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") are to promote urban renewal in Hong Kong by way of redevelopment, rehabilitation, revitalisation and heritage preservation.

The address of the Authority is 10/F Low Block, Grand Millennium Plaza, 181 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 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 and amendments to standards effective in current year

The following standards and amendments to existing standards have been published that are effective for the accounting period of the Group beginning on 1 April 2007:

HKAS 1 (Amendment)	Presentation of Financial Statements : Capital Disclosures
HKFRS 7	Financial Instruments : Disclosures

The adoption of these new standards does not have any significant effect on the results and financial position of the Group.

(expressed in Hong Kong Dollars)

2. Significant accounting policies (Continued)

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

The HKICPA has issued certain new standards and amendments which are not yet effective as at 31 March 2008. Those which are relevant to the Group's operations are as follows:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009

The Group has not early adopted the above standards and amendment in the financial statements for the year ended 31 March 2008. The Group will apply the above standards and amendment from 1 April 2009, but it is not expected to have a significant impact on the Group's 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 income and expenditure account.

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 income and expenditure account 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) Income from the sale of interest in a development project is recognised upon signing of the agreement.

(iii) 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.

(iv) 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.

(v) When the Authority receives upfront payments from developers 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.

(vi) Interest income is recognised on a time-proportion basis using the effective interest method.

(vii) Rental income net of any incentives given to the lessee is recognised on a straight line basis over the periods of the respective leases.

(viii) Property management income is recognised when the services are provided.

(expressed in Hong Kong Dollars)

2. Significant accounting policies (Continued)

(f) Property, plant and equipment

Building comprise rehousing blocks. Rehousing blocks represent properties held by the Authority for the purpose of providing accommodation for affected tenants of development projects who are charged a rent which is substantially below the market value for an indefinite period. Accordingly, in addition to normal provision of depreciation, the carrying value of each rehousing flat is further written down to $1 when it is so occupied. The additional write off is 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(q)).

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 income and expenditure account during the financial period in which they are incurred.

Depreciation is calculated to write off the costs of property, plant and equipment less residual values over their anticipated useful lives on a straight line basis as follows:

Buildings	-	2% per annum or over the period of the unexpired lease if less than 50 years
Leasehold improvements	-	Over the unexpired terms of the leases
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 income and expenditure account.

2. Significant accounting policies (Continued)

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation and amortisation 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). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) 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.

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 income and expenditure account.

(i) Operating leases

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 income and expenditure account on a straight-line basis over the period of the lease.

(expressed in Hong Kong Dollars)

2. Significant accounting policies (Continued)

(j) Properties acquired pending redevelopment

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

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

(k) Properties under development

Properties under development represent all costs incurred by the Authority in connection with property redevelopment, and include the cost of properties being reclassified from properties acquired pending redevelopment, borrowing costs, costs of rehousing units (see Note 2(l)), other costs incurred in connection with the development and the additional amounts written off against rehousing properties referred to in Note 2(f), 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.

Property to be sold at the balance sheet date will be stated at the lower of cost and net realisable value.

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.

(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 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(q)).

2. Significant accounting policies (Continued)

(m) 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.

(n) Deferred income tax

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.

(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 the income and expenditure account 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 Authority's functional and presentation currency.

(expressed in Hong Kong Dollars)

2. Significant accounting policies (Continued)

(p) Translation of foreign currencies (Continued)

(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 income and expenditure account.

(q) 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 income and expenditure account in accordance with the bases set out in Notes 2(e) (iii), (iv) and (v).

(r) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and deposits held at call with banks which are readily convertible into known amounts of cash without notice.

(s) 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.

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk and liquidity 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.

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(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.

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest-rate risk relates primarily to its building rehabilitation loans, which are interest-free.

Interest rate sensitivity

At the balance sheet dates, if interest rates had been increased/ decreased by 10 (2007: 10) basis-point and all other variables were held constant, the surplus of the Group would increase/ decrease by approximately $108,710,000 (2007: $79,325,000) resulting from the change in the interest income generated from the cash and bank balances.

(ii) Credit risk

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

The credit risk on cash and bank balances is limited because all the funds are placed in banks with high credit rankings, ranging from Aaa to Baa2 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.

The Group has no significant concentrations of credit risk with respect to trade and other receivables as the Group has a large number of property development projects jointly developed with various developers. All transactions with developers are settled through fund transfer with banks.

(iii) Liquidity risk

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

Management monitors rolling forecasts of the Group's cash and bank balances (Note 18) on the basis of expected cash flow.

