>	<u>1,577,957</u>	<u>-</u>	<u>1,577,957</u>

##### (iv) Price risk

Price risk arising from uncertainties about future prices of the underlying financial instruments.

As at 31 March 2011, investment held by the Group has distinct underlying financial instruments. The market price risks of the investment is affected by market price of these instruments.

##### Price risk sensitivity

As at 31 March 2011, if the respective market price of the quoted financial instruments had been increased / decreased by 5% and all other variables held constant, the surplus / deficit of the Group would increase / decrease by approximately \$62,519,000 (2010: \$59,434,000) 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)

### (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.

## 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.

(expressed in Hong Kong Dollars)

#### 4. Critical accounting estimates and judgements (Continued)

##### 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 value 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; and (iv) discount rate used in land value assessment, which is made reference to Prime Rate.

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

As at 31 March 2011, if the respective estimated upfront payments to be received on the projects had been increased / decreased by 5% and all other variables held constant, the surplus / deficit of the Group would increase by approximately \$273,000,000 (2010: \$317,000,000) / decrease by approximately \$277,000,000 (2010: \$317,000,000) 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 cost of properties 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>2011</u>	<u>2010</u>
	\$'000	\$'000
Share of property development surplus on jointly controlled development projects	1,476,761	231,214
Sale of properties	-	38,450
Upfront payments from property developers	<u>2,170,000</u>	<u>9,392,950</u>
	<u>3,646,761</u>	<u>9,662,614</u>

### (b) Other income, net

Other income, net recognised during the year represents:

	<u>2011</u>	<u>2010</u>
	\$'000	\$'000
Interest income	49,474	25,319
Rental income	13,169	26,270
Gain on financial assets at fair value through profit or loss	11,705	29,240
Loss on disposal of property, plant and equipment	<u>(2,695)</u>	<u>(1,142)</u>
	<u>71,653</u>	<u>79,687</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>2011</u> \$'000	<u>2010</u> \$'000
Cost of properties under jointly controlled development projects charged	946,964	2,699,277
Cost of properties held for sale disposed	-	1,459
Depreciation and amortisation	19,840	20,092
Write back of impairment on properties held for sale	(610)	(770)
Write back of impairment on properties under development	(364,500)	(1,740,809)
Provision for impairment on committed projects	15,500	1,243,000
Operating lease charges in respect of rental of office premises	21,717	21,209
Outgoings in respect of properties	15,257	11,673
Loss on disposal of property, plant and equipment	2,695	1,142
Staff costs (excluding directors' remuneration)	207,367	188,637
Contribution to Operation Building Bright Fund	-	150,000
Auditor's remuneration	<u>468</u>	<u>448</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

	2011				2010	
	Salaries	Provident fund scheme contributions	Sub-total	Variable Pay	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Managing Director - Quinn Law Yee-kwan	3,746	12	3,758	1,217	4,975	4,861
Executive Director (Planning & Project Control) - Iris Tam Siu-ying	2,720	12	2,732	680	3,412	3,726
Executive Director (Operations & Project Control) - Calvin Lam Che-leung	2,720	12	2,732	680	3,412	3,409
2011: eight Directors (2010: eight Directors)	<u>18,294</u>	<u>96</u>	<u>18,390</u>	<u>4,700</u>	<u>23,090</u>	<u>22,736</u>
Total*	<u>27,480</u>	<u>132</u>	<u>27,612</u>	<u>7,277</u>	<u>34,889</u>	<u>34,732</u>

	2011	2010
Their remuneration fell within the following bands:	No. of individuals	No. of individuals
\$2,000,001 to \$2,500,000	-	2
\$2,500,001 to \$3,000,000	5	3
\$3,000,001 to \$3,500,000	5	4
\$3,500,001 to \$4,000,000	-	1
\$4,500,001 to \$5,000,000	<u>1</u>	<u>1</u>
Total	<u>11</u>	<u>11</u>

\* Excluding compensation in lieu of leave and other benefit in the aggregate sum of \$1,033,000 (2010: \$537,000).

