

完善房屋 階梯 提升居住 質素  
Enhancement of the  
Housing **L**adder  
Betterment of **Living Quality**



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**Hong Kong Housing Authority** 33 Fat Kwong Street, Ho Man Tin, Kowloon, Hong Kong

[www.housingauthority.gov.hk](http://www.housingauthority.gov.hk)

# Hong Kong Housing Authority

Financial statements for the year ended 31 March 2019

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# Report of the Director of Audit



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## Independent Auditor's Report

### *Opinion*

I have audited the financial statements of the Hong Kong Housing Authority set out on pages 4 to 57, which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Hong Kong Housing Authority are prepared, in all material respects, in accordance with the Financial Arrangements with the Hong Kong Government and the accounting policies approved by the Hong Kong Housing Authority, the important features of which are set out in Notes 1 and 2 to the financial statements, and have been properly prepared in accordance with section 14(1) of the Housing Ordinance (Cap. 283).

### *Basis for opinion*

I conducted my audit in accordance with section 14(2) of the Housing Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Hong Kong Housing Authority in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### *Responsibilities of the Hong Kong Housing Authority for the financial statements*

The Hong Kong Housing Authority is responsible for the preparation of the financial statements in accordance with section 14(1) of the Housing Ordinance, the Financial Arrangements with the Hong Kong Government and the accounting policies approved by the Hong Kong Housing Authority, and for such internal control as the Hong Kong

Housing Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Hong Kong Housing Authority is responsible for assessing its ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Hong Kong Housing Authority is assisted by its Finance Committee in discharging its responsibilities for overseeing the financial reporting process.

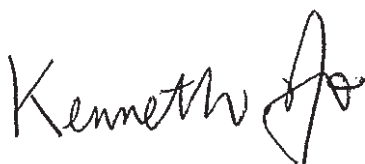
### *Auditor's responsibilities for the audit of the financial statements*

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hong Kong Housing Authority's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Hong Kong Housing Authority; and

- conclude on the appropriateness of the Hong Kong Housing Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hong Kong Housing Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Hong Kong Housing Authority to cease to continue as a going concern.



Kenneth Ho  
Director of Audit (Acting)

24 September 2019

Audit Commission  
26th Floor  
Immigration Tower  
7 Gloucester Road  
Wanchai, Hong Kong



**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2019**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2019	2018
<b>Income</b>			
Rental income	4(a)	19,474	18,214
Sales and premium income	4(b)	9,694	9,969
Investment income	4(c)	1,630	2,171
Other income	4(d)	337	266
		<u>31,135</u>	<u>30,620</u>
<b>Expenditure</b>			
Personal emoluments		3,999	3,802
Government rent and rates		316	426
Maintenance and improvements		3,708	3,398
Depreciation and amortisation		4,359	4,175
Expenditure on subsidised sale flats	5	6,292	4,776
Other recurrent expenditure		5,543	5,347
		<u>24,217</u>	<u>21,924</u>
<b>Operating surplus</b>		<b>6,918</b>	<b>8,696</b>
<b>Net non-operating income</b>	6	<u>11</u>	<u>7</u>
<b>Surplus for the year</b>		<b>6,929</b>	<b>8,703</b>
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u><b>6,929</b></u>	<u><b>8,703</b></u>

The notes on pages 10 to 57 form part of these financial statements.

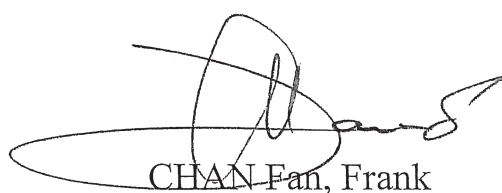
**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2019**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2019	2018
<b>Non-current assets</b>			
Property, plant and equipment	7	154,473	138,644
Capital works/projects in progress	8	33,986	42,829
Intangible assets	9	158	124
Placements with the Exchange Fund	10	32,853	29,494
Home Purchase/Assistance Loans	11	16	22
		<u>221,486</u>	<u>211,113</u>
<b>Current assets</b>			
Inventories	12	3,262	1
Debtors, deposits and prepayments	13	469	619
Amount due from the Government	22(b)	6	2
Investments in securities and bank deposits	14	9,360	15,610
Bank balances and cash	15	477	381
		<u>13,574</u>	<u>16,613</u>
<b>Current liabilities</b>			
Creditors, deposits and other payables	16	7,839	7,240
Amount due to the Government	22(c)	1,649	1,376
Provisions and other liabilities	17	2,398	2,184
		<u>11,886</u>	<u>10,800</u>
<b>Net current assets</b>		<u>1,688</u>	<u>5,813</u>
<b>Total assets less current liabilities</b>		223,174	216,926
<b>Non-current liabilities</b>			
Provisions and other liabilities	17	542	420
<b>Net assets</b>		<u>222,632</u>	<u>216,506</u>

The notes on pages 10 to 57 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2019 (Continued)**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2019	2018
<b>Representing:</b>			
Government's permanent capital	1(a)	<b>13,489</b>	13,489
Government's contribution	18(a)	<b>5,454</b>	5,454
Capital reserve		<b>12</b>	12
Accumulated surplus		<b>136,791</b>	117,785
Housing Capital Works Fund	19	<b>43,774</b>	54,441
Development Fund	20	<b>23,112</b>	25,325
		<u><b>222,632</b></u>	<u>216,506</u>



CHAN Fan, Frank

Chairman

Hong Kong Housing Authority

24 September 2019

The notes on pages 10 to 57 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 31 MARCH 2019**  
**(Expressed in millions of Hong Kong dollars)**

	Government's permanent capital	Government's contribution	Capital reserve	Accumulated surplus	Housing Capital Works Fund	Development Fund	Total
<b>Balance at 1 April 2017</b>	13,489	5,454	12	111,337	49,335	28,862	208,489
Total comprehensive income for the year	-	-	-	8,703	-	-	8,703
Dividend to the Government for the year	-	-	-	(686)	-	-	(686)
Transfers	-	-	-	(1,569)	5,106	(3,537)	-
<b>Balance at 31 March 2018</b>	<u>13,489</u>	<u>5,454</u>	<u>12</u>	<u>117,785</u>	<u>54,441</u>	<u>25,325</u>	<u>216,506</u>
<b>Balance at 1 April 2018</b>	<b>13,489</b>	<b>5,454</b>	<b>12</b>	<b>117,785</b>	<b>54,441</b>	<b>25,325</b>	<b>216,506</b>
Total comprehensive income for the year	-	-	-	<b>6,929</b>	-	-	<b>6,929</b>
Dividend to the Government for the year	-	-	-	<b>(803)</b>	-	-	<b>(803)</b>
Transfers	-	-	-	<b>12,880</b>	<b>(10,667)</b>	<b>(2,213)</b>	-
<b>Balance at 31 March 2019</b>	<u>13,489</u>	<u>5,454</u>	<u>12</u>	<u>136,791</u>	<u>43,774</u>	<u>23,112</u>	<u>222,632</u>

The notes on pages 10 to 57 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2019**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2019	2018
<b>Cash flows from operating activities</b>			
Surplus for the year		<b>6,929</b>	8,703
Adjustments for:			
Investment income	4(c)	<b>(1,630)</b>	(2,171)
Expenditure on divestment of retail and carparking facilities	6	-	5
Depreciation of property, plant and equipment		<b>4,283</b>	4,090
Amortisation of intangible assets		<b>97</b>	115
Written down value of Tenants Purchase Scheme flats sold		<b>76</b>	108
Adjustment of capital expenditure		<b>1</b>	7
Decrease in Home Purchase/Assistance Loans		<b>9</b>	12
Decrease in impairment allowance for Home Purchase/ Assistance Loans		<b>(2)</b>	(1)
Decrease/(Increase) in subsidised sale flats (Domestic) properties under development		<b>2,175</b>	(1,699)
(Increase)/Decrease in inventories		<b>(3,261)</b>	17
Decrease in securities at fair value		<b>107</b>	831
Decrease in debtors, prepayments and other receivables		<b>18</b>	448
Increase in creditors, accruals and other payables		<b>881</b>	649
Increase/(Decrease) in provisions and other liabilities		<b>80</b>	(76)
<b>Net cash from operating activities</b>		<b><u>9,763</u></b>	<u>11,038</u>

The notes on pages 10 to 57 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2019 (Continued)**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2019	2018
<b>Cash flows from investing activities</b>			
(Increase)/Decrease in placements with the Exchange Fund		<b>(3,359)</b>	11,835
Decrease/(Increase) in bank deposits with original maturities over 3 months		<b>5,376</b>	(5,376)
Payments relating to divestment of retail and carparking facilities		-	(5)
Payments relating to capital works/projects in progress			
-New public rental housing		<b>(10,030)</b>	(11,271)
-Redeveloped public rental housing		<b>(2,236)</b>	(2,767)
-Subsidised sale flats (Commercial)		<b>(387)</b>	(380)
-Housing Authority offices		<b>(26)</b>	(7)
-Motor vehicles		-	(1)
-Computer systems		<b>(134)</b>	(120)
-Improvement works		<b>(584)</b>	(674)
Interest received		<b>1,564</b>	1,174
Dividends received		<b>73</b>	64
<b>Net cash used in investing activities</b>		<b><u>(9,743)</u></b>	<b><u>(7,528)</u></b>
<b>Cash flows from financing activities</b>			
Dividend paid to the Government		<b>(812)</b>	(714)
<b>Net cash used in financing activities</b>		<b><u>(812)</u></b>	<b><u>(714)</u></b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(792)</b>	2,796
<b>Cash and cash equivalents at beginning of year</b>		<b><u>6,399</u></b>	<b><u>3,603</u></b>
<b>Cash and cash equivalents at end of year</b>	15	<b><u><u>5,607</u></u></b>	<b><u><u>6,399</u></u></b>

