

# Hong Kong Housing Authority

Financial statements for the year ended 31 March 2014

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# *Report of the Director of Audit*



## **Audit Commission**

The Government of the Hong Kong Special Administrative Region

### **Independent Audit Report**

I have audited the financial statements of the Hong Kong Housing Authority set out on pages 3 to 58, which comprise the statement of financial position as at 31 March 2014, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Hong Kong Housing Authority's Responsibility for the Financial Statements**

The Hong Kong Housing Authority is responsible for the preparation of these financial statements in accordance with section 14(1) of the Housing Ordinance (Cap. 283), the 1988 Financial Arrangements with the Hong Kong Government (as amended by the 1994 Supplemental Agreement) 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 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.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 14(2) of the Housing Ordinance and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Hong Kong Housing Authority, as well as evaluating the presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements of the Hong Kong Housing Authority for the year ended 31 March 2014 are prepared, in all material respects, in accordance with the 1988 Financial Arrangements with the Hong Kong Government (as amended by the 1994 Supplemental Agreement) 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.



David Sun  
Director of Audit

29 September 2014

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 2014**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2014	2013
<b>Income</b>			
Rental income	4(a)	13,883	12,161
Sales and premium income	4(b)	3,667	2,604
Investment income	4(c)	3,655	4,395
Other income	4(d)	170	187
		<u>21,375</u>	<u>19,347</u>
<b>Expenditure</b>			
Personal emoluments		3,230	3,131
Government rent and rates		236	209
Maintenance and improvements		2,728	2,638
Depreciation and amortisation		3,099	2,928
Expenditure on home ownership schemes	5	1,201	214
Other expenditure		4,428	4,307
		<u>14,922</u>	<u>13,427</u>
<b>Operating surplus</b>		<b>6,453</b>	<b>5,920</b>
<b>Net non-operating expenditure</b>	6	<u>(80)</u>	<u>(98)</u>
<b>Surplus for the year</b>		<b>6,373</b>	<b>5,822</b>
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u><u>6,373</u></u>	<u><u>5,822</u></u>

The notes on pages 9 to 58 form part of these financial statements.


**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2014**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2014	2013
<b>Non-current assets</b>			
Property, plant and equipment	7	114,312	107,065
Capital works / projects in progress	8	16,957	17,725
Intangible assets	9	365	383
Placements with the Exchange Fund	10	36,605	34,862
Investments in securities and bank deposits	11(a)	5,652	1,394
Home Purchase / Assistance Loans	12	138	209
Other assets	13	36	71
		<u>174,065</u>	<u>161,709</u>
<b>Current assets</b>			
Inventories	14	2	763
Debtors, deposits and prepayments	15	2,155	1,165
Amount due from the Government	23(b)	14	18
Investments in securities and bank deposits	11(b)	27,304	32,967
Bank balances and cash	16	638	409
		<u>30,113</u>	<u>35,322</u>
<b>Current liabilities</b>			
Creditors, deposits and other payables	17	8,934	7,669
Amount due to the Government	23(c)	489	351
Provisions and other liabilities	18	320	352
		<u>9,743</u>	<u>8,372</u>
<b>Net current assets</b>		<u>20,370</u>	26,950
<b>Total assets less current liabilities</b>		<b>194,435</b>	188,659
<b>Non-current liabilities</b>			
Provisions and other liabilities	18	600	740
<b>Net assets</b>		<u>193,835</u>	<u>187,919</u>

The notes on pages 9 to 58 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2014 (Continued)**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2014	2013
<b>Representing:</b>			
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		94,523	89,611
Housing Capital Works Fund	20	24,403	24,312
Development Fund	21	<u>55,954</u>	<u>55,041</u>
		<u><b>193,835</b></u>	<u><b>187,919</b></u>

  
 Professor Anthony BL Cheung  
 Chairman  
 Hong Kong Housing Authority  
 29 September 2014

The notes on pages 9 to 58 form part of these financial statements.



**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 31 MARCH 2014**  
**(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 2012</b>	13,489	5,454	12	83,599	21,823	58,090	182,467
Total comprehensive income for the year	-	-	-	5,822	-	-	5,822
Dividend to the Government for the year	-	-	-	(370)	-	-	(370)
Transfer from / (to) accumulated surplus	-	-	-	560	2,489	(3,049)	-
<b>Balance at 31 March 2013</b>	<u>13,489</u>	<u>5,454</u>	<u>12</u>	<u>89,611</u>	<u>24,312</u>	<u>55,041</u>	<u>187,919</u>
<b>Balance at 1 April 2013</b>	<b>13,489</b>	<b>5,454</b>	<b>12</b>	<b>89,611</b>	<b>24,312</b>	<b>55,041</b>	<b>187,919</b>
Total comprehensive income for the year	-	-	-	<b>6,373</b>	-	-	<b>6,373</b>
Dividend to the Government for the year	-	-	-	<b>(457)</b>	-	-	<b>(457)</b>
Transfer from accumulated surplus	-	-	-	<b>(1,004)</b>	<b>91</b>	<b>913</b>	-
<b>Balance at 31 March 2014</b>	<u><b>13,489</b></u>	<u><b>5,454</b></u>	<u><b>12</b></u>	<u><b>94,523</b></u>	<u><b>24,403</b></u>	<u><b>55,954</b></u>	<u><b>193,835</b></u>

