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Work Together for
Quality Public Housing



Hong Kong Housing Authority

Financial statements for the year ended 31 March 2020

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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 59, which comprise the statement of financial position as at 31 March 2020, 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.



John Chu
Director of Audit

22 September 2020

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 2020
(Expressed in millions of Hong Kong dollars)

	Note	2020	2019
Income			
Rental income	4(a)	20,550	19,474
Sales and premium income	4(b)	24,096	9,694
Investment income	4(c)	1,044	1,630
Other income	4(d)	396	337
		<u>46,086</u>	<u>31,135</u>
Expenditure			
Personal emoluments		4,215	3,999
Government rent and rates		348	316
Maintenance and improvements		3,960	3,708
Depreciation and amortisation		4,699	4,359
Expenditure on subsidised sale flats	5	12,637	6,292
Other recurrent expenditure		5,922	5,543
		<u>31,781</u>	<u>24,217</u>
Operating surplus		14,305	6,918
Net non-operating income	6	<u>60</u>	<u>11</u>
Surplus for the year		14,365	6,929
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>14,365</u>	<u>6,929</u>

The notes on pages 10 to 59 form part of these financial statements.

HONG KONG HOUSING AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020
(Expressed in millions of Hong Kong dollars)

	Note	2020	2019
Non-current assets			
Property, plant and equipment	7	157,359	154,473
Capital works/projects in progress	8	36,516	33,986
Intangible assets	9	190	158
Right-of-use assets	10(a)	85	-
Placements with the Exchange Fund	11	36,806	32,853
Home Purchase/Assistance Loans	12	10	16
		<u>230,966</u>	<u>221,486</u>
Current assets			
Inventories	13	30	3,262
Debtors, deposits and prepayments	14	810	469
Amount due from the Government	23(b)	37	6
Investments in securities and bank deposits	15	18,727	9,360
Bank balances and cash	16	335	477
		<u>19,939</u>	<u>13,574</u>
Current liabilities			
Creditors, deposits and other payables	17	7,917	7,839
Amount due to the Government	23(c)	3,383	1,649
Lease liabilities	10(b)	27	-
Provisions and other liabilities	18	2,617	2,398
		<u>13,944</u>	<u>11,886</u>
Net current assets		<u>5,995</u>	<u>1,688</u>
Total assets less current liabilities		236,961	223,174
Non-current liabilities			
Lease liabilities	10(b)	62	-
Provisions and other liabilities	18	675	542
		<u>737</u>	<u>542</u>
Net assets		<u>236,224</u>	<u>222,632</u>

The notes on pages 10 to 59 form part of these financial statements.

HONG KONG HOUSING AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020 (Continued)
(Expressed in millions of Hong Kong dollars)

	Note	2020	2019
Representing:			
Government's permanent capital	1(a)	13,489	13,489
Government's contribution	19(a)	5,454	5,454
Capital reserve		12	12
Accumulated surplus		136,511	136,791
Housing Capital Works Fund	20	47,630	43,774
Development Fund	21	33,128	23,112
		<u>236,224</u>	<u>222,632</u>


 CHAN Fan, Frank
 Chairman
 Hong Kong Housing Authority
 22nd September 2020

The notes on pages 10 to 59 form part of these financial statements.

HONG KONG HOUSING AUTHORITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 MARCH 2020
(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
Balance at 1 April 2018	13,489	5,454	12	117,785	54,441	25,325	216,506
Total comprehensive income for the year	-	-	-	6,929	-	-	6,929
Dividend to the Government for the year	-	-	-	(803)	-	-	(803)
Transfers	-	-	-	12,880	(10,667)	(2,213)	-
Balance at 31 March 2019	<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>
Balance at 1 April 2019	13,489	5,454	12	136,791	43,774	23,112	222,632
Total comprehensive income for the year	-	-	-	14,365	-	-	14,365
Dividend to the Government for the year	-	-	-	(773)	-	-	(773)
Transfers	-	-	-	(13,872)	3,856	10,016	-
Balance at 31 March 2020	<u><u>13,489</u></u>	<u><u>5,454</u></u>	<u><u>12</u></u>	<u><u>136,511</u></u>	<u><u>47,630</u></u>	<u><u>33,128</u></u>	<u><u>236,224</u></u>

The notes on pages 10 to 59 form part of these financial statements.

HONG KONG HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2020
(Expressed in millions of Hong Kong dollars)

	Note	2020	2019
Cash flows from operating activities			
Surplus for the year		14,365	6,929
Adjustments for:			
Investment income	4(c)	(1,044)	(1,630)
Reversal of expenditure on divestment of retail and carparking facilities	6	(4)	-
Interest expense on lease liabilities		1	-
Depreciation of property, plant and equipment		4,609	4,283
Amortisation of intangible assets		114	97
Depreciation of right-of-use assets		16	-
Written down value of Tenants Purchase Scheme flats sold		54	76
Adjustment of capital expenditure		4	1
Decrease in Home Purchase/Assistance Loans		7	9
Decrease in impairment allowance for Home Purchase/ Assistance Loans		(1)	(2)
(Increase)/Decrease in subsidised sale flats (Domestic) properties under development		(844)	2,175
Decrease/(Increase) in inventories		3,232	(3,261)
(Increase)/Decrease in securities at fair value		(1,157)	107
(Increase)/Decrease in debtors, prepayments and other receivables		(247)	18
Increase in creditors, accruals and other payables		1,746	881
Increase in provisions and other liabilities		154	80
Net cash from operating activities		<u>21,005</u>	<u>9,763</u>

The notes on pages 10 to 59 form part of these financial statements.