(expressed in Hong Kong Dollars)

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

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 not significant.

	Group		Authority	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Less than 1 year				
Trade and other payables	474,048	446,479	473,601	446,030

(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 and accumulated surplus. The Group also maintains non-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 cash and bank balances, building rehabilitation loans, and trade and other receivables; and financial liabilities including trade and other payables, approximate their fair values due to their short maturities.

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.

(a) Estimated impairment of properties

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).

4. Critical accounting estimates and judgements (Continued)

(a) Estimated impairment of properties (Continued)

The valuation of properties is 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. The Group's management reassess 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 similar 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; and (iii) expected arrangement with property developers on tender awarded.

The final impairment amount would be affected by the actual realised value and development cost of properties and the final arrangements with the property developers.

(b) Estimated provision for committed projects

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 present legal or constructive obligation, a provision would be recognised.

The valuation of committed projects is 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. The Group's management reassess 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 similar 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; and (iii) expected arrangement with property developers on tender awarded.

The ultimate loss 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.

5. Revenues and other income

(a) Revenues

Turnover recognised during the year represents:

	2008 $'000	2007 $'000
Share of property development surplus on jointly controlled development projects	3,231,214	287,115
Sale of properties	14,803	10,462
Upfront payments received from property developers	2,020,000	238,517
	5,266,017	536,094

(expressed in Hong Kong Dollars)

5. Revenues and other income (Continued)

(b) Other income

Other income recognised during the year represents:

	2008	2007
	$'000	$'000
Interest income	376,592	343,482
Rental income	27,008	19,533
Sundry income	-	2
	403,600	363,017

6. Operating surplus before income tax

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

(a) Other items

	2008	2007
	$'000	$'000
Cost of properties under jointly controlled development projects charged	2,242,631	85,278
Cost of properties held for sale disposed	12,583	5,417
Depreciation and amortisation	45,463	39,202
Write back of provision for impairment on properties held for sale	(977)	-
Provision for / (write back of) impairment on properties under development and committed projects	1,035,600	(212,600)
Write back of impairment provision for properties acquired pending redevelopment	(223)	-
Operating lease charges in respect of rental of office premises	9,604	9,591
Outgoings in respect of properties	14,141	11,901
Loss / (gain) on disposal of property, plant and equipment	160	(2)
Staff costs (excluding directors' remuneration and including termination costs* of $614,000 (2007: $564,000))	141,098	129,323
Auditor's remuneration	494	489

* Termination costs represent leave pay, payment in lieu of notice, long service payment and severance / redundancy payment.

(expressed in Hong Kong Dollars)

6. Operating surplus before income tax (Continued)

(b) Board and directors' remuneration during the year

	2008					2007
	Salaries	Provident fund scheme contributions	Sub-total	Variable Pay	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Managing Director†						
- Billy Lam Chung-lun	2,625	10	2,635	1,041	3,676	4,543
- Quinn Law Yee-kwan	311	1	312	-	312	-
Executive Director (Commercial & Corporate)Δ						
- Quinn Law Yee-kwan	2,383	286	2,669	861	3,530	3,555
Executive Director (Planning & Development)						
- Iris Tam Siu-ying	2,600	12	2,612	639	3,251	1,523
Eight (2007: six) Directors and One (2007: one) Ex-Director	13,142	74	13,216	3,032	16,248	13,591
	21,061	383	21,444	5,573	27,017*	23,212*

† The position of Managing Director was vacated from 1 January 2008 to 29 February 2008 and the successor assumed his role w.e.f. 1 March 2008.

Δ The position of Executive Director (Commercial & Corporate) was vacated from 1 March 2008.

(expressed in Hong Kong Dollars)

6. Operating surplus before income tax (Continued)

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

Their remuneration fell within the following bands:

	2008	2007
	No. of individuals	No. of individuals
$1 to $500,000	2	1
$500,001 to $1,000,000	1	-
$1,000,001 to $1,500,000	1	-
$1,500,001 to $2,000,000	-	3
$2,000,001 to $2,500,000	1	2
$2,500,001 to $3,000,000	2	2
$3,000,001 to $3,500,000	3	-
$3,500,001 to $4,000,000	2	1
$4,500,001 to $5,000,000	-	1
Total	12*	10*

* Including emoluments for ex-directors and excluding compensation in lieu of leave in the aggregate sum of $1,324,000 (2007: $401,000).