The notes on pages 9 to 58 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2014**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2014	2013
<b>Cash flows from operating activities</b>			
Surplus for the year		6,373	5,822
Adjustments for:			
Investment income	4(c)	(3,655)	(4,395)
Expenditure / (Reversal of expenditure) on divestment of retail and carparking facilities	6	4	(22)
Depreciation of property, plant and equipment		2,979	2,830
Amortisation of intangible assets		138	123
Written down value of Tenants Purchase Scheme flats sold		117	104
Adjustment of capital expenditure		99	125
Decrease in Home Purchase / Assistance Loans		82	106
Decrease in impairment allowance for Home Purchase / Assistance Loans		(5)	(8)
Decrease in other assets		36	50
Increase in Home Ownership Scheme (Domestic) properties under development		(662)	(218)
Decrease / (Increase) in inventories		761	(8)
Decrease in securities at fair value		6,986	6,638
(Increase) / Decrease in debtors, prepayments and other receivables		(1,074)	992
Increase / (Decrease) in creditors, accruals and other payables		1,400	(677)
Decrease in provisions and other liabilities		(177)	(93)
<b>Net cash from operating activities</b>		<u>13,402</u>	<u>11,369</u>

The notes on pages 9 to 58 form part of these financial statements.

**HONG KONG HOUSING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2014 (Continued)**  
**(Expressed in millions of Hong Kong dollars)**

	Note	2014	2013
<b>Cash flows from investing activities</b>			
Proceeds from redemption of held-to-maturity securities		418	343
Increase in placements with the Exchange Fund		(1,743)	(1,849)
Increase in bank deposits with original maturity over 3 months		(4,476)	(295)
Payments relating to divestment of retail and carparking facilities		(4)	(1)
Payments relating to capital works / projects in progress			
-New public rental housing		(7,177)	(7,408)
-Redeveloped public rental housing		(1,098)	(1,004)
-Home Ownership Scheme (Commercial)		(18)	(8)
-Housing Authority offices		-	(1)
-Computer systems		(153)	(189)
-Improvement works		(654)	(681)
Interest received		2,148	2,279
Dividends received		269	332
<b>Net cash used in investing activities</b>		<u>(12,488)</u>	<u>(8,482)</u>
<b>Cash flows from financing activities</b>			
Dividend paid to the Government		(479)	(340)
<b>Net cash used in financing activities</b>		<u>(479)</u>	<u>(340)</u>
<b>Net increase in cash and cash equivalents</b>		435	2,547
<b>Cash and cash equivalents at beginning of year</b>		<u>8,478</u>	<u>5,931</u>
<b>Cash and cash equivalents at end of year</b>	16	<u>8,913</u>	<u>8,478</u>

The notes on pages 9 to 58 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. 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 excess of the full market value of land over the land cost charged by the Government for the domestic element of the Home Ownership Scheme (HOS) and the land value for the non-domestic elements in rental estates and Home Ownership courts (i.e. carparks and commercial facilities) are not included in the accounts but included as memorandum entries in Note 19(b).

**(c) Dividend to the Government for the year**

The overall surplus arising from the operation of non-domestic facilities in rental estates and Home Ownership 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) continued to undertake 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 and derivative financial instruments, which are stated at their fair value as explained in the accounting policies set out at Notes 2(i) and 2(l).

#### (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

and estimates with a significant risk of material adjustment in the next year are explained in Note 3.

**(b) Income recognition**

Income is recognised when it is probable that the economic benefits will flow to the Authority and the income and costs, if applicable, can be measured reliably. 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/resale of HOS/PSPS flats which is recognised upon signing of the sale and purchase agreement;
- proceeds from the sale/resale of flats under the Tenants Purchase Scheme (TPS) which is recognised upon signing of the Deed of Assignment; and
- premium payments from HOS/PSPS/TPS flat owners 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 arising from the provision of services are recognised upon the delivery of services; 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.
- 'GLCH' Estates of the former Government Low Cost Housing Scheme plus additions thereto since 1 April 1973.
- 'HOS(ND)' Non-domestic premises of the Home Ownership Scheme.
- '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;

'GLCH' - For those completed before 1 April 1973, at deemed cost equal to written down value at 31 March 1973; and for those completed after 31 March 1973, 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 and electronic equipment

Computer systems (including both hardware and software) and electronic equipment costing HK\$500,000 or more each are recognised as assets at cost. For computer systems, 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 plant and equipment is added to the carrying amount of the asset if future economic benefits will flow to the Authority,

computer system 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	
- Interim Housing	10 years
- Rental premises (excluding Interim Housing) and others	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

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

This includes expenditure incurred on properties or computer systems 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 (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 Home Ownership (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', 'GLCH', 'IH' and 'RD'<sup>1</sup> - 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 Home Ownership Scheme is the excess of the full market value of land over 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

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

Wong Tai Sin, the land value is based on assessment made by the Lands Department at the date of completion of the buildings.