HONG KONG HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2020 (Continued)
(Expressed in millions of Hong Kong dollars)

	Note	2020	2019
Cash flows from investing activities			
Increase in placements with the Exchange Fund		(3,953)	(3,359)
(Increase)/Decrease in bank deposits with original maturities over 3 months		(7,920)	5,376
Payments relating to capital works/projects in progress			
-New public rental housing		(5,774)	(10,030)
-Redeveloped public rental housing		(2,123)	(2,236)
-Subsidised sale flats (Commercial)		(324)	(387)
-Housing Authority offices		(109)	(26)
-Computer systems		(203)	(134)
-Improvement works		(651)	(584)
Interest received		1,264	1,564
Dividends received		79	73
Net cash used in investing activities		<u>(19,714)</u>	<u>(9,743)</u>
Cash flows from financing activities			
Dividend paid to the Government		(707)	(812)
Lease payments		(13)	-
Net cash used in financing activities		<u>(720)</u>	<u>(812)</u>
Net increase/(decrease) in cash and cash equivalents		571	(792)
Cash and cash equivalents at beginning of year		<u>5,607</u>	<u>6,399</u>
Cash and cash equivalents at end of year	16	<u><u>6,178</u></u>	<u><u>5,607</u></u>

The notes on pages 10 to 59 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 19(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 19(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 24(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(j).

(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; and

(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 19(b) in accordance with the financial arrangements with the Government (Note 1(b)) is determined on the following bases:

'HKHA', 'IH' and 'RD'¹ 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)'¹ - 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'¹ - 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.

¹ Abbreviations of the building types are shown in Note 2(c).

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

(h) Leases

With effect from 1 April 2019, the Authority adopts Hong Kong Financial Reporting Standard (HKFRS) 16 “Leases”.

A lease is recognised in the statement of financial position as a right-of-use asset with a corresponding lease liability at the lease commencement date, except that variable lease payments and payments associated with short-term leases having a lease term of 12 months or less and leases of low-value assets are charged to the statement of comprehensive income on a straight-line basis over the lease term.

A right-of-use asset is measured at cost less accumulated depreciation. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and asset’s estimated useful life.

The lease liability is measured at the present value of the lease payments payable over the lease term, and subsequently adjusted by the effect of the interest on and the settlement of the lease liability, and the re-measurement arising from any reassessment of the lease liability or lease modification.

(i) 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.

¹ Abbreviations of the building types are shown in Note 2(c).

(j) 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.

(k) Other financial assets

Other financial assets are initially recognised at fair value and thereafter measured at amortised cost less impairment losses (Note 2(1)), 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(1)).

(l) Impairment of financial instruments

The Authority measures expected credit losses on financial instruments (other than debtors), and recognises the corresponding loss allowances (provision in the case of mortgage default guarantees) 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).

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

Impairment for these mortgage default guarantees is accounted for as described in Note 2(l).

(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.

(s) 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.

(t) 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>2020</u> HK\$M	<u>2019</u> HK\$M
(a) Rental income		
Rental housing	17,340	16,349
Commercial properties	<u>3,210</u>	<u>3,125</u>
	<u>20,550</u>	<u>19,474</u>
(b) Sales and premium income		
Sales of flats	22,994	8,428
Premium on removal of alienation restriction	<u>1,102</u>	<u>1,266</u>
	<u>24,096</u>	<u>9,694</u>
(c) Investment income		
Interest income from		
- placements with the Exchange Fund	1,040	1,260
- securities	-	8
- bank deposits	349	169
	1,389	1,437
Net realised and revaluation (losses)/gains on securities	(351)	160
Net exchange losses on securities	(73)	(40)
Dividend income from securities	79	73
	<u>1,044</u>	<u>1,630</u>
(d) Other income		
Fees and charges	103	88
Miscellaneous income	<u>293</u>	<u>249</u>
	<u>396</u>	<u>337</u>
Total income	<u><u>46,086</u></u>	<u><u>31,135</u></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\$2,406 million (2019: HK\$2,356 million), including rents based on business turnover amounting to HK\$5 million (2019: HK\$12 million).

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

	<u>2020</u> HK\$M	<u>2019</u> HK\$M
Within 1 year	591	1,137
After 1 year but within 2 years	537	562
After 2 years but within 3 years	237	353
After 3 years but within 4 years	140	159
After 4 years but within 5 years	81	105
After 5 years	23	58
	<u>1,609</u>	<u>2,374</u>

5 EXPENDITURE ON SUBSIDISED SALE FLATS

	<u>2020</u> HK\$M	<u>2019</u> HK\$M
Cost of flats sold		
- Construction cost and overheads	9,288	4,605
- Government land cost	3,288	1,667
- Cost of repurchased flats	4	4
	<u>12,580</u>	<u>6,276</u>
Adjustments to the interest payable on HPLS loans sold	-	1
(Reversal of write-down)/write-down of stock of unsold HOS/GSH flats	(1)	1
Other expenditure	58	14
	<u>12,637</u>	<u>6,292</u>