The notes on pages 10 to 57 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

**1 FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT**

The Hong Kong Housing Authority (the Authority) was established as a statutory body in April 1973 under the Housing Ordinance (Cap. 283). It exercises its powers and discharges its duties under the Ordinance so as to secure the provision of housing and such amenities ancillary thereto as it thinks fit. Following enactment of the Housing (Amendment) Ordinance 1988 and implementation of the Authority's re-organisation, the financial arrangements between the Government and the Authority came into effect on 1 April 1988. A Supplemental Agreement to the 1988 Financial Arrangements was effective from 1 October 1994, and further revisions have also been made thereafter in respect of new initiatives in the provision of housing. The salient features of the financial arrangements are as follows:

**(a) Government's non-interest bearing permanent capital**

A sum of HK\$13,489 million representing that element of the permanent capital originating from the capitalisation of loans from the former Development Loan Fund has been converted into non-interest bearing permanent capital with effect from 1 October 1994.

**(b) Government's contribution**

The Government's contribution to domestic housing and non-domestic equity included in the accounts is shown in Note 18(a).

The land value for the domestic element of public rental housing, the difference between the land value (at full market value) and the land cost charged by the Government for the domestic element of the Home Ownership Scheme (HOS), Buy Or Rent Option Scheme (BRO), Tenants Purchase Scheme (TPS) and Green Form Subsidised Home Ownership Scheme (GSH), and the land value for the

non-domestic elements in rental estates and HOS, BRO and GSH courts (i.e. car parks and commercial facilities) are not included in the accounts but included as memorandum entries in Note 18(b).

**(c) Dividend to the Government**

The overall surplus arising from the operation of non-domestic facilities in rental estates and HOS/BRO/GSH courts are to be shared equally between the Authority and the Government and distributed to the Government in the form of dividend.

**(d) Contingent liabilities for the Home Ownership Scheme and the Private Sector Participation Scheme**

The Authority took over since 1 April 1988 from the Government the contingent liabilities for mortgage default guarantees in respect of flats built under the HOS and the Private Sector Participation Scheme (PSPS) (Note 23(a)), and for unsold flats and the shortfall in selling price under the PSPS.

**(e) Construction and management of temporary housing and cottage areas**

With effect from 1 April 1988, the Housing Authority has:

- (i) become responsible for meeting expenditure arising from the development, construction and management of temporary housing areas and transit centres, and the management of cottage areas; and
- (ii) undertaken clearance, squatter control and maintenance of facilities provided under Squatter Area Improvement Programmes, on an agency basis, for the Government which remains responsible for the funding of these activities.

All temporary housing areas had been demolished by August 2001. Effective from April 2006, except for the activity on rehousing of occupants upon clearance,



the squatter control and clearance functions were transferred to the Lands Department.

**(f) Housing Capital Works Fund**

The Housing Capital Works Fund, established on 1 April 1993 to separate the funding for the acquisition and/or construction of all the Authority's fixed assets and developments of the HOS, has been expanded to finance the capital costs of major improvement works. Accordingly, it is split into two accounts, viz. the Construction Account to cover the construction of housing estates and developments of the HOS, and the Improvement Account to provide funds for improving the standard of existing estates and implementing better community services in the estates.

Each of these two accounts is required to maintain an adequate level of operating funds - the Construction Account at a level equivalent to six months' estimated expenditure, and the Improvement Account at an annual balance of HK\$2 billion.

**(g) Development Fund**

The Development Fund was established with effect from 1 October 1994 to finance the development of housing and housing-related projects and infrastructure that would further the policy of providing adequate and affordable housing for those in need of housing provision.

With the prior agreement of the Authority, the Government has the right to pay into the Development Fund such additional sum of money that might be needed to support the purposes of the Fund.

## **2 SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements have been prepared in accordance with the Housing Ordinance, the 1988 Financial Arrangements and the 1994 Supplemental Agreement with the Government, and the accounting policies approved by the Authority.

#### **(i) Measurement basis**

The measurement basis used in the preparation of the financial statements is historical cost except for securities managed by external fund managers, which are stated at their fair value as explained in the accounting policies set out at Note 2(i).

#### **(ii) Management judgements and estimates**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of the Authority's accounting policies that have significant impact on the financial statements are explained in Note 3.

**(b) Income recognition**

The income for the year is accounted for in accordance with the following accounting policies:

(i) Rental income

Rental income from properties is brought into account in the period to which it relates;

(ii) Sales and premium income

This includes:

- proceeds from the sale of HOS/GSH flats which is recognised upon signing of the Deed of Assignment;
- proceeds from the sale/resale of flats under the TPS which is recognised upon signing of the Deed of Assignment; and
- premium payments from owners of HOS/PSPS/BRO/TPS/GSH flats (collectively referred to as subsidised sale flats) which are recognised as income when the alienation restrictions on the flats are removed;

(iii) Interest income

Interest income is recognised on an accrual basis using the effective interest method;

(iv) Dividend income

Dividend income is recognised on the ex-dividend date;

(v) Fees and charges

Fees and charges are recognised as income when the Authority satisfies a performance obligation by transferring a promised service to a customer, at the amount of consideration to which the Authority expects to be entitled in exchange for the service.

(vi) Income from agency functions and services

Income generated from the agency functions and services of the Authority is brought into account in the period to which it relates.

**(c) Property, plant and equipment**

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation. The following items of property, plant and equipment are utilised in the provision of public housing services and ancillary commercial facilities:

(i) Buildings and improvement works

Buildings are classified into three categories:

Rental Premises (excluding Interim Housing)

'HKHA' Estates of the present as well as the former Hong Kong Housing Authority plus additions thereto since 1 April 1973, including the estates taken over from the Hong Kong Model Housing Society.

'HOS(ND)' Non-domestic premises of the HOS/BRO/GSH.

'RD' Estates of the former Resettlement Department including flatted factories plus additions thereto since 1 April 1973.

Interim Housing

'IH' Accommodation of transitional nature but the structures may be permanent.

Others

'HO' Head Office buildings.

'SQ' Staff quarters.

Buildings and improvement works costing HK\$500,000 or more each are recognised as assets on the following bases:

'HKHA', 'HOS(ND)', 'HO' and 'IH' - At cost to the Authority;

'RD' - For those formerly classified as Marks I, II and III estates and factories (other than factories completed after 31 March 1973), at nil value; for other estates completed before 1 April 1973, at deemed cost equal to written down value at 31 March 1973; and for estates completed after 31 March 1973, at cost to the Authority; and

'SQ' - At deemed cost equal to written down value at 31 March 1976 to the Authority.

(ii) Computer equipment, electronic equipment and motor vehicles

Computer equipment (including both hardware and software), electronic equipment and motor vehicles costing HK\$500,000 or more each are recognised as assets at cost. For computer equipment, the costs of the hardware (including its integrated software) and software are segregated and recognised under “property, plant and equipment” and “intangible assets” (Note 2(f)) respectively.

While each subsequent expenditure item of HK\$500,000 or more for improvement of an existing item of property, plant and equipment is added to the carrying amount of the asset if future economic benefits will flow to the Authority,

computer equipment enhancement costs are not subject to the HK\$500,000 capitalisation threshold.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and its carrying amount and are recognised in the statement of comprehensive income on the date of retirement or disposal.

**(d) Depreciation**

Depreciation is calculated using the straight-line basis to allocate the cost of an item of property, plant and equipment, less its estimated residual value, if any, over its estimated useful life, as follows:

	<u>Expected useful life</u>
(i) Buildings	50 years
(ii) All building improvements and other improvement works	The remaining life of the building upon completion of the improvement works.
(iii) Computer equipment and electronic equipment	5 years
(iv) Motor vehicles	6 to 9 years

**(e) Capital works/projects in progress**

This includes expenditure incurred on properties or computer equipment under development, improvement works and acquisition of property, plant and equipment, and financed by the Housing Capital Works Fund and the Development Fund. When the capital works are completed, the costs are reclassified as items of “property, plant and equipment” or “intangible assets”. When the HOS/GSH (Domestic) projects are completed, the related costs are transferred to “inventories”. Expenditure on improvement works costing less than HK\$500,000 each is expensed to the statement of comprehensive income when incurred.

**(f) Intangible assets**

Intangible assets include acquired computer software licences and capitalised development costs of computer software programs. Expenditure on development of computer software programs is capitalised if the programs are technically feasible and the Authority has sufficient resources and the intention to complete development. The expenditure capitalised includes the direct labour costs and costs of materials. Intangible assets are stated at cost less accumulated amortisation.

Amortisation of intangible assets is charged to the statement of comprehensive income on a straight-line basis over the assets' estimated useful lives of 5 years.