	2008	2007
	$'000	$'000
Compensation in lieu of leave		
Managing Director	585	-
Executive Director & Directors	739	401
Total	1,324	401

(expressed in Hong Kong Dollars)

6. Operating surplus before income tax (Continued)

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

Fees for 19 (2007: 18) non-executive members of the Board (excluding the government public officers who are not entitled to receive any fees) are as follows:

	2008	2007
	$'000	$'000
Chairman		
Mr Edward Cheng Wai-sun (up to 30 Apr 2007)	8	100
Mr Barry Cheung Chun-yuen (from 1 May 2007)	92	-
Non-Executive Directors (non-public officers)		
The Honourable Chan Kam-lam	65	65
Mr Francis Chau Yin-ming	65	65
Mr Maurice Lee Wai-man	65	65
The Honourable Fred Li Wah-ming	65	65
Mr Lo Chung-hing	65	65
Professor David Lung Ping-yee	65	65
The Honourable Howard Young	65	65
Dr Allan Zeman	65	65
(from 1 Nov 2006)		
Mr Walter Chan Kar-lok	65	27
Dr Isaac Ng Ka-chui	65	27
Mr Aaron Wan Chi-keung	65	27
Mr Stephen Yip Moon-wah	65	27
(from 1 May 2007)		
Mr Victor Chan Hin-fu	60	-
Professor Ho Pui-yin	60	-
Mr Ip Kwok-him	60	-
Ms Agnes Ng Ka-yin	60	-
Mr Ng Shui-lai	60	-
Mr Peter To	60	-
(up to 30 Apr 2007)		
Professor Cecilia Chan Lai-wan	5	65
Mr Barry Cheung Chun-yuen	5	65
Mrs Peggy Lam Pei Yu-dja	5	65
The Honourable Alan Leong Kah-kit	5	65
Miss Maria Tam Wai-chu	5	65
	1,265	1,053

(expressed in Hong Kong Dollars)

6. Operating surplus before income tax (Continued)

(c) Five highest paid individuals

	2008 $'000	2007 $'000

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2008 include the Managing Director, two Executive Directors and two Directors (among the five highest paid individuals, one of them ceased to be an Executive Director during the year, but continued to serve the Authority as Managing Director). (2007: the Managing Director, one Executive Director, two Directors and one General Manager).

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

	2008 $'000	2007 $'000
Fixed - Salaries	12,782	12,512
- Provident fund scheme contributions	333	568
Sub-total	13,115	13,080
Variable pay	3,771	3,269
Total	16,886##	16,349##

Their remuneration fell within the following bands:

	No. of individuals	No. of individuals
$2,500,001 to $3,000,000	-	3
$3,000,001 to $3,500,000	3	-
$3,500,001 to $4,000,000	2	1
$4,500,001 to $5,000,000	-	1
Total	5	5

For the year ended 31 March 2008, compensation in lieu of leave of $927,000 (2007: Nil) was 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 there are no assessable income for the year (2007: Nil).

(b) As at 31 March 2008, a subsidiary of the Group has unrecognised deductible temporary differences arising from capital allowance and tax losses of $7,521,000 and $3,629,000 respectively (2007: $6,457,000 and $3,505,000 respectively) to carry forward against future taxable income. These temporary differences and tax losses have no expiry date.

8. Surplus for the year

The consolidated surplus for the year includes a surplus of $2,066,287,000 (2007: $760,585,000) which has been dealt with in the financial statements of the Authority.

9. Leasehold land

	Group and Authority	
	2008	2007
	$'000	$'000
Balance at 1 April	76,186	76,783
Additions	-	702
Transfer from properties held for sale	199,389	-
Amortisation	(6,253)	(1,299)
Balance at 31 March	269,322	76,186

The Group's and the Authority's interests in leasehold land, which are located in Hong Kong, represent prepaid operating lease payments and their net book value are analysed as follows :

	Group and Authority	
	2008	2007
	$'000	$'000
Leases of over 50 years	28,206	28,315
Leases of between 10 to 50 years	241,116	47,871
	269,322	76,186

(expressed in Hong Kong Dollars)