6 NET NON-OPERATING INCOME

	<u>2020</u> HK\$M	<u>2019</u> HK\$M
Reversal of expenditure on divestment of retail and carparking facilities (Note 22)	4	-
Reimbursement from Urban Renewal Authority for the costs of the allocated rental flats for affected clearerees	56	19
Other expenditure	-	(8)
	<u>60</u>	<u>11</u>

7 PROPERTY, PLANT AND EQUIPMENT

	2020				2019			
	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
(a) Lease premiums for land								
Cost at beginning and end of year	105	-	57	162	105	-	57	162
Accumulated depreciation at beginning of year	(95)	-	(33)	(128)	(95)	-	(32)	(127)
Charge for the year	-	-	(2)	(2)	-	-	(1)	(1)
Accumulated depreciation at end of year	(95)	-	(35)	(130)	(95)	-	(33)	(128)
Net book value at end of year	10	-	22	32	10	-	24	34
(b) Site formation								
Cost at beginning of year	2,865	1	3	2,869	2,746	1	3	2,750
Additions	53	-	-	53	126	-	-	126
Disposals/Demolition	(4)	-	-	(4)	(7)	-	-	(7)
Cost at end of year	2,914	1	3	2,918	2,865	1	3	2,869
Accumulated depreciation at beginning of year	(1,341)	(1)	(1)	(1,343)	(1,300)	(1)	(1)	(1,302)
Charge for the year	(48)	-	-	(48)	(46)	-	-	(46)
Written back on disposals/demolition	3	-	-	3	5	-	-	5
Accumulated depreciation at end of year	(1,386)	(1)	(1)	(1,388)	(1,341)	(1)	(1)	(1,343)
Net book value at end of year	1,528	-	2	1,530	1,524	-	2	1,526
(c) Buildings								
Cost at beginning of year	212,948	629	1,824	215,401	193,667	614	1,810	196,091
Additions	6,500	-	1	6,501	19,531	-	14	19,545
Transfers	(29)	29	-	-	(15)	15	-	-
Disposals/Demolition	(163)	-	-	(163)	(235)	-	-	(235)
Cost at end of year	219,256	658	1,825	221,739	212,948	629	1,824	215,401
Accumulated depreciation at beginning of year	(64,552)	(260)	(933)	(65,745)	(60,969)	(242)	(902)	(62,113)
Charge for the year	(4,027)	(12)	(32)	(4,071)	(3,754)	(12)	(31)	(3,797)
Transfers	12	(12)	-	-	6	(6)	-	-
Written back on disposals/demolition	114	-	-	114	165	-	-	165
Accumulated depreciation at end of year	(68,453)	(284)	(965)	(69,702)	(64,552)	(260)	(933)	(65,745)
Net book value at end of year	150,803	374	860	152,037	148,396	369	891	149,656

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

	2020				2019			
	Rental Premises (excluding Interim Housing)	Interim Housing	Others	Total	Rental Premises (excluding Interim Housing)	Interim Housing	Others	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
(d) Improvement works								
Cost at beginning of year	6,513	-	188	6,701	6,082	-	134	6,216
Additions	922	-	25	947	439	-	54	493
Disposals	(7)	-	-	(7)	(8)	-	-	(8)
Cost at end of year	7,428	-	213	7,641	6,513	-	188	6,701
Accumulated depreciation at beginning of year	(3,375)	-	(102)	(3,477)	(2,967)	-	(101)	(3,068)
Charge for the year	(459)	-	(3)	(462)	(412)	-	(1)	(413)
Written back on disposals	3	-	-	3	4	-	-	4
Accumulated depreciation at end of year	(3,831)	-	(105)	(3,936)	(3,375)	-	(102)	(3,477)
Net book value at end of year	3,597	-	108	3,705	3,138	-	86	3,224
(e) Computer equipment								
Cost at beginning of year	-	-	427	427	-	-	404	404
Additions	-	-	48	48	-	-	24	24
Disposals	-	-	-	-	-	-	(1)	(1)
Cost at end of year	-	-	475	475	-	-	427	427
Accumulated depreciation at beginning of year	-	-	(397)	(397)	-	-	(373)	(373)
Charge for the year	-	-	(26)	(26)	-	-	(25)	(25)
Written back on disposals	-	-	-	-	-	-	1	1
Accumulated depreciation at end of year	-	-	(423)	(423)	-	-	(397)	(397)
Net book value at end of year	-	-	52	52	-	-	30	30
(f) Electronic equipment								
Cost at beginning of year	524	-	6	530	528	-	6	534
Disposals	(3)	-	-	(3)	(4)	-	-	(4)
Cost at end of year	521	-	6	527	524	-	6	530
Accumulated depreciation at beginning of year	(524)	-	(6)	(530)	(528)	-	(6)	(534)
Written back on disposals	3	-	-	3	4	-	-	4
Accumulated depreciation at end of year	(521)	-	(6)	(527)	(524)	-	(6)	(530)
Net book value at end of year	-	-	-	-	-	-	-	-
(g) Motor vehicles								
Cost at beginning of year	-	-	5	5	-	-	5	5
Additions	-	-	-	-	-	-	-	-
Cost at end of year	-	-	5	5	-	-	5	5
Accumulated depreciation at beginning of year	-	-	(2)	(2)	-	-	(1)	(1)
Charge for the year	-	-	-	-	-	-	(1)	(1)
Accumulated depreciation at end of year	-	-	(2)	(2)	-	-	(2)	(2)
Net book value at end of year	-	-	3	3	-	-	3	3
Total net book value at end of year¹	155,938	374	1,047	157,359	153,068	369	1,036	154,473
¹ Represented by assets of								
Domestic rental housing	143,981	374	-	144,355	142,007	369	-	142,376
Non-domestic facilities	11,957	-	-	11,957	11,061	-	-	11,061
Housing Authority office buildings and others	-	-	1,047	1,047	-	-	1,036	1,036
	155,938	374	1,047	157,359	153,068	369	1,036	154,473