**(g) Land**

**(i) Land under lease**

The Authority has the proper legal title to land in all the HOS/BRO/GSH non-domestic properties, rental flats of TPS estates, certain rental housing estates, rental blocks in some courts, two Head Office buildings at Fat Kwong Street, the customer service centre at Wang Tau Hom and the office at Chun Wah Court, either by way of Crown/Government Lease, or under Conditions of Grant or Exchange.

Leasehold land premiums are up-front payments to acquire leasehold land or land use right. The premiums are stated at cost and are depreciated over the period of the lease on a straight-line basis.

**(ii) Land under vesting order**

For land not under lease, vesting orders have been made by the Director of Lands, acting on delegated authority from the Chief Executive, under Section 5 of the Housing Ordinance. Such vesting orders confer on the Authority full powers of control and management of the land.

(iii) Land value

The value of land included in Note 18(b) in accordance with the financial arrangements with the Government (Note 1(b)) is determined on the following bases:

'HKHA', 'IH' and 'RD'<sup>1</sup> and Government Low Cost Housing - The land value is based on the assessments made by the Commissioner of Rating and Valuation using the residual method of valuation, being either at 1976 levels or at the time of handover for management where the estate was completed after 1976. Where the Commissioner of Rating and Valuation has not been able to provide a valuation, a provisional land valuation is made by applying a multiplier to the provisional rateable value of the estate assessed by the Commissioner of Rating and Valuation.

'HOS(Domestic)' - The land value associated with the domestic element of the HOS/BRO/TPS/GSH is the difference between the land value (at full market value) and the land cost.

'HOS(ND)'<sup>1</sup> - Prior to 1 April 1988, the land for commercial facilities was valued at the full market value at the date the land was purchased, and the land for carparks completed before that date was assessed at nil value. With effect from 1 April 1988, the land value for non-domestic facilities including commercial facilities and carparks is based on the assessments made by the Commissioner of Rating and Valuation at the date of completion of the facilities using the residual method of valuation.

'HO'<sup>1</sup> - For one of the Head Office buildings at Fat Kwong Street, the customer service centre at Wang Tau Hom and the office building in upper Wong Tai Sin, the land value is based on assessment made by the Lands Department at the date of completion of the buildings.

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<sup>1</sup> Abbreviations of the building types are shown in Note 2(c).



'SQ'<sup>1</sup> - Land value is based on assessments made by the Commissioner of Rating and Valuation using the residual method of valuation at 1976 level.

**(h) Placements with the Exchange Fund**

Placements with the Exchange Fund for investment purpose include the total principal sums and any interest credited but not yet withdrawn at the reporting date. The balance is measured at amortised cost.

**(i) Investments in securities**

Securities managed by external fund managers are measured at fair value through surplus or deficit as they are managed, evaluated and reported internally on a fair value basis. Investments in these securities are initially stated at fair value. At each reporting date, the fair value is remeasured and any change in fair value is recognised in the statement of comprehensive income. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the statement of comprehensive income.

Purchases and sales of investments in securities are accounted for at trade date.

**(j) Other financial assets**

Other financial assets are initially recognised at fair value and thereafter measured at amortised cost less impairment losses (Note 2(k)), except for the interest-free amount due from the Government and the interest-free loans made under subsidised home ownership schemes or where the effect of discounting would be immaterial. In those cases, they are stated at cost less impairment losses (Note 2(k)).

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<sup>1</sup> Abbreviations of the building types are shown in Note 2(c).

**(k) Impairment of other financial assets**

The Authority measures expected credit losses on other financial assets (other than debtors), and recognises the corresponding loss allowances and impairment losses or reversals, based on the change in credit risk since initial recognition. Expected credit losses are measured on either of the following bases:

- (i) 12-month expected credit losses – these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- (ii) lifetime expected credit losses – these are losses that are expected to result from all possible default events over the expected life of the financial instrument.

Loss allowances for debtors are always measured at an amount equal to lifetime expected credit losses.

At each reporting date, the Authority assesses whether there has been a significant increase in credit risk for financial instruments since initial recognition by comparing the risk of default occurring over the remaining expected life as at the reporting date with that as at the date of initial recognition. The assessment considers quantitative and qualitative historical information as well as forward-looking information. A financial asset is assessed to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Expected credit losses of a financial instrument are an unbiased and probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows due to the Authority in accordance with the contract and the cash flows that the Authority expects to receive. For a financial asset that is credit impaired at the reporting date, the Authority measures the expected credit losses as the difference between the asset's gross carrying amount

and the present value of estimated future cash flows discounted at the asset's original effective interest rate (for financial assets measured at amortised cost), or at the current market rate of return for a similar financial asset (for financial assets stated at cost).

**(l) Inventories**

Inventories consist of unsold HOS/GSH flats, stores and spares. They are carried at the lower of cost and net realisable value.

The net realisable value of unsold HOS/GSH flats represents the estimated selling price less costs to be incurred in selling the flats. When flats are sold, the carrying amount of those flats is recognised as an expense in the year in which the related sales income is recognised.

The cost of stores and spares is mainly determined by the weighted average cost method. Obsolete stores and spares are written off to the statement of comprehensive income. When stores and spares are consumed, the carrying amount of those stores and spares is recognised as an expense in the year in which the consumption occurs.

**(m) Cash and cash equivalents**

Cash and cash equivalents consist of bank balances and cash, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, normally having a maturity of three months or less from the date of acquisition.

**(n) Creditors and other financial liabilities**

Creditors and other financial liabilities are measured at amortised cost except for the interest-free amount due to the Government or where the effect of discounting would be immaterial. In those cases, they are stated at cost.

**(o) Employee benefits**

Employee benefits such as wages, salaries and bonuses are recognised as an expense when the employee has rendered the service. Obligations on contract-end gratuities payable to contract staff for services rendered during the year are provided for in the financial statements.

Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Contributions to the Mandatory Provident Fund for contract staff are expensed as incurred. Pension liabilities for civil servants are discharged by reimbursement to the Government as part of the civil servants' staff costs charged by the Government to the Authority on a monthly basis.

**(p) Foreign currency translation**

Foreign currency transactions during the year are translated into Hong Kong dollars using the spot exchange rates at the transaction dates. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars using the closing exchange rates at the reporting date. Exchange gains and losses are recognised in the statement of comprehensive income.

**(q) Financial guarantees issued, provisions and contingent liabilities**

**(i) Financial guarantees issued**

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The mortgage default guarantees issued by the Authority in connection with the sale of subsidised sale flats and in respect of

mortgage loans made by banks and other authorised financial institutions are a form of financial guarantees.

No deferred income is recognised as the mortgage default guarantees are issued at nil consideration and their fair value cannot be reliably measured.

Provisions for mortgage default guarantee payments are recognised if and when it becomes probable that the holder of a guarantee will call upon the Authority under the guarantee and a reliable estimate can be made of the amount. For guarantees without such provisions recognised, the Authority's present obligations under the guarantees are disclosed as contingent liabilities.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities (including maintenance and minor improvements) when the Authority has a present obligation as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, the provision is stated at the present value of the expenditure expected to settle the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the present obligation is disclosed as a contingent liability, unless the probability of the outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of an outflow of economic benefits is remote.

**(r) Related parties**

A party is considered to be related to the Authority if the Authority has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Authority and the party are subject to common control.

**(s) Taxation**

According to Section 34(1) of the Housing Ordinance, the Authority shall, for the purpose of this Ordinance, be exempt from the Inland Revenue Ordinance (Cap. 112).

**3 CRITICAL ACCOUNTING JUDGEMENT IN APPLYING THE AUTHORITY'S ACCOUNTING POLICIES**

**Rental premises**

In management's view, the Authority uses rental premises for providing subsidised public housing rather than earning rentals. As a result, they are accounted for as items of property, plant and equipment instead of investment properties. For the same reason, management considers that it is inappropriate to recognise any impairment loss of rental premises based on their recoverable amount.

#### 4 INCOME

	<u>2019</u>	<u>2018</u>
	HK\$M	HK\$M
<b>(a) Rental income</b>		
Rental housing	16,349	15,336
Commercial properties	<u>3,125</u>	<u>2,878</u>
	<u>19,474</u>	<u>18,214</u>
<b>(b) Sales and premium income</b>		
Sales of flats	8,428	8,690
Premium on removal of alienation restriction	<u>1,266</u>	<u>1,279</u>
	<u>9,694</u>	<u>9,969</u>
<b>(c) Investment income</b>		
Interest income from		
- placements with the Exchange Fund	<u>1,260</u>	1,152
- securities	8	5
- bank deposits	<u>169</u>	<u>95</u>
	1,437	1,252
Net realised and revaluation gains on securities	160	782
Net exchange (losses)/gains on		
- securities	<u>(40)</u>	<u>76</u>
- others	-	-
	<u>(40)</u>	<u>76</u>
Dividend income from securities	73	61
	<u>1,630</u>	<u>2,171</u>
<b>(d) Other income</b>		
Fees and charges	88	77
Miscellaneous income	<u>249</u>	<u>189</u>
	<u>337</u>	<u>266</u>
<b>Total income</b>	<u>31,135</u>	<u>30,620</u>

#### 4 INCOME (Continued)

##### Operating Leases Arrangements

The Authority leases out commercial properties under operating leases (except car-parks). The leases typically run for a period of three years. The rental income received during the year amounted to HK\$2,356 million (2018: HK\$2,178 million), including rents based on business turnover amounting to HK\$12 million (2018: HK\$10 million).