(expressed in Hong Kong Dollars)

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

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

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>2011</u> \$'000	<u>2010</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
The Honourable Tanya Chan	65	65
Mr Francis Chau Yin-ming, MH (up to 30 April 2010)	5	65
Mr Dane Cheng Ting-yat (up to 31 July 2009)	-	22
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 (from 1 May 2010)	60	-
Dr Isaac Ng Ka-chui	65	65
Ms Agnes Ng Ka-yin (up to 30 April 2010)	5	65
Mr Ng Shui-lai, BBS, MBE, JP	65	65
Mr Almon Poon Chin-hung, JP	65	65
The Honourable James To Kun-sun	65	65
Mr Peter To	65	65
The Honourable Wong Kwok-kin, BBS	65	65
Dr John Wong Yee-him	65	65
Mr Douglas Young Chi-chiu (from 1 May 2010)	<u>60</u>	<u>-</u>
	<u>1,205</u>	<u>1,227</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>2011</u>	<u>2010</u>
	\$'000	\$'000

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2011 include the Managing Director, two Executive Directors and two Directors (2010: 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	14,460	14,280
- Provident fund scheme contributions	<u>60</u>	<u>60</u>
Sub-total	14,520	14,340
Variable pay	<u>3,925</u>	<u>4,167</u>
Total##	<u>18,445</u>	<u>18,507</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
\$3,500,001 to \$4,000,000	-	1
\$4,500,001 to \$5,000,000	<u>1</u>	<u>1</u>
Total	<u>5</u>	<u>5</u>

## For the year ended 31 March 2011, compensation in lieu of leave and other benefit of \$727,000 (2010: \$537,000) 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 (2010: Nil).

(b) As at 31 March 2011, a subsidiary of the Group has unrecognised deductible temporary differences arising from capital allowance and tax losses of \$10,463,000 and \$3,086,000 respectively (2010: \$9,413,000 and \$3,341,000 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 \$2,208,787,000 (Restated 2010: \$7,018,311,000) which has been dealt with in the financial statements of the Authority.

## 9. Leasehold land

	<u>Group and Authority</u>	
	<u>2011</u>	<u>Restated</u>
	<u>\$'000</u>	<u>2010</u>
		<u>\$'000</u>
Balance at 1 April, as previously reported	256,117	262,369
Adjustment for adoption of amendment to HKAS 17	<u>(256,117)</u>	<u>(262,369)</u>
Balance at 1 April and 31 March, as restated	<u>-</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 10. Property, plant and equipment

### Group

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture and equipments and motor vehicle	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 April 2009</b>					
Cost, as previously reported	139,340	73,702	56,498	27,001	296,541
Adjustment for adoption of amendment to HKAS 17	430,202	-	-	-	430,202
Cost, as restated	569,542	73,702	56,498	27,001	726,743
Accumulated depreciation and amortisation, as previously reported	(69,949)	(52,598)	(52,749)	(19,202)	(194,498)
Adjustment for adoption of amendment to HKAS 17	(167,833)	-	-	-	(167,833)
Accumulated depreciation and amortisation, as restated	(237,782)	(52,598)	(52,749)	(19,202)	(362,331)
Net book amount, as restated	331,760	21,104	3,749	7,799	364,412
<b>Year ended 31 March 2010</b>					
Opening net book amount, as previously reported	69,391	21,104	3,749	7,799	102,043
Adjustment for adoption of amendment to HKAS 17	262,369	-	-	-	262,369
Opening net book amount, as restated	331,760	21,104	3,749	7,799	364,412
Additions	-	4,143	97	2,558	6,798
Disposals	-	-	-	(1,151)	(1,151)
Depreciation and amortisation	(8,167)	(6,896)	(1,597)	(3,432)	(20,092)
Closing net book amount	323,593	18,351	2,249	5,774	349,967

(expressed in Hong Kong Dollars)