8 CAPITAL WORKS/PROJECTS IN PROGRESS

(a) Housing Capital Works Fund - Construction Account

(i) Properties under development

	1 April 2019 HK\$M	Additions, reclassification and adjustments ¹ HK\$M	Transfer to other asset categories or expenditure HK\$M	31 March 2020 HK\$M	1 April 2018 HK\$M	Additions, reclassification and adjustments ¹ HK\$M	Transfer to other asset categories or expenditure HK\$M	31 March 2019 HK\$M
New public rental housing								
Site formation	192	101	(22)	271	213	25	(46)	192
Buildings	18,233	5,668	(4,283)	19,618	22,965	10,006	(14,738)	18,233
	18,425	5,769	(4,305)	19,889	23,178	10,031	(14,784)	18,425
Redeveloped public rental housing								
Site formation	157	5	(28)	134	224	11	(78)	157
Buildings	4,169	2,116	(1,817)	4,468	6,243	2,225	(4,299)	4,169
	4,326	2,121	(1,845)	4,602	6,467	2,236	(4,377)	4,326
Subsidised sale flats (Domestic)								
Site formation	56	17	(21)	52	71	26	(41)	56
Buildings	8,891	7,036	(5,984)	9,943	10,796	5,849	(7,754)	8,891
	8,947	7,053	(6,005)	9,995	10,867	5,875	(7,795)	8,947
Subsidised sale flats (Commercial)								
Site formation	6	(1)	(3)	2	6	2	(2)	6
Buildings	663	325	(396)	592	772	385	(494)	663
	669	324	(399)	594	778	387	(496)	669
Housing Authority offices								
Site formation	-	2	-	2	-	-	-	-
Buildings	19	107	(1)	125	7	26	(14)	19
	19	109	(1)	127	7	26	(14)	19
Sub-total	32,386	15,376	(12,555)	35,207	41,297	18,555	(27,466)	32,386
(ii) Computer equipment/motor vehicles								
Total	73	203	(194)	82	95	134	(156)	73
	32,459	15,579	(12,749)	35,289	41,392	18,689	(27,622)	32,459

(b) Housing Capital Works Fund - Improvement Account

Improvement works on buildings

	1,527	651	(951)	1,227	1,437	584	(494)	1,527
Total capital works/projects in progress	33,986	16,230	(13,700)	36,516	42,829	19,273	(28,116)	33,986

¹ 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>2020</u> HK\$M	<u>2019</u> HK\$M
Computer software licences and system development costs		
Cost:		
At beginning of year	1,630	1,502
Additions	146	131
Disposals	-	(3)
At end of year	<u>1,776</u>	<u>1,630</u>
Accumulated amortisation:		
At beginning of year	(1,472)	(1,378)
Charge for the year	(114)	(97)
Written back on disposals	-	3
At end of year	<u>(1,586)</u>	<u>(1,472)</u>
Net book value at end of year	<u>190</u>	<u>158</u>

10 LEASES

(a) Right-of-use assets

	<u>2020</u> HK\$M
Premises	
Cost:	
At beginning of year	-
Adjustment on initial application of HKFRS 16 (Note 2(h))	20
At beginning of year, as adjusted	20
Additions	81
At end of year	<u>101</u>
Accumulated depreciation:	
At beginning of year	-
Charge for the year ¹	16
At end of year	<u>16</u>
Net book value at end of year	<u>85</u>

¹Depreciation charge of right-of-use assets is included in other recurrent expenditure.

10 LEASES (Continued)

(b) Lease liabilities

	<u>2020</u> <u>HK\$M</u>
Current	27
Non-current	<u>62</u>
	<u><u>89</u></u>

The table below shows changes in lease liabilities, including both cash and non-cash changes.

	<u>2020</u> <u>HK\$M</u>
At beginning of year	-
Adjustment on initial application of HKFRS 16 (Note 2(h))	<u>20</u>
At beginning of year, as adjusted	20
Changes from financing cash flows:	
Lease payments	(13)
Non-cash changes:	
Interest expense on lease liabilities	1
Increase in lease liabilities relating to new leases	<u>81</u>
At end of year	<u><u>89</u></u>

The remaining contractual maturities of lease liabilities, which are based on contractual undiscounted cash flows, are shown below:

	<u>2020</u> <u>HK\$M</u>
Within 1 year	28
After 1 year but within 2 years	28
After 2 years but within 5 years	35
After 5 years	-
	<u><u>91</u></u>

10 LEASES (Continued)

(c) Expense items in relation to leases recognised in the statement of comprehensive income

	<u>2020</u> HK\$M
Interest expense on lease liabilities	1
Expense relating to short-term leases	4

(d) Total cash outflow for leases

	<u>2020</u> HK\$M
Lease liabilities	13
Short-term leases	4
	<u>17</u>

11 PLACEMENTS WITH THE EXCHANGE FUND

The balance of the placements with the Exchange Fund amounted to HK\$36,806 million (2019: HK\$32,853 million), being the total principal sums of HK\$25,000 million (2019: HK\$22,000 million) plus HK\$11,806 million (2019: HK\$10,853 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. For the other placements with principal sums of HK\$5,000 million (2019: HK\$2,000 million), the Authority shall not demand repayment of the principal sums during the period of placements.

