

## Financial Review

Supporting the vision and mission of the Hong Kong Housing Authority (HA), the delivery of quality financial management through a “best practice” approach remained our key focus in 2013/14. We continued to explore opportunities to improve and strengthen our financial and risk-management processes to provide maximum financial and business value in all our activities.

The HA is financially autonomous. Our massive public housing programmes are sustained through internally generated funds. Our financial resources are prudently managed for smooth operation of our capital programmes, operational services and business initiatives.

### The 2013/14 Financial Statements

The HA’s Financial Statements have been prepared in accordance with accounting policies approved by the HA and the 1988 Financial Arrangements with the government, as amended by the 1994 Supplemental Agreement. A full set of the Financial Statements for 2013/14 is enclosed together with this Annual Report in a shared jacket. Additionally, summaries of the HA’s operating results and capital expenditure for the past five years are depicted in Appendices 9 and 10 of this Annual Report respectively.

### Financial Highlights

The consolidated result for the year is summarised as follows:

	\$M
1. Consolidated Operating Account Surplus	2,807
2. Funds Management Account Surplus	3,547
3. Agency Account Surplus	19
<b>Surplus for the year</b>	<b>6,373</b>

#### 1. Consolidated Operating Account

The Consolidated Operating Account summarises the operating results for Rental Housing, Commercial and Home Ownership Assistance activities. It shows an overall operating surplus of \$2,807 million for 2013/14 after taking into account a net special expenditure of \$80 million.

Rental Housing Operations incurred a deficit of \$179 million during 2013/14, analysed over the following types of housing:

Operating Deficit	\$M
Rental Housing (excluding Interim Housing)	108
Interim Housing	68
Rent Allowance for the Elderly	3
	<b>179</b>

Commercial Operations generated a surplus of \$948 million before charging exceptional items of \$34 million, analysed over the following types of facilities:

Operating Surplus	\$M
Commercial Complexes	486
Car Parks	173
Factories	47
Welfare Premises	242
	<b>948</b>

The exceptional items of \$34 million represent demolition and clearance costs, and expenditure incurred on Government Infrastructure and Community facilities funded by the HA.

Home Ownership Assistance Operations generated a surplus of \$2,155 million before including an exceptional item of \$3 million, analysed over the following ownership schemes:

Operating Surplus / (Deficit)	\$M
Home Ownership Scheme (HOS)	815
Private Sector Participation Scheme (PSPS)	213
Tenants Purchase Scheme (TPS)	1,160
Home Purchase Loan Scheme (HPLS) and Home Assistance Loan Scheme (HALS)	(33)
	<b>2,155</b>

The exceptional item of \$3 million represents upward adjustments of future interest liability on the outstanding balance of the HPLS loan portfolio sold to the Hong Kong Mortgage Corporation Limited after related interest payment of \$17 million made in the year.

## 2. Funds Management Account

Income and expenditure relating to the management of the HA's funds available for investment are included in the Funds Management Account, which shows a surplus of \$3,547 million for 2013/14. As at 31 March 2014, the HA's funds available for investment stood at \$69,794 million. For 2013/14, the overall return (gross) on the HA's funds was 5.3%.

The HA's investment strategy is determined by the HA's Finance Committee with reference to the independent professional investment consultant's findings and recommendations. The aims of the HA's investment strategy are to ensure that there is sufficient liquidity to meet the operational needs of the HA, and to put the rest of the HA's funds into longer term investments in a prudent and diversified manner to enhance long term returns.

The Finance Committee, with the assistance of its Funds Management Sub-Committee, reviews the HA's investment strategy and position from time to time. The Funds Management Sub-Committee also advises on the selection of fund managers and monitors their performance, while ongoing monitoring of day-to-day operations is conducted by the Housing Department. An annual health check on the HA's Strategic Asset Allocation, taking into account the latest financial markets situation and risks, was completed in 2013/14 with the assistance of an independent investment consultant. The resulting revised Strategic Asset Allocation is summarised below:

Principal protection placements with the Exchange Fund	around 55.0%
HKD/USD deposits and bonds	5.0%
RMB deposits and bonds	10.0%
Global bonds	12.5%
Equities	17.5%
	<b>100.0%</b>

## 3. Agency Account

The Agency Account shows the operating results for agency functions undertaken on behalf of the government, for agency management services for completed HOS domestic courts and the common areas of the estates with properties divested, and for the supervision of government reimbursable projects.