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

### Group (Continued)

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture and equipments and motor vehicle	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 31 March 2010</b>					
Cost, as previously reported	139,340	77,845	56,595	21,969	295,749
Adjustment for adoption of amendment to HKAS 17	430,202	-	-	-	430,202
Cost, as restated	569,542	77,845	56,595	21,969	725,951
Accumulated depreciation and amortisation, as previously reported	(71,864)	(59,494)	(54,346)	(16,195)	(201,899)
Adjustment for adoption of amendment to HKAS 17	(174,085)	-	-	-	(174,085)
Accumulated depreciation and amortisation, as restated	(245,949)	(59,494)	(54,346)	(16,195)	(375,984)
Net book amount, as restated	323,593	18,351	2,249	5,774	349,967
<b>Year ended 31 March 2011</b>					
Opening net book amount	67,476	18,351	2,249	5,774	93,850
Adjustment for adoption of amendment to HKAS 17	256,117	-	-	-	256,117
Opening net book amount, as restated	323,593	18,351	2,249	5,774	349,967
Additions	-	14,999	6,372	4,605	25,976
Disposals	-	(2,013)	(483)	(212)	(2,708)
Depreciation and amortisation	(8,167)	(7,181)	(1,380)	(3,112)	(19,840)
Closing net book amount	315,426	24,156	6,758	7,055	353,395
<b>At 31 March 2011</b>					
Cost	569,542	83,307	59,250	20,336	732,435
Accumulated depreciation and amortisation	(254,116)	(59,151)	(52,492)	(13,281)	(379,040)
Net book amount	315,426	24,156	6,758	7,055	353,395

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

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

### Authority

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture and equipments and motor vehicle	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 April 2009</b>					
Cost, as previously reported	139,340	31,532	36,040	26,927	233,839
Adjustment for adoption of amendment to HKAS 17	430,202	-	-	-	430,202
Cost, as restated	569,542	31,532	36,040	26,927	664,041
Accumulated depreciation and amortisation, as previously reported	(69,949)	(16,725)	(32,291)	(19,128)	(138,093)
Adjustment for adoption of amendment to HKAS 17	(167,833)	-	-	-	(167,833)
Accumulated depreciation and amortisation, as restated	(237,782)	(16,725)	(32,291)	(19,128)	(305,926)
Net book amount, as restated	331,760	14,807	3,749	7,799	358,115
<b>Year ended 31 March 2010</b>					
Opening net book amount, as previously reported	69,391	14,807	3,749	7,799	95,746
Adjustment for adoption of amendment to HKAS 17	262,369	-	-	-	262,369
Opening net book amount, as restated	331,760	14,807	3,749	7,799	358,115
Additions	-	4,143	97	2,558	6,798
Disposals	-	-	-	(1,151)	(1,151)
Depreciation and amortisation	(8,167)	(4,737)	(1,597)	(3,432)	(17,933)
Closing net book amount	323,593	14,213	2,249	5,774	345,829

(expressed in Hong Kong Dollars)

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

### Authority (Continued)

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture and equipments and motor vehicle	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 31 March 2010</b>					
Cost, as previously reported	139,340	35,675	36,137	21,895	233,047
Adjustment for adoption of amendment to HKAS 17	430,202	-	-	-	430,202
Cost, as restated	569,542	35,675	36,137	21,895	663,249
Accumulated depreciation and amortisation, as previously reported	(71,864)	(21,462)	(33,888)	(16,121)	(143,335)
Adjustment for adoption of amendment to HKAS 17	(174,085)	-	-	-	(174,085)
Accumulated depreciation and amortisation, as restated	(245,949)	(21,462)	(33,888)	(16,121)	(317,420)
Net book amount, as restated	323,593	14,213	2,249	5,774	345,829
<b>Year ended 31 March 2011</b>					
Opening net book amount	67,476	14,213	2,249	5,774	89,712
Adjustment for adoption of amendment to HKAS 17	256,117	-	-	-	256,117
Opening net book amount, as restated	323,593	14,213	2,249	5,774	345,829
Additions	-	14,999	6,372	4,605	25,976
Disposals	-	(2,013)	(483)	(212)	(2,708)
Depreciation and amortisation	(8,167)	(4,924)	(1,380)	(3,112)	(17,583)
Closing net book amount	315,426	22,275	6,758	7,055	351,514
<b>At 31 March 2011</b>					
Cost	569,542	41,137	38,792	20,262	669,733
Accumulated depreciation and amortisation	(254,116)	(18,862)	(32,034)	(13,207)	(318,219)
Net book amount	315,426	22,275	6,758	7,055	351,514