The future minimum lease income receivable by the Authority under non-cancellable operating leases for commercial properties is analysed as follows:

	<u>2019</u> HK\$M	<u>2018</u> HK\$M
Not later than one year	1,137	1,028
Later than one year but not later than five years	1,179	1,003
Later than five years	<u>58</u>	<u>29</u>
	<u>2,374</u>	<u>2,060</u>

#### 5 EXPENDITURE ON SUBSIDISED SALE FLATS

	<u>2019</u> HK\$M	<u>2018</u> HK\$M
Cost of flats sold		
- Construction cost and overheads	4,605	3,471
- Government land cost	1,667	1,282
- Cost of repurchased flats	<u>4</u>	<u>7</u>
	6,276	4,760
Adjustments to the interest payable on HPLS loans sold	1	-
Write-down of stock of unsold HOS/GSH flats	1	-
Other expenditure	<u>14</u>	<u>16</u>
	<u>6,292</u>	<u>4,776</u>

#### 6 NET NON-OPERATING INCOME

	<u>2019</u> HK\$M	<u>2018</u> HK\$M
Expenditure on divestment of retail and carparking facilities (Note 21)	-	(5)
Reimbursement from Urban Renewal Authority for the costs of the allocated rental flats for affected clearerees	19	9
Other (expenditure)/income	<u>(8)</u>	<u>3</u>
	<u>11</u>	<u>7</u>



## 7 PROPERTY, PLANT AND EQUIPMENT

	2019				2018			
	Rental Premises (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Others HK\$M	Total HK\$M	Rental Premises (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Others HK\$M	Total HK\$M
<b>(a) Lease premiums for land</b>								
Cost at beginning and end of year	105	-	57	162	105	-	57	162
Accumulated depreciation at beginning of year	(95)	-	(32)	(127)	(95)	-	(30)	(125)
Charge for the year	-	-	(1)	(1)	-	-	(2)	(2)
Accumulated depreciation at end of year	(95)	-	(33)	(128)	(95)	-	(32)	(127)
Net book value at end of year	10	-	24	34	10	-	25	35
<b>(b) Site formation</b>								
Cost at beginning of year	2,746	1	3	2,750	2,725	1	8	2,734
Additions	126	-	-	126	28	-	-	28
Disposals/Demolition	(7)	-	-	(7)	(7)	-	(5)	(12)
Cost at end of year	2,865	1	3	2,869	2,746	1	3	2,750
Accumulated depreciation at beginning of year	(1,300)	(1)	(1)	(1,302)	(1,261)	(1)	(6)	(1,268)
Charge for the year	(46)	-	-	(46)	(44)	-	-	(44)
Written back on disposals/demolition	5	-	-	5	5	-	5	10
Accumulated depreciation at end of year	(1,341)	(1)	(1)	(1,343)	(1,300)	(1)	(1)	(1,302)
Net book value at end of year	1,524	-	2	1,526	1,446	-	2	1,448
<b>(c) Buildings</b>								
Cost at beginning of year	193,667	614	1,810	196,091	185,113	571	1,846	187,530
Additions	19,531	-	14	19,545	8,904	-	-	8,904
Transfers	(15)	15	-	-	(43)	43	-	-
Disposals/Demolition	(235)	-	-	(235)	(307)	-	(36)	(343)
Cost at end of year	212,948	629	1,824	215,401	193,667	614	1,810	196,091
Accumulated depreciation at beginning of year	(60,969)	(242)	(902)	(62,113)	(57,756)	(215)	(908)	(58,879)
Charge for the year	(3,754)	(12)	(31)	(3,797)	(3,435)	(11)	(30)	(3,476)
Transfers	6	(6)	-	-	16	(16)	-	-
Written back on disposals/demolition	165	-	-	165	206	-	36	242
Accumulated depreciation at end of year	(64,552)	(260)	(933)	(65,745)	(60,969)	(242)	(902)	(62,113)
Net book value at end of year	148,396	369	891	149,656	132,698	372	908	133,978

## 7 PROPERTY, PLANT AND EQUIPMENT (Continued)

2019

2018

	2019			2018				
	Rental Premises (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Others HK\$M	Total HK\$M	Rental Premises (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Others HK\$M	Total HK\$M
<b>(d) Improvement works</b>								
Cost at beginning of year	6,082	-	134	6,216	4,194	-	132	4,326
Additions	439	-	54	493	1,898	-	2	1,900
Disposals	(8)	-	-	(8)	(10)	-	-	(10)
Cost at end of year	6,513	-	188	6,701	6,082	-	134	6,216
Accumulated depreciation at beginning of year	(2,967)	-	(101)	(3,068)	(2,450)	-	(100)	(2,550)
Charge for the year	(412)	-	(1)	(413)	(522)	-	(1)	(523)
Written back on disposals	4	-	-	4	5	-	-	5
Accumulated depreciation at end of year	(3,375)	-	(102)	(3,477)	(2,967)	-	(101)	(3,068)
Net book value at end of year	3,138	-	86	3,224	3,115	-	33	3,148
<b>(e) Computer equipment</b>								
Cost at beginning of year	-	-	404	404	-	-	391	391
Additions	-	-	24	24	-	-	17	17
Disposals	-	-	(1)	(1)	-	-	(4)	(4)
Cost at end of year	-	-	427	427	-	-	404	404
Accumulated depreciation at beginning of year	-	-	(373)	(373)	-	-	(333)	(333)
Charge for the year	-	-	(25)	(25)	-	-	(44)	(44)
Written back on disposals	-	-	1	1	-	-	4	4
Accumulated depreciation at end of year	-	-	(397)	(397)	-	-	(373)	(373)
Net book value at end of year	-	-	30	30	-	-	31	31
<b>(f) Electronic equipment</b>								
Cost at beginning of year	528	-	6	534	532	-	6	538
Disposals	(4)	-	-	(4)	(4)	-	-	(4)
Cost at end of year	524	-	6	530	528	-	6	534
Accumulated depreciation at beginning of year	(528)	-	(6)	(534)	(532)	-	(6)	(538)
Written back on disposals	4	-	-	4	4	-	-	4
Accumulated depreciation at end of year	(524)	-	(6)	(530)	(528)	-	(6)	(534)
Net book value at end of year	-	-	-	-	-	-	-	-
<b>(g) Motor vehicles</b>								
Cost at beginning of year	-	-	5	5	-	-	4	4
Additions	-	-	-	-	-	-	1	1
Cost at end of year	-	-	5	5	-	-	5	5
Accumulated depreciation at beginning of year	-	-	(1)	(1)	-	-	-	-
Charge for the year	-	-	(1)	(1)	-	-	(1)	(1)
Accumulated depreciation at end of year	-	-	(2)	(2)	-	-	(1)	(1)
Net book value at end of year	-	-	3	3	-	-	4	4
<b>Total net book value at end of year<sup>1</sup></b>	<b>153,068</b>	<b>369</b>	<b>1,036</b>	<b>154,473</b>	<b>137,269</b>	<b>372</b>	<b>1,003</b>	<b>138,644</b>
<sup>1</sup> Represented by assets of								
Domestic rental housing	142,007	369	-	142,376	127,891	372	-	128,263
Non-domestic facilities	11,061	-	-	11,061	9,378	-	-	9,378
Housing Authority office buildings and others	-	-	1,036	1,036	-	-	1,003	1,003
	<b>153,068</b>	<b>369</b>	<b>1,036</b>	<b>154,473</b>	<b>137,269</b>	<b>372</b>	<b>1,003</b>	<b>138,644</b>

## 8 CAPITAL WORKS/PROJECTS IN PROGRESS

### (a) Housing Capital Works Fund - Construction Account

	1 April 2018	Additions, reclassification and adjustments <sup>1</sup>	Transfer to other asset categories or expenditure	31 March 2019	1 April 2017	Additions, reclassification and adjustments <sup>1</sup>	Transfer to other asset categories or expenditure	31 March 2018
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
(i) Properties under development								
New public rental housing								
Site formation	213	25	(46)	192	176	64	(27)	213
Buildings	22,965	10,006	(14,738)	18,233	20,339	11,219	(8,593)	22,965
	23,178	10,031	(14,784)	18,425	20,515	11,283	(8,620)	23,178
Redeveloped public rental housing								
Site formation	224	11	(78)	157	210	14	-	224
Buildings	6,243	2,225	(4,299)	4,169	3,752	2,760	(269)	6,243
	6,467	2,236	(4,377)	4,326	3,962	2,774	(269)	6,467
Subsidised sale flats (Domestic)								
Site formation	71	26	(41)	56	89	19	(37)	71
Buildings	10,796	5,849	(7,754)	8,891	8,990	5,122	(3,316)	10,796
	10,867	5,875	(7,795)	8,947	9,079	5,141	(3,353)	10,867
Subsidised sale flats (Commercial)								
Site formation	6	2	(2)	6	6	1	(1)	6
Buildings	772	385	(494)	663	440	379	(47)	772
	778	387	(496)	669	446	380	(48)	778
Housing Authority offices								
Buildings	7	26	(14)	19	-	7	-	7
	7	26	(14)	19	-	7	-	7
Sub-total	41,297	18,555	(27,466)	32,386	34,002	19,585	(12,290)	41,297
(ii) Computer equipment/motor vehicles								
Total	95	134	(156)	73	78	121	(104)	95
	41,392	18,689	(27,622)	32,459	34,080	19,706	(12,394)	41,392
<b>(b) Housing Capital Works Fund - Improvement Account</b>								
Improvement works on buildings	1,437	584	(494)	1,527	2,669	674	(1,906)	1,437
<b>Total capital works/projects in progress</b>	<b>42,829</b>	<b>19,273</b>	<b>(28,116)</b>	<b>33,986</b>	<b>36,749</b>	<b>20,380</b>	<b>(14,300)</b>	<b>42,829</b>

<sup>1</sup> Included in this column are additions, reclassification among project types and adjustments for expensing the development costs arising from aborting the development of the sites already auctioned or turned into other uses.