10. Property, plant and equipment

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, equipments and motor vehicles	Total
	$'000	$'000	$'000	$'000	$'000
At 1 April 2006					
Cost	93,486	63,303	52,132	20,440	229,361
Accumulated depreciation	(65,346)	(41,302)	(49,676)	(15,581)	(171,905)
Net book amount	28,140	22,001	2,456	4,859	57,456
Year ended 31 March 2007					
Opening net book amount	28,140	22,001	2,456	4,859	57,456
Additions	298	5,882	2,489	2,712	11,381
Depreciation	(777)	(3,401)	(957)	(2,552)	(7,687)
Closing net book amount	27,661	24,482	3,988	5,019	61,150
At 31 March 2007					
Cost	93,784	69,185	54,621	21,803	239,393
Accumulated depreciation	(66,123)	(44,703)	(50,633)	(16,784)	(178,243)
Net book amount	27,661	24,482	3,988	5,019	61,150
Year ended 31 March 2008					
Opening net book amount	27,661	24,482	3,988	5,019	61,150
Additions	-	2,027	762	2,878	5,667
Transfer from properties held for sales	45,854	503	-	-	46,357
Disposals	-	(106)	(50)	(4)	(160)
Depreciation	(1,920)	(4,424)	(1,283)	(2,598)	(10,225)
Closing net book amount	71,595	22,482	3,417	5,295	102,789
At 31 March 2008					
Cost	139,638	71,542	55,301	23,049	289,530
Accumulated depreciation	(68,043)	(49,060)	(51,884)	(17,754)	(186,741)
Net book amount	71,595	22,482	3,417	5,295	102,789

(expressed in Hong Kong Dollars)

10. Property, plant and equipment (Continued)

Authority

	Buildings	Leasehold improvements	Plant and machinery	Furniture, equipments and motor vehicles	Total
	$'000	$'000	$'000	$'000	$'000
At 1 April 2006					
Cost	93,486	21,133	31,674	20,366	166,659
Accumulated depreciation	(65,346)	(11,905)	(29,568)	(15,518)	(122,337)
Net book amount	28,140	9,228	2,106	4,848	44,322
Year ended 31 March 2007					
Opening net book amount	28,140	9,228	2,106	4,848	44,322
Additions	298	5,882	2,489	2,712	11,381
Depreciation	(777)	(1,242)	(729)	(2,545)	(5,293)
Closing net book amount	27,661	13,868	3,866	5,015	50,410
At 31 March 2007					
Cost	93,784	27,015	34,163	21,729	176,691
Accumulated depreciation	(66,123)	(13,147)	(30,297)	(16,714)	(126,281)
Net book amount	27,661	13,868	3,866	5,015	50,410
Year ended 31 March 2008					
Opening net book amount	27,661	13,868	3,866	5,015	50,410
Additions	-	2,027	762	2,878	5,667
Transfer from properties held for sales	45,854	503	-	-	46,357
Disposals	-	(106)	(50)	(4)	(160)
Depreciation	(1,920)	(2,265)	(1,161)	(2,595)	(7,941)
Closing net book amount	71,595	14,027	3,417	5,294	94,333
At 31 March 2008					
Cost	139,638	29,372	34,843	22,975	226,828
Accumulated depreciation	(68,043)	(15,345)	(31,426)	(17,681)	(132,495)
Net book amount	71,595	14,027	3,417	5,294	94,333

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

(expressed in Hong Kong Dollars)

11. Properties acquired pending redevelopment

	Group and Authority	
	2008	2007
	$'000	$'000
Leasehold land	7,464	10,560
Building cost	68	189
Provision for impairment	-	(223)
	7,532	10,526

The Group's and the Authority's interests in leasehold land, which are located in Hong Kong, represent prepaid operating lease payments and their net book value are analysed as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
Leases of over 50 years	6,622	9,697
Leases of between 10 to 50 years	842	863
	7,464	10,560

(expressed in Hong Kong Dollars)

12. Properties under development

	Group and Authority	
	2008	2007
	$'000	$'000
Cost of properties acquired for redevelopment (Note (a))		
- leasehold land	4,245,965	3,451,379
- other cost	378,119	350,943
Development expenditure	111,594	63,490
Total cost (includes accumulated interest and other borrowing costs capitalised of $286,000 (2007: $286,000))	4,735,678	3,865,812
Provision for impairment	(248,046)	(301,446)
	4,487,632	3,564,366

The Group's and the Authority's interests in leasehold land, which are located in Hong Kong, represent prepaid operating lease payments and their net book value are analysed as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
Leases of over 50 years	3,219,434	2,706,593
Leases of between 10 to 50 years	1,026,531	744,786
	4,245,965	3,451,379

Note (a):
In March 2001, the Finance Committee of the Legislative Council approved, inter alia, the revised basis for calculating the Home Purchase Allowance ("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 flat, defined as a seven-year-old flat in a comparable building in a similar locality. The HPA paid represents the difference between the open market values of the notional flat and the acquired property at the offer date.