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 3.7% per annum for 2020 and at 2.9% per annum for 2019.

12 HOME PURCHASE/ASSISTANCE LOANS

	2020				2019			
	Home Purchase Loan Scheme (Notes 12a & d)	Enhanced Home Purchase Loan Scheme (Notes 12b & d)	Home Assistance Loan Scheme (Note 12c)	Total	Home Purchase Loan Scheme (Notes 12a & d)	Enhanced Home Purchase Loan Scheme (Notes 12b & d)	Home Assistance Loan Scheme (Note 12c)	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Gross carrying amount:								
At beginning of year	127	21	21	169	130	21	27	178
Loan repayments	(1)	-	(5)	(6)	(2)	-	(6)	(8)
Loans written off	(1)	-	-	(1)	(1)	-	-	(1)
At end of year	125	21	16	162	127	21	21	169
Impairment allowance for doubtful loans:								
At beginning of year	(125)	(21)	(2)	(148)	(127)	(21)	(2)	(150)
Impairment loss reversed	-	-	-	-	-	-	-	-
Loans written off	1	-	-	1	2	-	-	2
At end of year	(124)	(21)	(2)	(147)	(125)	(21)	(2)	(148)
Carrying amount at end of year	1	-	14	15	2	-	19	21
Portion classified as current assets (Note 14)	(1)	-	(4)	(5)	(1)	-	(4)	(5)
Portion classified as non-current assets	-	-	10	10	1	-	15	16

12 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 up to 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 2020, as disclosed in Note 18, the remaining liability amounted to HK\$2 million (2019: HK\$4 million).

13 INVENTORIES

	<u>2020</u>	<u>2019</u>
	HK\$M	HK\$M
Stock of unsold HOS/GSH flats	29	3,261
Stores and spares	<u>1</u>	<u>1</u>
	<u>30</u>	<u>3,262</u>

During the year, 7,698 units of HOS/GSH flats were sold (2019: 3,344 units). As at 31 March 2020, the stock balance consisted of 25 units (2019: 2,877 units).

14 DEBTORS, DEPOSITS AND PREPAYMENTS

	<u>2020</u>	<u>2019</u>
	HK\$M	HK\$M
Debtors	73	59
Interest receivable from the placements with the Exchange Fund	322	235
Other interest receivable	42	4
Dividends receivable	8	9
Dividend tax refund receivable	4	3
Unsettled sales and redemption of securities	11	19
Home Purchase/Assistance Loans (Note 12)	5	5
Deposits	76	78
Prepayments	1	2
Lease incentives amortisation	<u>268</u>	<u>55</u>
	<u>810</u>	<u>469</u>

15 INVESTMENTS IN SECURITIES AND BANK DEPOSITS

	<u>2020</u> HK\$M	<u>2019</u> HK\$M
Bank deposits at amortised cost, with original maturities		
- not more than 3 months (Note 16)	5,843	5,130
- over 3 months but not more than 1 year	7,920	-
	<u>13,763</u>	<u>5,130</u>
Securities at fair value		
- equity securities	<u>4,964</u>	<u>4,230</u>
Total investments	<u><u>18,727</u></u>	<u><u>9,360</u></u>

16 CASH AND CASH EQUIVALENTS

	<u>2020</u> HK\$M	<u>2019</u> HK\$M
Bank balances and cash	335	477
Bank deposits with original maturities not more than 3 months (Note 15)	<u>5,843</u>	<u>5,130</u>
Cash and cash equivalents in the statement of cash flows	<u><u>6,178</u></u>	<u><u>5,607</u></u>

17 CREDITORS, DEPOSITS AND OTHER PAYABLES

	<u>2020</u> HK\$M	<u>2019</u> HK\$M
Creditors and accruals	3,959	3,893
Unsettled purchases of securities	2	13
Payable for custodian's and fund managers' fees	7	5
Tenants' deposits	1,496	1,460
Deposits received for sale of HOS/TPS/GSH flats	870	879
Other deposits	69	63
Retention money	1,375	1,388
Liquidated damages deductions	<u>139</u>	<u>138</u>
	<u><u>7,917</u></u>	<u><u>7,839</u></u>

18 PROVISIONS AND OTHER LIABILITIES

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
	portion	portion		portion	portion	
HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
Provision for employee benefits	1,714	-	1,714	1,717	-	1,717
Provision for maintenance and minor improvements	-	248	248	-	274	274
Rent received in advance	295	-	295	291	-	291
Unamortised income relating to liquefied petroleum gas	7	17	24	9	24	33
Interest payable on HPLS loans sold (Note 12(d))	1	1	2	2	2	4
Land cost provisions relating to sold HOS/GSH flats	-	409	409	-	242	242
Residual construction payment relating to sold and divested properties	568	-	568	368	-	368
Provision for audit fees	7	-	7	8	-	8
Provision for mortgage default guarantee payments	1	-	1	-	-	-
Provision for expected credit losses on mortgage default guarantees	16	-	16	-	-	-
Others	8	-	8	3	-	3
	2,617	675	3,292	2,398	542	2,940