## 9 INTANGIBLE ASSETS

	<u>2019</u>	<u>2018</u>
	<u>HK\$M</u>	<u>HK\$M</u>
<b>Computer software licences and system development costs</b>		
Cost:		
At beginning of year	1,502	1,442
Additions	131	87
Disposals	<u>(3)</u>	<u>(27)</u>
At end of year	<u>1,630</u>	<u>1,502</u>
Accumulated amortisation:		
At beginning of year	(1,378)	(1,290)
Charge for the year	(97)	(115)
Written back on disposals	<u>3</u>	<u>27</u>
At end of year	<u>(1,472)</u>	<u>(1,378)</u>
Net book value at end of year	<u>158</u>	<u>124</u>

## 10 PLACEMENTS WITH THE EXCHANGE FUND

The balance of the placements with the Exchange Fund amounted to HK\$32,853 million (2018: HK\$29,494 million), being the total principal sums of HK\$22,000 million (2018: HK\$20,000 million) plus HK\$10,853 million (2018: HK\$9,494 million) interest credited but not yet withdrawn at the reporting date. The term of the placements is for a period of six years from the respective dates of placements. For one placement with principal sum of HK\$20,000 million, the Authority has the option to demand repayment of part of the principal sum up to HK\$15,000 million during the period of placement by giving six months advance notice. For the other placement with principal sum of HK\$2,000 million, the Authority shall not demand repayment of the principal sum during the period of placement.

Interest on the placements is determined in January each year. The rate is the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Government Bond for the previous year subject to a minimum of zero percent, whichever is the higher. The interest rate has been fixed at 2.9% per annum for 2019 and at 4.6% per annum for 2018.

## 11 HOME PURCHASE/ASSISTANCE LOANS

	2019				2018				
	Home Purchase		Enhanced Home Purchase		Home Purchase		Enhanced Home Purchase		
	Loan Scheme (Notes 11a & d)	Home Assistance Loan Scheme (Note 11c)	Loan Scheme (Notes 11b & d)	Home Assistance Loan Scheme (Note 11c)	Loan Scheme (Notes 11a & d)	Home Assistance Loan Scheme (Note 11c)	Loan Scheme (Notes 11b & d)	Home Assistance Loan Scheme (Note 11c)	
HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
Gross carrying amount:									
At beginning of year	130	27	21	178	133	36	21	190	
Loan repayments	(2)	(6)	-	(8)	(2)	(9)	-	(11)	
Loans written off	(1)	-	-	(1)	(1)	-	-	(1)	
At end of year	127	21	21	169	130	27	21	178	
Impairment allowance for doubtful loans:									
At beginning of year	(127)	(2)	(21)	(150)	(128)	(2)	(21)	(151)	
Impairment loss reversed	-	-	-	-	-	-	-	-	
Loans written off	2	-	-	2	1	-	-	1	
At end of year	(125)	(2)	(21)	(148)	(127)	(2)	(21)	(150)	
Carrying amount at end of year	2	19	-	21	3	25	-	28	
Portion classified as current assets (Note 13)	(1)	(4)	-	(5)	(1)	(5)	-	(6)	
Portion classified as non-current assets	1	15	-	16	2	20	-	22	

## 11 HOME PURCHASE/ASSISTANCE LOANS (Continued)

### (a) Home Purchase Loan Scheme (HPLS)

The HPLS provides interest-free loans to assist sitting tenants of the Authority and the Housing Society, and prospective tenants with established eligibility for public housing to purchase flats in the private sector as well as those under the Secondary Market Scheme. The loans are repayable over a period of a maximum of 20 years. The HPLS was terminated on 31 December 2002.

### (b) Enhanced Home Purchase Loan Scheme

The enhanced HPLS was approved in June 1995 to provide interest-free loans and subsidies funded by the Development Fund to the green form applicants who could apply for assistance under the Scheme during 1995-96 and 1996-97, with a view to encouraging them to purchase flats and give up their rental flats for re-allocation. The loans are repayable over the same period as the bank mortgage taken out on the property, up to a maximum of 20 years.

### (c) Home Assistance Loan Scheme (HALS)

The HALS was implemented from 2 January 2003 to replace the HPLS. The HALS was terminated on 14 July 2004. The interest-free loans are repayable over a period of up to a maximum of 20 years.

### (d) Sale of Home Purchase Loans

The Authority entered into an agreement with The Hong Kong Mortgage Corporation Limited (HKMC) in 2000-01 whereby home purchase loans were sold to the HKMC in tranches. The last tranche of loan sale was completed in November 2003. The loans were sold at par and a monthly interest is payable at rates based on Hong Kong Interbank Offered Rate (HIBOR) on the balance of the portfolio sold after repayment of principal by the borrowers of home purchase loans. The present value of the estimated future interest payments was recognised as an expense and a liability when the loans were sold. As at 31 March 2019, as disclosed in Note 17, the remaining liability amounted to HK\$4 million (2018: HK\$6 million).

## 12 INVENTORIES

	<u>2019</u>	<u>2018</u>
	HK\$M	HK\$M
Stock of unsold HOS/GSH flats	3,261	-
Stores and spares	<u>1</u>	<u>1</u>
	<u><b>3,262</b></u>	<u><b>1</b></u>

During the year, 3,344 units of HOS/GSH flats were sold (2018: 2,795 units). As at 31 March 2019, the stock balance consisted of 2,877 units (2018: Nil).

## 13 DEBTORS, DEPOSITS AND PREPAYMENTS

	<u>2019</u>	<u>2018</u>
	HK\$M	HK\$M
Debtors	59	49
Interest receivable from the placements with the Exchange Fund	235	334
Other interest receivable	4	32
Dividends receivable	9	7
Dividend tax refund receivable	3	5
Unsettled sales and redemption of securities	19	61
Home Purchase/Assistance Loans (Note 11)	5	6
Deposits	78	81
Prepayments	2	3
Lease incentives amortisation	<u>55</u>	<u>41</u>
	<u><b>469</b></u>	<u><b>619</b></u>

## 14 INVESTMENTS IN SECURITIES AND BANK DEPOSITS

	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
Bank deposits at amortised cost, with original maturities		
- not more than 3 months (Note 15)	5,130	6,018
- over 3 months but not more than 1 year	-	5,376
	<b>5,130</b>	11,394
Securities at fair value		
- debt securities with maturities over 3 months from date of acquisition	-	278
- equity securities	4,230	3,938
	<b>4,230</b>	4,216
<b>Total investments</b>	<b><u>9,360</u></b>	<b><u>15,610</u></b>



## 15 CASH AND CASH EQUIVALENTS

	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
Bank balances and cash	477	381
Bank deposits with original maturities not more than 3 months (Note 14)	<u>5,130</u>	<u>6,018</u>
Cash and cash equivalents in the statement of cash flows	<u><u>5,607</u></u>	<u><u>6,399</u></u>

## 16 CREDITORS, DEPOSITS AND OTHER PAYABLES

	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
Creditors and accruals	3,893	3,504
Unsettled purchases of securities	13	63
Payable for custodian's and fund managers' fees	5	6
Tenants' deposits	1,460	1,361
Deposits received for sale of HOS/TPS/GSH flats	879	937
Other deposits	63	68
Retention money	1,388	1,221
Liquidated damages deductions	<u>138</u>	<u>80</u>
	<u><u>7,839</u></u>	<u><u>7,240</u></u>

## 17 PROVISIONS AND OTHER LIABILITIES

	2019			2018		
	Current	Non-	Total	Current	Non-	Total
	portion	current		portion	current	
HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
Provision for employee benefits	1,717	-	1,717	1,734	-	1,734
Provision for maintenance and minor improvements	-	274	274	-	298	298
Rent received in advance	291	-	291	312	-	312
Unamortised income relating to liquefied petroleum gas	9	24	33	10	25	35
Interest payable on HPLS loans sold (Note 11(d))	2	2	4	3	3	6
Land cost provisions relating to sold HOS/GSH flats	-	242	242	-	94	94
Residual construction payment relating to sold and divested properties	368	-	368	113	-	113
Provision for audit fees	8	-	8	8	-	8
Provision for mortgage default guarantee payments	-	-	-	1	-	1
Others	3	-	3	3	-	3
	<b>2,398</b>	<b>542</b>	<b>2,940</b>	<b>2,184</b>	<b>420</b>	<b>2,604</b>