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

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

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

	<u>Group and Authority</u>	
	<u>2011</u>	<u>Restated</u>
	<u>\$'000</u>	<u>2010</u>
		<u>\$'000</u>
Leases of over 50 years	39,019	39,537
Leases of between 10 to 50 years	<u>276,407</u>	<u>284,056</u>
	<u>315,426</u>	<u>323,593</u>

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

## 11. Properties acquired pending redevelopment

	<u>Group and Authority</u>	
	<u>2011</u>	<u>Restated</u>
	<u>\$'000</u>	<u>2010</u>
		<u>\$'000</u>
At 1 April, as previously reported	7,474	7,503
Adjustment for adoption of amendment to HKAS 17	<u>259</u>	<u>230</u>
At 1 April and 31 March, as restated	<u>7,733</u>	<u>7,733</u>

(expressed in Hong Kong Dollars)

## 12. Properties under development

	<u>Group and Authority</u>	
	<u>2011</u>	<u>Restated</u>
	<u>\$'000</u>	<u>2010</u>
		<u>\$'000</u>
Cost of properties acquired for redevelopment, including Home Purchase Allowance ("HPA") (Note)		
As at 31 March, as previously reported	15,758,869	13,752,781
Adjustment for adoption of amendment to HKAS 17	-	249,441
As at 31 March, as restated	15,758,869	14,002,222
Development expenditure	<u>186,390</u>	<u>121,270</u>
Total cost (includes accumulated interest and other borrowing costs capitalised of \$60,837,000 (2010: \$26,446,000))	<u>15,945,259</u>	<u>14,123,492</u>
Provision for impairment		
As at 31 March, as previously reported	(5,244,000)	(4,667,000)
Adjustment for adoption of amendment to HKAS 17	-	(2,000)
As at 31 March, as restated	<u>(5,244,000)</u>	<u>(4,669,000)</u>
Balance carried forward	<u>10,701,259</u>	<u>9,454,492</u>

### 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 2011, the Authority's accruals and estimated outstanding commitments in respect of project under acquisition and resumption stood at \$12.8 billion, without accounting for any future inflow for the projects.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 13. Receivables from property developers

At 31 March 2011, the upfront payments receivable from property developers are analysed as follows:

	<u>Group and Authority</u>	
	<u>2011</u>	<u>2010</u>
	\$'000	\$'000
Current portion	4,285,650	1,363,000
Non-current portion	-	3,333,150
	<u>4,285,650</u>	<u>4,696,150</u>

As of 31 March 2011, no receivables from property developers were past due.

## 14. Subsidiaries

	<u>Authority</u>	
	<u>2011</u>	<u>2010</u>
	\$'000	\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries (Note)	18,083	19,159
Less: Provision	(16,468)	(15,282)
	<u>1,616</u>	<u>3,878</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
Doddington Limited	2	\$10
Opalman Limited	2	\$1
Sunfield Investments Limited	2	\$1
Western Market Company Limited	2	\$1

With the exception of Western Market Company Limited which is engaged in the operation of the Western Market, the other subsidiaries are acting as mere trustees for holding properties under certain jointly controlled development projects.