19 GOVERNMENT'S CONTRIBUTION

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

	2020		2019	
	Domestic housing	Non-domestic equity	Domestic housing	Non-domestic equity
	HK\$M	HK\$M	HK\$M	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	-
	4,812	642	4,812	642
				5,454
				827
				5,454

19 GOVERNMENT'S CONTRIBUTION (Continued)

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

	2020		2019	
	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	93	8
(ii) Value of land provided by Government				
- since 1.4.1973 pertaining to public rental housing estates and staff quarters for offices of the Authority	311,052	32,181	304,143	30,892
	-	140	-	140
		101		101
(iii) Home Ownership Scheme and Green Form Subsidised Home Ownership Scheme				
- difference between the land value (at full market value) and the land cost	172,130	-	157,653	-
- land value for non-domestic elements	-	3,997	-	3,866
- premium on removal of alienation restriction	8,443	-	8,181	-
		8,443		8,181
(iv) Tenants Purchase Scheme				
- difference between the land value (at full market value) at completion of the buildings and the land cost	26,420	-	26,159	-
		26,420		26,159
(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
		10		10
	519,956	36,336	498,047	34,916
		556,292		532,963

20 HOUSING CAPITAL WORKS FUND

	2020		2019	
	Construction Account HK\$M	Improvement Account HK\$M	Construction Account HK\$M	Improvement Account HK\$M
Balance at beginning of year	40,247	3,527	51,004	3,437
Transfer from/(to) accumulated surplus	4,156	(300)	(10,757)	90
Balance at end of year	44,403	3,227	40,247	3,527
		43,774		54,441
		3,856		(10,667)
		47,630		43,774

21 DEVELOPMENT FUND

	<u>2020</u>	<u>2019</u>
	HK\$M	HK\$M
Balance at beginning of year	23,112	25,325
Transfer from/(to) accumulated surplus	<u>10,016</u>	<u>(2,213)</u>
Balance at end of year	<u>33,128</u>	<u>23,112</u>

22 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 downward adjustment on divestment related expenditure was HK\$4 million (2019: Nil).

23 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>2020</u> HK\$M	<u>2019</u> HK\$M
(a) Income received from the Government		
Rental income	1,404	55
Reimbursement of costs of services provided to the Government	357	323
Supervision on-costs in respect of Government reimbursable projects	145	102
Other income	5	3
	<u>1,911</u>	<u>483</u>
(b) Amount due from the Government		
Receivable for Government-funded construction projects	2	-
Government rent refundable	5	1
On-costs accrual for Government-funded projects	1	-
Deposits and others	29	5
	<u>37</u>	<u>6</u>
(c) Amount due to the Government		
Land cost	3,120	1,518
Advance from Government for rental payment	36	-
Payable for Government rent and rates	12	8
Over-recovery on Government funded agency functions	23	14
Dividend payable	138	72
Others (e.g. company and land searches)	54	37
	<u>3,383</u>	<u>1,649</u>

24 CONTINGENT LIABILITIES

(a) Financial guarantees issued

As at 31 March 2020, 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\$35,603 million (2019: HK\$20,392 million) for the primary market and HK\$23,716 million (2019: HK\$20,486 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\$1,633 million (2019: HK\$2 million) for the primary market and HK\$14 million (2019: Nil) for the secondary market.

(ii) TPS flats sold

Default guarantees for flats sold under TPS amounted to HK\$4,283 million (2019: HK\$4,296 million) for the primary market and HK\$3,502 million (2019: HK\$2,737 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 (2019: Nil) for the primary market and its financial exposure for the secondary market is HK\$268 million (2019: HK\$222 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 2020, there were 22,319 units (2019: 28,583 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\$0.2 million (2019: HK\$0.1 million).

25 CAPITAL COMMITMENTS

The Authority had the following contractual capital commitments outstanding at 31 March 2020 not provided for in the financial statements:

	<u>2020</u> <u>HK\$M</u>	<u>2019</u> <u>HK\$M</u>
Capital Works/Projects		
- Public rental housing/GSH construction projects	29,492	26,619
- HOS construction projects	7,911	7,012
- Other projects	1,302	1,953
	<u>38,705</u>	<u>35,584</u>

26 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 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 which bear interest at fixed rates. The Authority monitors its interest rate risk with reference to the approved strategies and benchmarks. Since bank deposits are all measured 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 12(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 2020, the outstanding principal balance of the home purchase loans sold was HK\$231 million (2019: HK\$280 million) and their average remaining maturity was 19 months (2019: 25 months).

(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:

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
	HK\$M	HK\$M	HK\$M	HK\$M
US dollars	2,491	5	2,114	9
Pound sterling	75	-	99	-
Euro	622	-	505	1
Others	754	-	530	6
	<u>3,942</u>	<u>5</u>	<u>3,248</u>	<u>16</u>

Other currencies include mainly currencies of major developed countries.