## 18 GOVERNMENT'S CONTRIBUTION

### (a) Amount included in the accounts (Note 1(b))

	2019		2018	
	Domestic housing HK\$M	Non-domestic equity HK\$M	Domestic housing HK\$M	Non-domestic equity HK\$M
(i) Borrowings from the former Development Loan Fund				
- Cumulative interest-free loans up to 31.3.1976	254	46	254	46
- Interest foregone by Government on loans related to domestic and non-domestic premises in public rental housing during the period 1.4.1976 to 31.3.1988	2,505	447	2,505	447
(ii) Transfer value of Government built estates and staff quarters	1,226	149	1,226	149
(iii) Home Ownership Scheme				
- Unsold stock of flats and construction in progress at 31.3.1988 transferred from Government	827	-	827	-
	<b>4,812</b>	<b>642</b>	<b>4,812</b>	<b>642</b>
				<b>5,454</b>
				<b>5,454</b>

## 18 GOVERNMENT'S CONTRIBUTION (Continued)

### (b) Amount not included in the accounts (Note 1(b))

	2019		2018	
	Domestic housing HK\$M	Non-domestic equity HK\$M	Domestic housing HK\$M	Non-domestic equity HK\$M
(i) Land revaluation surplus up to 31.3.1973 pertaining to the predecessor Authority	93	8	107	10
(ii) Value of land provided by Government				
- since 1.4.1973 pertaining to public rental housing estates and staff quarters	304,143	30,892	275,052	29,186
- for offices of the Authority	-	140	-	140
		<b>101</b>		<b>117</b>
(iii) Home Ownership Scheme and Green Form Subsidised Home Ownership Scheme				
- difference between the land value (at full market value) and the land cost	157,653	-	143,560	-
- land value for non-domestic elements	-	3,866	-	2,841
- premium on removal of alienation restriction	8,181	-	7,947	-
		<b>157,653</b>		<b>143,560</b>
(iv) Tenants Purchase Scheme				
- difference between the land value (at full market value) at completion of the buildings and the land cost	26,159	-	25,802	-
		<b>26,159</b>		<b>25,802</b>
(v) Buy or Rent Option Scheme				
- difference between the land value (at full market value) and the land cost	1,818	-	1,818	-
- land value for non-domestic elements	-	10	-	10
		<b>1,818</b>		<b>1,818</b>
	<b>498,047</b>	<b>34,916</b>	<b>454,286</b>	<b>32,187</b>
		<b>532,963</b>		<b>486,473</b>

19 HOUSING CAPITAL WORKS FUND

	2019			2018		
	Construction Account HK\$M	Improvement Account HK\$M	Total HK\$M	Construction Account HK\$M	Improvement Account HK\$M	Total HK\$M
Balance at beginning of year	51,004	3,437	54,441	44,666	4,669	49,335
Transfer from/(to) accumulated surplus	(10,757)	90	(10,667)	6,338	(1,232)	5,106
Balance at end of year	40,247	3,527	43,774	51,004	3,437	54,441

## 20 DEVELOPMENT FUND

	<u>2019</u>	<u>2018</u>
	HK\$M	HK\$M
Balance at beginning of year	25,325	28,862
Transfer to accumulated surplus	<u>(2,213)</u>	<u>(3,537)</u>
Balance at end of year	<u>23,112</u>	<u>25,325</u>

## 21 DIVESTMENT OF RETAIL AND CARPARKING FACILITIES

To enable the Authority to focus its resources on its core function as a provider of subsidised public housing, the Authority divested its retail and carparking facilities by selling the concerned facilities through an initial public offering of units in The Link Real Estate Investment Trust (Link REIT) in November 2005. The Authority recognised a net surplus of HK\$14,096 million as a result of the divestment in the year 2005-06. In determining the surplus, management made estimates concerning the divestment expenditure. Adjustments to the expenditure will be required if actual results differ from the estimates.

During the year, the Authority's net upward adjustment on divestment related expenditure was nil (2018: net upward adjustment of HK\$5 million).

## 22 RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these financial statements, the Authority had the following material transactions and outstanding balances with the Government.

	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
<b>(a) Income received from the Government</b>		
Rental income	55	53
Reimbursement of costs of services provided to the Government	323	305
Supervision on-costs in respect of Government reimbursable projects	102	95
Other income	<u>3</u>	<u>1</u>
	<u>483</u>	<u>454</u>
<b>(b) Amount due from the Government</b>		
Government rent refundable	1	1
Deposits and others	<u>5</u>	<u>1</u>
	<u>6</u>	<u>2</u>
<b>(c) Amount due to the Government</b>		
Land cost	1,518	1,233
Advance from Government for rental payment	-	1
Payable for Government rent and rates	8	6
Over-recovery on Government funded agency functions	14	20
Dividend payable	72	81
Others (e.g. company and land searches)	<u>37</u>	<u>35</u>
	<u>1,649</u>	<u>1,376</u>

## 23 CONTINGENT LIABILITIES

### (a) Financial guarantees issued

As at 31 March 2019, the Authority had outstanding mortgage default guarantees issued in respect of mortgage loans made by banks and other authorised financial institutions on subsidised sale flats sold as follows:

#### (i) HOS/PSPS/BRO/GSH flats sold

Default guarantees for flats built and sold under HOS/PSPS/BRO/GSH amounted to HK\$20,392 million (2018: HK\$ 17,283 million) for the primary market and HK\$20,486 million (2018: HK\$ 19,018 million) for the secondary market. However, it is the Authority's view that it will have a financial exposure only if the outstanding indebtedness of mortgages to banks and other financial institutions cannot be covered by proceeds from resale of the flats concerned. The Authority estimates its financial exposure to be HK\$2 million (2018: HK\$1 million) for the primary market and Nil (2018: HK\$1 million) for the secondary market.

#### (ii) TPS flats sold

Default guarantees for flats sold under TPS amounted to HK\$4,296 million (2018: HK\$4,054 million) for the primary market and HK\$2,737 million (2018: HK\$2,217 million) for the secondary market. However, following the rationale in (i) above and assuming that the properties can be re-sold at the original selling price for flats within the first 2 years of the alienation restriction period, at the prevailing TPS price for flats from the 3rd to the 5th year of such period (less the actual amount of special credit for primary market flats) and at the prevailing market price less premium payable after the alienation restriction period, the Authority estimates it has no financial exposure (2018: Nil) for the primary market and its financial exposure for the secondary market is HK\$222 million (2018: HK\$240 million).



**(b) Structural Safety Guarantee**

Structural Safety Guarantee (SSG) covers all newly completed HOS/PSPS/BRO/GSH developments for a period of 10 years (20 years for Tin Shui Wai area) from the date of completion, including those existing developments which were within the relevant SSG period as at 13 April 2000. Pursuant to the sale of surplus HOS and PSPS flats in 2007, a SSG for a period of 10 years (20 years for Tin Shui Wai area) is also offered to cover each unsold block of these flats from the commencement date of flat selection period of the first sale phase. As at 31 March 2019, there were 28,583 units (2018: 26,645 units) of HOS/PSPS/BRO/GSH flats covered by the SSG. However, the Authority's liabilities under the SSG could not be reasonably ascertained and have not been recognised in the financial statements, except for the actual repair costs incurred under the SSG. During the year, such repair costs amounted to HK\$0.1 million (2018: HK\$0.1 million).

## 24 CAPITAL COMMITMENTS

The Authority had the following contractual capital commitments outstanding at 31 March 2019 not provided for in the financial statements:

	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
Capital Works/Projects		
- Public rental housing/GSH construction projects	<b>26,619</b>	27,837
- HOS construction projects	<b>7,012</b>	9,044
- Other projects	<b>1,953</b>	1,087
	<u><b>35,584</b></u>	<u>37,968</u>

## 25 FINANCIAL RISK MANAGEMENT

Risk management is an integral part of the Authority's financial policies and processes. The Authority's Finance Committee advises on financial policies and oversees the management of funds of the Authority. The Finance Committee has established a Funds Management Sub-committee to advise on the Authority's funds management policies, strategies, guidelines, and the appointment and monitoring of external fund managers. The key financial risk management practices are highlighted below:

### (a) Liquidity risk

The Authority's budgets and forecasts are compiled annually for the Authority's approval after endorsement by the Finance Committee and relevant business Committees. Income and expenditure are actively monitored during the year. The Authority's cash flows are monitored on a daily basis and its investments are managed with the primary objective of ensuring that sufficient funds are available to meet capital expenditure and operational needs. As the Authority has a strong liquidity position, it has a very low level of liquidity risk.

## **(b) Market and credit risks**

The Authority's financial instruments are subject to interest rate risk, currency risk, equity price risk, other market risk and credit risk. Comprehensive funds management policy and investment guidelines are in place to ensure that the exposures to these risks are monitored and managed prudently on an ongoing basis.

### **(i) Interest rate risk**

The Authority's interest-bearing assets include mainly bank deposits and debt securities at fair value. Bank deposits and debt securities bear interest at fixed and floating rates. The Authority is exposed to fair value interest rate risk because their fair values will normally fall when market interest rates increase. The Authority monitors its interest rate risk with reference to the approved strategies and benchmarks. As regards bank deposits, since they are all stated at amortised cost, their carrying amounts and the Authority's income and accumulated surplus will not be affected by changes in market interest rates.