(expressed in Hong Kong Dollars)

## 15. Building rehabilitation loans

At 31 March 2011, the building rehabilitation loans are analysed as follows:

	<u>Group and Authority</u>	
	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Current portion	28,582	30,304
Non-current portion	<u>53,690</u>	<u>64,929</u>
	<u>82,272</u>	<u>95,233</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.

As of 31 March 2011, instalments of building rehabilitation loans of \$201,000 (2010: \$211,000) 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>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Less than 3 months	94	104
3 to 6 months	38	45
6 to 12 months	44	39
Over 1 year	<u>25</u>	<u>23</u>
Balance at 31 March	<u>201</u>	<u>211</u>

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 16. Properties held for sale

	<u>Group and Authority</u>	
	<u>2011</u> \$'000	Restated <u>2010</u> \$'000
Cost		
At 1 April, as previously reported	14,246	15,413
Adjustment for adoption of amendment to HKAS 17	<u>1,174</u>	<u>1,041</u>
At 1 April, as restated	15,420	16,454
Less: Disposal	<u>-</u>	<u>(1,034)</u>
At 31 March	<u>15,420</u>	<u>15,420</u>
Provision for impairment		
At 1 April, as previously reported	-	(758)
Adjustment for adoption of amendment to HKAS 17	<u>(965)</u>	<u>(977)</u>
At 1 April, as restated	(965)	(1,735)
Less: Write back of impairment	<u>610</u>	<u>770</u>
At 31 March	<u>(355)</u>	<u>(965)</u>
Balance at 31 March	<u>15,065</u>	<u>14,455</u>

(expressed in Hong Kong Dollars)

## 17. Jointly controlled development projects

	<u>Group and Authority</u>	
	<u>2011</u>	<u>2010</u>
	\$'000	\$'000
Amounts due from jointly controlled development projects	20,683	15,053
Amounts due to jointly controlled development projects	<u>(17,416)</u>	<u>(32,176)</u>
	<u>3,267</u>	<u>(17,123)</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 2011.

<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 (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	-
Floriant Rise (Tai Kok Tsui)	Commercial / Residential	43,231	2008	-
* Vista (Sham Shui Po)	Commercial / Residential	12,703	2008	-
Beacon Lodge (Sham Shui Po)	Commercial / Residential	12,784	2008	-
Island Crest (Sai Ying Pun)	Commercial / Residential	38,878	2009	-
Queen's Cube (Wan Chai)	Commercial / Residential	3,984	2010	-

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 17. 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>
Lime Stardom (Tai Kok Tsui)	Commercial / Residential	19,735	-	2011
Baker Court (Hung Hom)	Commercial / Residential	2,338	-	2011
Pine Street / Anchor Street (Tai Kok Tsui)	Commercial / Residential	21,301	-	2012
Macpherson Indoor Stadium (Mong Kok)	Commercial / Stadium and Youth Centre / Residential	24,768	-	2012
Yuet Wah Street Site (Kwun Tong)	Residential	27,830	-	2014
Lai Chi Kok Road / Kweilin Street / Yee Kuk Street (Sham Shui Po)	Commercial / Residential	30,540	-	2014
Yu Lok Lane / Centre Street (Sai Ying Pun)	Commercial / Residential	17,622	-	2014
Fuk Tsun Street / Pine Street (Tai Kok Tsui)	Commercial / Residential	4,947	-	2014
Lee Tung Street / McGregor Street (Wan Chai)	Commercial / Residential	83,818	-	2015

\* Projects with commercial portions jointly held by the Developer and the Authority for letting pending 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 2011, 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 \$4,539,640,000 (2010: \$2,780,340,000) 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.