Sensitivity analysis based on a 0.5% (2019: 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\$12 million (2019: HK\$11 million).

Sensitivity analysis based on a 5% (2019: 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\$73 million (2019: HK\$56 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 2020, all equity investments were measured at fair value as shown in Note 15.

Sensitivity analysis based on a 15% (2019: 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\$745 million (2019: HK\$634 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 11). Sensitivity analysis based on a 50 basis points increase/decrease in the interest rates for 2019 and 2020, with all other variables held constant, shows that the surplus for the year would have increased/decreased by HK\$156 million (2019: HK\$152 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>2020</u> <u>HK\$M</u>	<u>2019</u> <u>HK\$M</u>
Placements with the Exchange Fund	36,806	32,853
Bank balances	307	410
Bank deposits	13,763	5,130
Amount due from the Government	37	6
Debtors and deposits	537	408
Home Purchase/Assistance Loans	15	21
Mortgage default guarantees	67,104	47,911
	<u>118,569</u>	<u>86,739</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 and bank deposits, based on ratings designated by Moody's or their equivalents, is as follows:

	<u>2020</u>	<u>2019</u>
	HK\$M	HK\$M
Aa3 to Aa1	124	570
A3 to A1	12,885	4,970
Lower than A3	1,061	-
	<u>14,070</u>	<u>5,540</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 2020, provision for mortgage default guarantee payments amounted to HK\$1 million (2019: Nil, Note 18), and the financial exposure not provided for in the financial statements amounted to HK\$1,915 million (2019: HK\$224 million, Note 24(a)).

While other financial assets are subject to the impairment requirements, the Authority has estimated that their expected credit losses are minimal and considers that no loss allowance is required.

27 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 2020	Level 1	Total
	HK\$M	HK\$M
Assets		
Securities	<u>4,964</u>	<u>4,964</u>
As at 31 March 2019		
	Level 1	Total
	HK\$M	HK\$M
Assets		
Securities	<u>4,230</u>	<u>4,230</u>

No financial instruments were classified under Level 2 and Level 3.

During the year, there was no transfer of financial instruments between Level 1 and Level 2 of the fair value hierarchy (2019: no transfer between levels).

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).

28 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT

(a) CONSOLIDATED APPROPRIATION ACCOUNT

	Note	<u>2020</u> HK\$M	<u>2019</u> HK\$M
Consolidated Operating Account surplus			
Rental Housing	28(b)	718	763
Commercial	28(c)	1,546	1,606
Home Ownership Assistance	28(d)	11,002	2,928
Sub-total		<u>13,266</u>	<u>5,297</u>
Net non-operating income	6	<u>60</u>	<u>11</u>
		13,326	5,308
Funds Management Account surplus	28(e)	996	1,582
Agency Account surplus	28(f)	<u>43</u>	<u>39</u>
Surplus for the year		<u>14,365</u>	<u>6,929</u>
Distribution			
Dividend to the Government for the year		<u>(773)</u>	<u>(803)</u>
Surplus for the year after distribution		<u>13,592</u>	<u>6,126</u>

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

(b) RENTAL HOUSING OPERATING ACCOUNT

	2020			2019				
	Rental Housing (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Rent Allowance HK\$M	Total HK\$M	Rental Housing (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Rent Allowance HK\$M	Total HK\$M
INCOME								
Rental	17,319	21	-	17,340	16,329	20	-	16,349
Other income	95	-	-	95	65	-	-	65
TOTAL INCOME	17,414	21	-	17,435	16,394	20	-	16,414
EXPENDITURE								
Personal emoluments	3,366	7	1	3,374	3,192	6	2	3,200
Government rent and rates	203	-	-	203	176	-	-	176
Maintenance and improvements	3,757	18	-	3,775	3,495	19	-	3,514
Other recurrent expenditure	4,779	25	1	4,805	4,484	21	1	4,506
Depreciation and amortisation	4,321	13	-	4,334	4,026	12	-	4,038
Share of corporate supervision and support services expenses	225	1	-	226	216	1	-	217
TOTAL EXPENDITURE	16,651	64	2	16,717	15,589	59	3	15,651
Operating surplus/(deficit) for the year	763	(43)	(2)	718	805	(39)	(3)	763

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

(c) COMMERCIAL OPERATING ACCOUNT

	2020					2019						
	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		
INCOME												
Rental	1,620	804	180	180	606	3,210	1,591	769	201	564	3,125	
Other income	69	3	-	-	53	125	79	2	1	46	128	
TOTAL INCOME	1,689	807	180	180	659	3,335	1,670	771	202	610	3,253	
EXPENDITURE												
Personal emoluments	210	69	33	33	82	394	195	60	31	78	364	
Government rent and rates	53	32	-	-	60	145	49	33	-	58	140	
Maintenance and improvements	93	45	20	20	12	170	88	40	23	13	164	
Other recurrent expenditure	305	188	42	42	102	637	276	170	40	100	586	
Depreciation and amortisation	157	114	8	8	53	332	138	99	7	50	294	
Share of corporate supervision and support services expenses	15	5	2	2	6	28	14	4	2	5	25	
TOTAL EXPENDITURE	833	453	105	105	315	1,706	760	406	103	304	1,573	
Operating surplus before exceptional items	856	354	75	75	344	1,629	910	365	99	306	1,680	
Exceptional items ¹	(83)	-	-	-	-	(83)	(74)	-	-	-	(74)	
Operating surplus for the year	773	354	75	75	344	1,546	836	365	99	306	1,606	