(expressed in Hong Kong Dollars)

13. Subsidiaries

	Authority	
	2008	2007
	$'000	$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries (Note (a))	21,024	21,719
Less: Provision	(12,894)	-
	8,131	21,720

Note (a):
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:

	Issued share capital	
Name	Number	Par value per share
Ally Town Investment Limited	2	$1
Doddington Limited	2	$10
Jonava 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.

14. Jointly controlled development projects

	Group and Authority	
	2008	2007
	$'000	$'000
Amounts due from jointly controlled development projects	65,685	739,425
Amounts due to jointly controlled development projects	(58,495)	(25,576)
	7,190	713,849
Less : Current portion	(7,190)	(234,043)
Non-current portion	-	479,806

14. Jointly controlled development projects (Continued)

The Group and the Authority have the following jointly controlled development projects as at 31 March 2008.

Project Name / Location	Land use	Total gross floor area (m^2)	Actual / Expected completion date (calendar year)
Queen's Terrace (Sheung Wan)	Commercial / Residential	67,433	2003 (Site A) 2002 (Site B)
The Merton (Kennedy Town)	Residential	65,204	2005
The Zenith (Wan Chai)	Commercial / Residential	62,307	2006 (Site A & B) 2012 (Site C)
8 Waterloo Road (Yau Ma Tei)	Residential	33,662	2004
Hanoi Road (Tsim Sha Tsui)	Commercial / Hotel / Service Apartment	103,840	2008
Mount Davis 33 (Kennedy Town)	Residential	7,281	2006
Vision City / Citywalk (Tsuen Wan)	Commercial / Residential	137,885	2007
Yeung Uk Road (Tsuen Wan)	Commercial / Residential	44,404	2008
J Residence / J Senses (Wan Chai)	Commercial / Residential	20,567	2007
Cherry Street (Tai Kok Tsui)	Commercial / Residential	43,231	2008
Fuk Wing Street / Fuk Wa Street (Sham Shui Po)	Commercial / Residential	12,703	2008
Beacon Lodge (Sham Shui Po)	Commercial / Residential	12,784	2008
MOD 595 (Mong Kok)	Commercial / Residential	4,921	2007

(expressed in Hong Kong Dollars)

14. Jointly controlled development projects (Continued)

Project Name / Location	Land use	Total gross floor area (m^2)	Actual / Expected completion date (calendar year)
First Street / Second Street (Sai Ying Pun)	Commercial / Residential	38,707	2009
Larch Street / Bedford Road (Tai Kok Tsui)	Commercial / Residential	10,363	2009
Queen's Road East (Wan Chai)	Commercial / Residential	3,977	2010
Larch Street / Fir Street (Tai Kok Tsui)	Commercial / Residential	19,753	2011

The Authority is entitled to returns which are predetermined in accordance with the provisions of the joint venture contracts.

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 a percentage of any net proceeds derived from the operation of the commercial portions before the sale and would also share the future sales proceeds at the same ratio. As at 31 March 2008, 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 $2,481,380,000 in aggregate and the Authority would account for its share of sales proceeds as surplus from the joint development projects when the commercial portions are sold in future.

15. Building rehabilitation loans

At 31 March 2008, the building rehabilitation loans are analysed as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
Current portion	21,008	12,553
Non-current portion	66,855	43,383
	87,863	55,936

15. Building rehabilitation loans (Continued)

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. Loans of amounts between $25,001 and $100,000 are subject to legal charges over the properties in favour of the Authority.

As of 31 March 2008, building rehabilitation loans of $62,000 (2007: $44,000) were past due but not impaired. These relate to a number of borrowers for whom there are no recent history of default. The aging analysis of these building rehabilitation loans is as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
Less than 3 months	31	41
3 to 6 months	31	3
Balance at 31 March	62	44

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

16. Properties held for sale

	Group and Authority	
	2008	2007
	$'000	$'000
Leasehold land	11,473	218,238
Building cost	3,397	54,714
Provision for impairment	(441)	(1,418)
	14,429	271,534

The Group's and the Authority's interests in leasehold land, which are located in Hong Kong, represent prepaid operating lease payments and their net book value are analysed as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
Leases of over 50 years	6,428	6,435
Leases of between 10 to 50 years	5,045	211,803
	11,473	218,238

The carrying amounts of properties held for sale which are carried at net realisable value amounted to $6,780,000 (2007:$5,927,000).