(expressed in Hong Kong Dollars)

## 18. Trade and other receivables

At 31 March 2011, the trade and other receivables are analysed as follows:

	<u>Group</u>		<u>Authority</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	33,279	28,284	33,102	28,102
Prepayments and deposits	<u>108,411</u>	<u>52,599</u>	<u>108,411</u>	<u>52,599</u>
Balance at 31 March	<u>141,690</u>	<u>80,883</u>	<u>141,513</u>	<u>80,701</u>

As of 31 March 2011, trade receivables of \$3,765,000 (2010: \$3,261,000) 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>2011</u>	<u>2010</u>
	\$'000	\$'000
3 months or less	1,959	2,231
3 to 6 months	670	711
6 to 12 months	738	271
Over 1 year	<u>398</u>	<u>48</u>
Balance at 31 March	<u>3,765</u>	<u>3,261</u>

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

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

	<u>Group and Authority</u>	
	<u>2011</u>	<u>2010</u>
	\$'000	\$'000
Debt securities, listed		
- Overseas	186,177	142,015
- Hong Kong	355,263	392,849
Debt securities, unlisted	599,952	629,485
Structured deposit	101,553	-
Cash and bank deposits	<u>7,435</u>	<u>24,326</u>
	<u>1,250,380</u>	<u>1,188,675</u>

All the financial assets are denominated in Hong Kong Dollars.

Effective 1 April 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

The following table presents the group's assets that are measured at fair value at 31 March 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
	\$'000	\$'000	\$'000
Debt securities	1,141,392	-	1,141,392
Structured deposit	<u>-</u>	<u>101,553</u>	<u>101,553</u>
Total assets	<u>1,141,392</u>	<u>101,553</u>	<u>1,242,945</u>

(expressed in Hong Kong Dollars)

## 20. Cash and bank balances

	<u>Group</u>		<u>Authority</u>	
	<u>2011</u> \$'000	<u>2010</u> \$'000	<u>2011</u> \$'000	<u>2010</u> \$'000
Time deposits with banks				
Maturities of 3 months or less	3,978,976	2,611,528	3,975,453	2,607,994
Maturities more than 3 months	1,832,000	1,901,000	1,832,000	1,901,000
Sub-total	5,810,976	4,512,528	5,807,453	4,508,994
Less: Amounts held in trust for jointly controlled development projects	(3,523)	(3,534)	-	-
	5,807,453	4,508,994	5,807,453	4,508,994
Cash at banks and in hand	24,368	14,849	24,367	14,848
Less: Amounts held in trust for jointly controlled development projects	(1)	(1)	-	-
	24,367	14,848	24,367	14,848
	<u>5,831,820</u>	<u>4,523,842</u>	<u>5,831,820</u>	<u>4,523,842</u>
Maximum exposure to credit risk	<u>5,831,805</u>	<u>4,523,827</u>	<u>5,831,805</u>	<u>4,523,827</u>

The average effective interest rate of time deposits with banks was 0.90% per annum (2010: 0.45% per annum). These deposits have an average maturity of 72 days (2010: 71 days).

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

<u>Rating (Moody's)</u>	<u>Group and Authority</u>	
	<u>2011</u> \$'000	<u>2010</u> \$'000
Aa1 – Aa3	1,028,141	2,314,964
A1 – A3	4,803,664	2,023,863
Baa1	-	185,000
	<u>5,831,805</u>	<u>4,523,827</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 21. 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 proposed to inject the equity into the Authority in phases over the five financial years from 2002-03 to 2006-07. At 31 March 2011, the Authority had received all five tranches of capital injection of \$2 billion each.

## 22. Debt securities issued

In September 2009, the Authority issued three-year fixed rate notes with a coupon of 2.08% for a total principal amount of \$1.5 billion under a Medium Term Note programme.

	Group and Authority	
	2011 \$'000	2010 \$'000
HK dollar Fixed rate notes due 2012	1,500,000	1,500,000
Less: Unamortised finance charges	<u>(1,783)</u>	<u>(3,131)</u>
	<u>1,498,217</u>	<u>1,496,869</u>

## 23. Provision for Urban Renewal Trust Fund

	Group and Authority	
	2011 \$'000	2010 \$'000
Balance at 1 April	-	-
Charged to the statement of comprehensive income	<u>500,000</u>	<u>-</u>
Balance at 31 March	<u>500,000</u>	<u>-</u>

The balance represents the amount set aside by the Authority to contribute to the Urban Renewal Trust Fund upon the promulgation of the Urban Renewal Strategy on 24 February 2011. The provision charge is recognised in the statement of comprehensive income. The balance at 31 March 2011 is current in nature. The Authority has committed to making further contribution to the said Fund in future in the event that its fund balance is fully utilised.