The Authority's interest payable on home purchase loans sold (Note 11(d)) is at HIBOR-based rates. The Authority is exposed to cash flow interest rate risk since future interest payments will fluctuate with changes in market interest rates. However, such interest rate risk is not material as it is naturally hedged by short-term interest-bearing assets (with maturity of 1 year or less) in the Authority's investment portfolio. As at 31 March 2019, the outstanding principal balance of the home purchase loans sold was HK\$280 million (2018: HK\$350 million) and their average remaining maturity was 25 months (2018: 33 months).

There are no debt securities at the reporting date. For the year ended 31 March 2018, sensitivity analysis based on a 50 basis points increase/decrease in market interest rates shows that the revaluation gains on debt securities at fair value and surplus for the year would have decreased/increased by HK\$1 million. This sensitivity analysis has been prepared assuming that the change in interest rates had been applied to the securities in existence at the reporting date, with all other variables being held constant.

(ii) Currency risk

On currency risk management, the investment guidelines set limits on currency exposure.

The Authority's investment assets in currencies other than Hong Kong dollars are denominated mainly in US dollars with the remaining in other freely convertible major international currencies. When the exchange rates of the relevant currencies against the Hong Kong dollar fluctuate, the value of these investment assets expressed in Hong Kong dollar will vary accordingly.

The table below summarises the Authority's currency exposures at the reporting date:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	HK\$M	HK\$M	HK\$M	HK\$M
US dollars	2,114	9	2,145	31
Pound sterling	99	-	54	3
Euro	505	1	328	11
Others	530	6	421	12
	<u>3,248</u>	<u>16</u>	<u>2,948</u>	<u>57</u>

Other currencies include mainly currencies of major developed countries.

Sensitivity analysis based on a 0.5% (2018: 0.5%) increase/decrease in the exchange rate of the US dollar against the Hong Kong dollar shows that the exchange gains and surplus for the year would have increased/decreased by HK\$11 million (2018: HK\$11 million).

Sensitivity analysis based on a 5% (2018: 5%) increase/decrease in the exchange rates of the other currencies against the Hong Kong dollar shows that the exchange gains and surplus for the year would have increased/decreased by HK\$56 million (2018: HK\$39 million).

The above sensitivity analyses have been prepared assuming that the change in exchange rates had been applied to the financial instruments in existence at the reporting date, with all other variables being held constant.

(iii) Equity price risk

Equity price risk is the risk of loss arising from changes in equity prices. The Authority's equity investments are subject to equity price risk since the value of these investments will decline if equity prices fall. As at 31 March 2019, all equity investments were designated at fair value as shown in Note 14.

Sensitivity analysis based on a 15% (2018: 15%) increase/decrease in equity prices shows that the revaluation gains on equity investments and surplus for the year would have increased/decreased by HK\$634 million (2018: HK\$591 million). This sensitivity analysis has been prepared assuming that the change in equity prices had been applied to the equity investments in existence at the reporting date, with all other variables being held constant.

(iv) Other market risk

Interest on the placements with the Exchange Fund is subject to other market risk arising from changes in the interest rate which is determined in January each year (Note 10). Sensitivity analysis based on a 50 basis points increase/decrease in the interest rates for 2018 and 2019, with all other variables held constant, shows that the surplus for the year would have increased/decreased by HK\$152 million (2018: HK\$184 million).

(v) Credit risk

The Authority's maximum exposure to credit risk at the reporting date without taking into account any collateral held or other credit enhancements is shown below:

	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
Placements with the Exchange Fund	<b>32,853</b>	29,494
Bank balances	<b>410</b>	325
Bank deposits	<b>5,130</b>	11,394
Debt securities designated at fair value	-	278
Amount due from the Government	<b>6</b>	2
Debtors and deposits	<b>408</b>	569
Home Purchase/Assistance Loans	<b>21</b>	28
Mortgage default guarantees	<b>47,911</b>	42,572
	<u><b>86,739</b></u>	<u>84,662</u>

The credit risk associated with the placements with the Exchange Fund and amount due from the Government is considered to be low.

With respect to the credit risk of the Authority's investments, the Authority's investment guidelines set limits on credit rating, individual counterparty exposure and overall concentration of exposure.

An analysis of the credit quality of the Authority's bank balances, bank deposits and investments in debt securities, based on ratings designated by Moody's or their equivalents, is as follows:

	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
Aa3 to Aa1	570	983
A3 to A1	4,970	10,337
Lower than A3	-	677
	<u>5,540</u>	<u>11,997</u>

Debtors and deposits mainly include debtors, interest receivable, unsettled sales and redemption of securities and deposits. The associated credit risk is minimal.

Home Purchase/Assistance Loans are secured by mortgages on properties.

Mortgage default guarantees are issued in respect of mortgage loans made by banks and other authorised financial institutions on subsidised sale flats sold. Those loans are secured by mortgages on the flats concerned. As at 31 March 2019, there is no provision for mortgage default guarantee payments (2018: HK\$1 million, Note 17), and the financial exposure not provided for in the financial statements amounted to HK\$224 million (2018: HK\$242 million, Note 23(a)).

While other financial assets are subject to the impairment requirements, their expected credit losses were minimal.

## 26 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments traded in active markets are based on quoted market prices at the reporting date. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the reporting date.

The following table shows the carrying value of financial instruments measured at fair value at the reporting date according to the fair value hierarchy:

**As at 31 March 2019**

	<u>Level 1</u> <u>HK\$M</u>	<u>Level 2</u> <u>HK\$M</u>	<u>Total</u> <u>HK\$M</u>
<b>Assets</b>			
Securities	<u>4,230</u>	<u>-</u>	<u>4,230</u>

**As at 31 March 2018**

	<u>Level 1</u> <u>HK\$M</u>	<u>Level 2</u> <u>HK\$M</u>	<u>Total</u> <u>HK\$M</u>
<b>Assets</b>			
Securities	<u>3,960</u>	<u>256</u>	<u>4,216</u>

No financial instruments were classified under Level 3.

During the year, there were no transfer of financial instruments between Level 1 and Level 2 of the fair value hierarchy (2018: one security valued at \$15 million was transferred from Level 2 to Level 1 to reflect the change in valuation basis).

The three levels of the fair value hierarchy are:

Level 1: Fair values of financial instruments are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair values of financial instruments are determined involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: Fair values of financial instruments are determined with inputs that are not based on observable market data (unobservable inputs).



## 27 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT

### (a) CONSOLIDATED APPROPRIATION ACCOUNT

	<u>Note</u>	<u>2019</u> <u>HK\$M</u>	<u>2018</u> <u>HK\$M</u>
Consolidated Operating Account surplus			
Rental Housing	27(b)	763	383
Commercial	27(c)	1,606	1,371
Home Ownership Assistance	27(d)	<u>2,928</u>	<u>4,740</u>
Sub-total		<u>5,297</u>	<u>6,494</u>
Net non-operating income	6	<u>11</u>	<u>7</u>
		<b>5,308</b>	6,501
Funds Management Account surplus	27(e)	1,582	2,128
Agency Account surplus	27(f)	<u>39</u>	<u>74</u>
Surplus for the year		<u>6,929</u>	<u>8,703</u>
Distribution			
Dividend to the Government for the year		<u>(803)</u>	<u>(686)</u>
Surplus for the year after distribution		<u><u>6,126</u></u>	<u><u>8,017</u></u>

## 27 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT (Continued)

### (b) RENTAL HOUSING OPERATING ACCOUNT

	2019				2018			
	Rental Housing (excluding Interim Housing)	Interim Housing	Rent Allowance	T total	Rental Housing (excluding Interim Housing)	Interim Housing	Rent Allowance	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>INCOME</b>								
Rental	16,329	20	-	16,349	15,317	19	-	15,336
Other income	65	-	-	65	43	-	-	43
<b>TOTAL INCOME</b>	<b>16,394</b>	<b>20</b>	<b>-</b>	<b>16,414</b>	<b>15,360</b>	<b>19</b>	<b>-</b>	<b>15,379</b>
<b>EXPENDITURE</b>								
Personal emoluments	3,192	6	2	3,200	3,041	13	2	3,056
Government rent and rates	176	-	-	176	282	-	-	282
Maintenance and improvements	3,495	19	-	3,514	3,206	18	-	3,224
Other recurrent expenditure	4,484	21	1	4,506	4,296	57	-	4,353
Depreciation and amortisation	4,026	12	-	4,038	3,858	13	-	3,871
Share of corporate supervision and support services expenses	216	1	-	217	207	3	-	210
<b>TOTAL EXPENDITURE</b>	<b>15,589</b>	<b>59</b>	<b>3</b>	<b>15,651</b>	<b>14,890</b>	<b>104</b>	<b>2</b>	<b>14,996</b>
Operating surplus/(deficit) for the year	<b>805</b>	<b>(39)</b>	<b>(3)</b>	<b>763</b>	<b>470</b>	<b>(85)</b>	<b>(2)</b>	<b>383</b>