(expressed in Hong Kong Dollars)

17. Trade and other receivables

At 31 March 2008, the trade and other receivables are analysed as follows:

	Group		Authority	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at 31 March	104,320	71,922	104,198	71,818

As of 31 March 2008, trade receivables of $302,000 (2007: $151,000) were past due but not impaired. These relate to a number of tenants for whom there are no recent history of default. The aging analysis of these trade receivables is as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
3 months or less	221	125
3 to 6 months	49	10
6 to 12 months	20	10
Over 1 year	12	6
Balance at 31 March	302	151

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

18. Cash and bank balances

	Group		Authority	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Time deposits with banks				
Maturities of 3 months or less	2,490,135	3,925,410	2,486,617	3,922,000
Maturities more than 3 months	8,379,000	4,006,000	8,379,000	4,006,000
Sub-total	10,869,135	7,931,410	10,865,617	7,928,000
Less: Amounts held in trust for jointly controlled development projects	(3,518)	(3,410)	-	-
	10,865,617	7,928,000	10,865,617	7,928,000
Cash at banks and in hand	5,413	4,468	5,412	4,456
Less: Amounts held in trust for jointly controlled development projects	(1)	(1)	-	-
	5,412	4,467	5,412	4,456
	10,871,029	7,932,467	10,871,029	7,932,456
Maximum exposure to credit risk	10,871,014	7,932,452	10,871,014	7,932,441

18. Cash and bank balances (Continued)

The average effective interest rate of time deposits with banks was 4.11% per annum (2007: 4.36% per annum). These deposits have an average maturity of 192 days (2007: 154 days).

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

	Group		Authority	
	2008	2007	2008	2007
Rating (Moody's)	$'000	$'000	$'000	$'000
Aaa	-	395,000	-	395,000
Aa1	1,620,626	-	1,620,626	-
Aa2	929,000	1,399,007	929,000	1,399,007
Aa3	3,144,025	800,000	3,144,025	800,000
A1	1,236,002	482,000	1,236,002	482,000
A2	2,921,132	2,989,193	2,921,132	2,989,193
A3	800,229	1,795,252	800,229	1,795,241
Baa1	220,000	-	220,000	-
Baa2	-	72,000	-	72,000
	10,871,014	7,932,452	10,871,014	7,932,441

19. 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 2008, the Authority had received all five tranches of capital injection of $2 billion each.

20. Provision for committed projects

	Group and Authority
	2008
	$'000
Balance at 1 April	-
Charged to the income and expenditure account	1,089,000
Balance at 31 March	1,089,000

The amount represents the provision for committed projects where offers have been issued to owners before financial year end. The provision charge is recognised in the income and expenditure account. The balance at 31 March 2008 is current in nature.

(expressed in Hong Kong Dollars)

21. 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 contributes at 10% to 15% 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 2008 was $8,925,000 (2007: $7,976,000), net of forfeitures of $622,000 (2007: $888,000), which has been charged to the Group's income and expenditure account for the year.

22. Commitments

(a) Capital commitments

Capital commitments in respect of property, plant and equipment at 31 March 2008 were as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
Contracted but not provided for	123	978
Authorised but not contracted for	-	263
	123	1,241

(b) Operating lease commitments

At 31 March 2008, the total future minimum lease payments under non-cancellable operating leases in respect of office premises are payable as follows:

	Group and Authority	
	2008	2007
	$'000	$'000
Within 1 year	15,554	9,438
After 1 year but within 5 years	32,568	330
	48,122	9,768

22. Commitments (Continued)

(c) Operating lease rental receivable

At 31 March 2008, the future aggregate minimum lease rental receipts under non-cancellable operating leases in respect of properties are receivable as follows:

	Group		Authority	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Within 1 year	22,304	11,366	22,182	9,982
After 1 year but within 5 years	20,915	8,979	20,908	8,864
	43,219	20,345	43,090	18,846

23. 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 enterprises 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 $24,606,000 (2007: $23,198,000) for actual costs incurred by the Lands Department of the Government (the "Lands Department") in connection with resumption and site clearance work conducted for the Authority. As at 31 March 2008, there is an amount of $1,930,000 (2007: $1,949,000) 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).

24. Approval of financial statements

The financial statements were approved by the Board on 16 June 2008.