(expressed in Hong Kong Dollars)

## 24. Provision for committed projects

	<u>Group and Authority</u>	
	<u>2011</u>	<u>Restated</u> <u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Balance at 1 April, as previously reported	1,245,000	3,624,000
Adjustment for adoption of amendment to HKAS 17	<u>(2,000)</u>	<u>(7,000)</u>
Balance at 1 April, as restated	1,243,000	3,617,000
Utilised for the year	(1,021,500)	(3,617,000)
Charged to the statement of comprehensive income	<u>15,500</u>	<u>1,243,000</u>
Balance at 31 March	<u><u>237,000</u></u>	<u><u>1,243,000</u></u>

The amount represents the provision for committed projects where acquisition was commenced before financial year end. The provision charge is recognised in the statement of comprehensive income. The balance at 31 March 2011 is current in nature.

As at 31 March 2011, the total provision for impairment on projects are analysed as follows:

	<u>Group and Authority</u>	
	<u>2011</u>	<u>Restated</u> <u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Provision for impairment classified under properties under development as set out in Note 12	5,244,000	4,669,000
Provision for committed projects as set out above	<u>237,000</u>	<u>1,243,000</u>
Total provision for projects	<u><u>5,481,000</u></u>	<u><u>5,912,000</u></u>

## 25. 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 2011 was \$13,532,000 (2010: \$12,310,000), net of forfeitures of \$481,000 (2010: \$299,000), which has been charged to the Group's statement of comprehensive income for the year.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(expressed in Hong Kong Dollars)

## 26. Commitments

### (a) Capital commitments

Capital commitments in respect of property, plant and equipment at 31 March 2011 are as follows:

	<u>Group and Authority</u>	
	<u>2011</u>	<u>2010</u>
	\$'000	\$'000
Contracted but not provided for	<u>1,718</u>	<u>1,204</u>

### (b) Operating lease commitments

At 31 March 2011, the total future minimum lease payments under non-cancellable operating leases in respect of office premises, in which \$76,271,000 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>2011</u>	<u>2010</u>
	\$'000	\$'000
Within 1 year	18,924	20,576
After 1 year but within 5 years	66,231	2,666
After 5 years	<u>14,353</u>	<u>-</u>
	<u>99,508</u>	<u>23,242</u>

### (c) Operating lease rental receivable

At 31 March 2011, the future aggregate minimum lease rental receipts under non-cancellable operating leases in respect of properties are receivable as follows:

	<u>Group</u>		<u>Authority</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	\$'000	\$'000	\$'000	\$'000
Within 1 year	4,320	7,298	3,339	5,624
After 1 year but within 5 years	<u>2,403</u>	<u>4,199</u>	<u>2,403</u>	<u>3,222</u>
	<u>6,723</u>	<u>11,497</u>	<u>5,742</u>	<u>8,846</u>

(expressed in Hong Kong Dollars)

## **27. 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 \$34,547,000 (2010: \$32,812,000) 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 2011, there is an amount of \$2,743,000 (2010: \$2,791,000) 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.

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

## **28. 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 was commenced in March 2011.

In October 2009, the Authority announced preliminary revitalisation plans for the Central Market ("Central Oasis"). Total cost for the project is estimated to be about \$500 million. Preparation works for planning and design submission have been taking place. The whole project will be carried out in phases and is expected to take about five years to complete.

The financial impact of these revitalisation projects will be accounted for in subsequent financial years.

## **29. Approval of financial statements**

The financial statements were approved by the Board on 31 May 2011.