## 27 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT (Continued)

### (c) COMMERCIAL OPERATING ACCOUNT

	2019					2018				
	Commercial Complex	Car Park	Factory	Welfare	Total	Commercial Complex	Car Park	Factory	Welfare	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>INCOME</b>										
Rental	1,591	769	201	564	3,125	1,426	700	188	564	2,878
Other income	79	2	1	46	128	55	2	-	40	97
<b>TOTAL INCOME</b>	<b>1,670</b>	<b>771</b>	<b>202</b>	<b>610</b>	<b>3,253</b>	<b>1,481</b>	<b>702</b>	<b>188</b>	<b>604</b>	<b>2,975</b>
<b>EXPENDITURE</b>										
Personal emoluments	195	60	31	78	364	182	52	46	76	356
Government rent and rates	49	33	-	58	140	50	28	1	65	144
Maintenance and improvements	88	40	23	13	164	81	40	31	9	161
Other recurrent expenditure	276	170	40	100	586	257	159	39	94	549
Depreciation and amortisation	138	99	7	50	294	130	91	8	49	278
Share of corporate supervision and support services expenses	14	4	2	5	25	13	4	4	5	26
<b>TOTAL EXPENDITURE</b>	<b>760</b>	<b>406</b>	<b>103</b>	<b>304</b>	<b>1,573</b>	<b>713</b>	<b>374</b>	<b>129</b>	<b>298</b>	<b>1,514</b>
Operating surplus before exceptional items	910	365	99	306	1,680	768	328	59	306	1,461
Exceptional items <sup>1</sup>	(74)	-	-	-	(74)	(90)	-	-	-	(90)
<b>Operating surplus for the year</b>	<b>836</b>	<b>365</b>	<b>99</b>	<b>306</b>	<b>1,606</b>	<b>678</b>	<b>328</b>	<b>59</b>	<b>306</b>	<b>1,371</b>

<sup>1</sup> These represent expenditure incurred on Government Infrastructure and Community facilities funded by the Authority.

## 27 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT (Continued)

### (d) HOME OWNERSHIP ASSISTANCE OPERATING ACCOUNT

	2019					2018				
	HOS /GSH	PSPS	TPS	HPLS /HALS	Total	HOS /GSH	PSPS	TPS	HPLS /HALS	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>INCOME</b>										
Sales	6,987	-	1,441	-	8,428	6,884	-	1,806	-	8,690
Premium on removal of alienation restriction	678	305	283	-	1,266	743	285	251	-	1,279
Other income	93	4	8	-	105	39	5	8	-	52
<b>TOTAL INCOME</b>	<b>7,758</b>	<b>309</b>	<b>1,732</b>	<b>-</b>	<b>9,799</b>	<b>7,666</b>	<b>290</b>	<b>2,065</b>	<b>-</b>	<b>10,021</b>
<b>EXPENDITURE</b>										
Personal emoluments	312	38	55	17	422	263	33	55	26	377
Maintenance and improvements	24	2	4	-	30	7	2	3	1	13
Other recurrent expenditure	53	4	8	2	67	46	4	7	2	59
Depreciation and amortisation	22	1	2	1	26	21	1	2	1	25
Share of corporate supervision and support services expenses	25	3	4	2	34	22	3	4	2	31
<b>Sub-total</b>	<b>436</b>	<b>48</b>	<b>73</b>	<b>22</b>	<b>579</b>	<b>359</b>	<b>43</b>	<b>71</b>	<b>32</b>	<b>505</b>
Expenditure on subsidised sale flats										
Construction cost and overheads	4,533	-	72	-	4,605	3,370	-	101	-	3,471
Government land cost	1,587	-	80	-	1,667	1,179	-	103	-	1,282
Cost of repurchased flats sold	-	-	4	-	4	-	-	7	-	7
Other expenditure	15	-	(1)	-	14	18	-	(2)	-	16
<b>Sub-total</b>	<b>6,135</b>	<b>-</b>	<b>155</b>	<b>-</b>	<b>6,290</b>	<b>4,567</b>	<b>-</b>	<b>209</b>	<b>-</b>	<b>4,776</b>
<b>TOTAL EXPENDITURE</b>	<b>6,571</b>	<b>48</b>	<b>228</b>	<b>22</b>	<b>6,869</b>	<b>4,926</b>	<b>43</b>	<b>280</b>	<b>32</b>	<b>5,281</b>
Operating surplus/(deficit) before exceptional items	1,187	261	1,504	(22)	2,930	2,740	247	1,785	(32)	4,740
Exceptional items <sup>1</sup>	(1)	-	-	(1)	(2)	-	-	-	-	-
<b>Operating surplus/(deficit) for the year</b>	<b>1,186</b>	<b>261</b>	<b>1,504</b>	<b>(23)</b>	<b>2,928</b>	<b>2,740</b>	<b>247</b>	<b>1,785</b>	<b>(32)</b>	<b>4,740</b>

<sup>1</sup>These mainly represent (i) write-down of stock of unsold HOS/GSH flats; and (ii) adjustments of future interest liability on the outstanding balance of the HPLS loan portfolio sold after related interest payment of \$4 million (2018: \$4 million) made in the year.

## 27 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT (Continued)

### (e) FUNDS MANAGEMENT ACCOUNT

	2019			2018		
	In-house portfolio <sup>1</sup>	Placements with the Exchange Fund <sup>2</sup>	Portfolios managed by external fund managers <sup>3</sup>	In-house portfolio <sup>1</sup>	Placements with the Exchange Fund <sup>2</sup>	Portfolios managed by external fund managers <sup>3</sup>
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>INCOME</b>						
Interest income	169	1,260	8	95	1,152	5
Dividend income	-	-	73	-	-	61
Net realised and revaluation gains	-	-	160	-	-	782
Net exchange gains/(losses)	-	-	(40)	-	-	76
<b>TOTAL INCOME</b>	<b>169</b>	<b>1,260</b>	<b>201</b>	<b>95</b>	<b>1,152</b>	<b>924</b>
<b>EXPENDITURE</b>						
Investment expenditure						
Fund managers' fees	-	-	21	-	-	19
Custodian's fees	-	-	2	-	-	2
Other investment expenditure	-	1	6	-	1	4
Sub-total	-	1	29	-	1	25
Recurrent expenditure						
Personal emoluments	8	-	5	8	-	5
Depreciation and amortisation	1	-	-	1	-	-
Other recurrent expenditure	3	-	1	2	-	1
Sub-total	12	-	6	11	-	6
<b>TOTAL EXPENDITURE</b>	<b>12</b>	<b>1</b>	<b>35</b>	<b>11</b>	<b>1</b>	<b>31</b>
Surplus for the year	<b>157</b>	<b>1,259</b>	<b>166</b>	<b>84</b>	<b>1,151</b>	<b>893</b>
			<b>1,582</b>			<b>2,128</b>

<sup>1</sup> The In-house portfolio comprises bank deposits stated at their principal amounts.

<sup>2</sup> Placements with the Exchange Fund include the total principal sums and any interest credited but not yet withdrawn at the reporting date. The balance is measured at amortised cost.

<sup>3</sup> Portfolios managed by external fund managers mainly include securities measured at fair value and initially stated at fair value. At the reporting date, the fair value is remeasured with any resultant revaluation gains or losses being recognised in the Funds Management Account.

## 27 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT (Continued)

### (f) AGENCY ACCOUNT

	2019				2018			
	Agency Functions <sup>1</sup>	Agency Management Services <sup>2</sup>	Supervision of Government Reimbursable Projects <sup>3</sup>	Total	Agency Functions <sup>1</sup>	Agency Management Services <sup>2</sup>	Supervision of Government Reimbursable Projects <sup>3</sup>	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>INCOME</b>								
Supervision fee	-	155	-	155	-	166	-	166
Supervision on-costs	-	68	102	170	-	70	94	164
Amount reimbursed by Government	322	-	1	323	304	-	1	305
<b>TOTAL INCOME</b>	<b>322</b>	<b>223</b>	<b>103</b>	<b>648</b>	<b>304</b>	<b>236</b>	<b>95</b>	<b>635</b>
<b>EXPENDITURE</b>								
Personal emoluments	277	137	88	502	248	131	73	452
Maintenance and improvements	2	8	1	11	1	7	1	9
Other recurrent expenditure	28	10	16	54	29	10	13	52
Depreciation and amortisation	4	2	5	11	4	3	6	13
Share of corporate supervision and support services expenses	1	9	7	17	1	8	6	15
<b>TOTAL EXPENDITURE</b>	<b>312</b>	<b>166</b>	<b>117</b>	<b>595</b>	<b>283</b>	<b>159</b>	<b>99</b>	<b>541</b>
Surplus/(deficit) for the year before adjustments	10	57	(14)	53	21	77	(4)	94
Over recovery brought forward	20	-	-	20	20	-	-	20
Over recovery settled during the year	(20)	-	-	(20)	(20)	-	-	(20)
Over recovery carried forward	(14)	-	-	(14)	(20)	-	-	(20)
<b>Surplus/(deficit) for the year</b>	<b>(4)</b>	<b>57</b>	<b>(14)</b>	<b>39</b>	<b>1</b>	<b>77</b>	<b>(4)</b>	<b>74</b>

<sup>1</sup> The Authority acts as an agent for the Government for building control, private housing, appeal panel (housing), rehousing of occupants upon clearance and support services.

<sup>2</sup> The Authority manages properties on behalf of other parties and charges a supervision fee for the services rendered. This covers the management of completed Home Ownership courts and the common area of the estates with properties divested.

<sup>3</sup> The Authority provides supervision services for building of schools, welfare and other community facilities in new estates, additions, alterations, improvements and external maintenance of Government buildings in rental estates, as well as management and maintenance of slopes adjacent to estates. The Authority pays the contractors and obtains reimbursement from the Government including full cost of the supervision services.