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

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

(d) HOME OWNERSHIP ASSISTANCE OPERATING ACCOUNT

	2020					2019				
	HOS /GSH	PSPS	TPS	HPLS	Total	HOS /GSH	PSPS	TPS	HPLS	Total
	HK\$M	HK\$M	HK\$M	/HALS HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	/HALS HK\$M	HK\$M
INCOME										
Sales	22,035	-	959	-	22,994	6,987	-	1,441	-	8,428
Premium on removal of alienation restriction	678	249	175	-	1,102	678	305	283	-	1,266
Other income	122	4	7	-	133	93	4	8	-	105
TOTAL INCOME	22,835	253	1,141	-	24,229	7,758	309	1,732	-	9,799
EXPENDITURE										
Personal emoluments	322	35	57	19	433	312	38	55	17	422
Maintenance and improvements	10	2	3	-	15	24	2	4	-	30
Other recurrent expenditure	58	5	10	2	75	53	4	8	2	67
Depreciation and amortisation	27	1	2	2	32	22	1	2	1	26
Share of corporate supervision and support services expenses	26	3	5	1	35	25	3	4	2	34
Sub-total	443	46	77	24	590	436	48	73	22	579
Expenditure on subsidised sale flats	9,238	-	50	-	9,288	4,533	-	72	-	4,605
Construction cost and overheads	3,233	-	55	-	3,288	1,587	-	80	-	1,667
Government land cost	-	-	4	-	4	-	-	4	-	4
Cost of repurchased flats sold	57	-	1	-	58	15	-	(1)	-	14
Other expenditure	-	-	-	-	-	-	-	-	-	-
Sub-total	12,528	-	110	-	12,638	6,135	-	155	-	6,290
TOTAL EXPENDITURE	12,971	46	187	24	13,228	6,571	48	228	22	6,869
Operating surplus/(deficit) before exceptional items	9,864	207	954	(24)	11,001	1,187	261	1,504	(22)	2,930
Exceptional items ¹	1	-	-	-	1	(1)	-	-	(1)	(2)
Operating surplus/(deficit) for the year	9,865	207	954	(24)	11,002	1,186	261	1,504	(23)	2,928

¹ These mainly represent (i) (write-down) / reversal of 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 \$3 million (2019: \$4 million) made in the year.

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

(e) FUNDS MANAGEMENT ACCOUNT

	2020		2019					
	In-house portfolio ¹	Placements with the Exchange Fund ²	Portfolios managed by external fund managers ³	Total	In-house portfolio ¹	Placements with the Exchange Fund ²	Portfolios managed by external fund managers ³	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
INCOME								
Interest income	349	1,040	-	1,389	169	1,260	8	1,437
Dividend income	-	-	79	79	-	-	73	73
Net realised and revaluation (losses)/gains	-	-	(351)	(351)	-	-	160	160
Net exchange losses	-	-	(73)	(73)	-	-	(40)	(40)
TOTAL INCOME	349	1,040	(345)	1,044	169	1,260	201	1,630
EXPENDITURE								
Investment expenditure	-	-	23	23	-	-	21	21
Fund managers' fees	-	-	2	2	-	-	2	2
Custodian's fees	-	-	5	5	-	1	6	7
Other investment expenditure	-	-	30	30	-	1	29	30
Sub-total	-	-	30	30	-	1	29	30
Recurrent expenditure	8	1	5	14	8	-	5	13
Personal emoluments	1	-	-	1	1	-	-	1
Depreciation and amortisation	2	-	1	3	3	-	1	4
Other recurrent expenditure	11	1	6	18	12	-	6	18
Sub-total	11	1	36	48	12	1	35	48
TOTAL EXPENDITURE	338	1,039	(381)	996	157	1,259	166	1,582
Surplus/(deficit) for the year								

¹ The In-house portfolio comprises bank deposits stated at their principal amounts.

² 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.

³ 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.

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

(f) AGENCY ACCOUNT

	2020			2019		
	Agency Functions ¹	Agency Management Services ²	Supervision of Government Reimbursable Projects ³	Agency Functions ¹	Agency Management Services ²	Supervision of Government Reimbursable Projects ³
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
INCOME						
Supervision fee	-	160	-	-	155	-
Supervision on-costs	-	74	145	-	68	102
Amount reimbursed by Government	356	-	1	322	-	1
TOTAL INCOME	356	234	146	322	223	103
EXPENDITURE						
Personal emoluments	305	144	121	277	137	88
Maintenance and improvements	2	8	1	2	8	1
Other recurrent expenditure	25	12	18	28	10	16
Depreciation and amortisation	2	2	9	4	2	5
Share of corporate supervision and support services expenses	1	10	10	1	9	7
TOTAL EXPENDITURE	335	176	159	312	166	117
Surplus/(deficit) for the year before adjustments	21	58	(13)	10	57	(14)
Over recovery brought forward	14	-	-	20	-	-
Over recovery settled during the year	(14)	-	-	(20)	-	-
Over recovery carried forward	(23)	-	-	(14)	-	-
Surplus/(deficit) for the year	(2)	58	(13)	(4)	57	(14)

¹ 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.

² 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.

³ 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.

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