'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 end of the reporting period. The balance is stated at amortised cost.

**(i) Investments in securities**

Securities that the Authority has the positive intention and ability to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the statement of financial position at fair value plus transaction costs. Subsequently, they are stated in the statement of financial position at amortised cost using the effective interest method less impairment losses (Note 2(k)).

Securities managed by external fund managers are designated at fair value as they are managed, evaluated and reported internally on a fair value basis. Investments in these securities are initially stated at fair value. At the end of each reporting period, 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.

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

**(j) Loans and receivables**

Loans and receivables are initially recognised at fair value and thereafter stated 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)).

**(k) Impairment of investments in securities, loans and receivables**

Investments in held-to-maturity securities, loans and receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised in the statement of comprehensive income as follows:

- (i) for financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses for these financial assets are reversed if in a subsequent period the amount of the impairment loss decreases; and
- (ii) for financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset). If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the statement of comprehensive income. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

**(l) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured and any change in fair value is recognised in the statement of comprehensive income.

**(m) Inventories**

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

The net realisable value of repurchased and unsold new 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) Other assets**

Other assets represent the Authority's contributions to the maintenance funds of individual TPS estates. For each TPS estate, the Authority makes a one-off contribution to the estate's maintenance fund in accordance with the estate's Deed of Mutual Covenant.

Other assets are carried at cost less accumulated amortisation. Amortisation of other assets is charged to the statement of comprehensive income on a straight-line basis over 10 years.



When flats in TPS estates are sold, the carrying amount of other assets attributable to those flats is recognised as an expense in the year in which the related sales income is recognised.

**(o) 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.

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

Creditors and other financial liabilities are stated 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.

**(q) 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.

**(r) 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 end of the reporting period. Exchange gains and losses are recognised in the statement of comprehensive income.

**(s) 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 HOS/PSPS/TPS 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 the end of each reporting period 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.

**(t) 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.

**(u) 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>2014</u>	<u>2013</u>
	HK\$M	HK\$M
<b>(a) Rental income</b>		
Rental housing	11,862	10,358
Commercial properties	<u>2,021</u>	<u>1,803</u>
	<u>13,883</u>	<u>12,161</u>
<b>(b) Sales and premium income</b>		
Sales of flats	2,724	1,012
Premium on removal of alienation restriction	<u>943</u>	<u>1,592</u>
	<u>3,667</u>	<u>2,604</u>
<b>(c) Investment income</b>		
Interest income from		
- placements with the Exchange Fund	1,638	1,819
- securities at fair value	207	283
- bank deposits	197	97
- held-to-maturity securities	<u>28</u>	<u>40</u>
	2,070	2,239
Net realised and revaluation gains on securities designated at fair value	1,332	1,967
Net exchange gains / (losses) on		
- securities at fair value	48	(202)
- others	<u>(63)</u>	<u>56</u>
	(15)	(146)
Dividend income from securities at fair value	267	334
Other investment income	1	1
	<u>3,655</u>	<u>4,395</u>
<b>(d) Other income</b>		
Fees and charges	45	36
Miscellaneous income	<u>125</u>	<u>151</u>
	<u>170</u>	<u>187</u>
<b>Total income</b>	<u>21,375</u>	<u>19,347</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\$1,576 million (2013: HK\$1,404 million).

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

	<u>2014</u>	<u>2013</u>
	HK\$M	HK\$M
Not later than one year	742	706
Later than one year but not later than five years	881	785
Later than five years	124	131
	<u>1,747</u>	<u>1,622</u>

#### 5 EXPENDITURE ON HOME OWNERSHIP SCHEMES

	<u>2014</u>	<u>2013</u>
	HK\$M	HK\$M
Cost of flats sold		
- Construction cost and overheads	744	105
- Government land cost	235	86
- Cost of repurchased flats	153	7
	<u>1,132</u>	<u>198</u>
Adjustments to the interest payable on HPLS loans sold (Note 3(a))	3	(23)
Other expenditure	66	39
	<u>1,201</u>	<u>214</u>

#### 6 NET NON-OPERATING EXPENDITURE

	<u>2014</u>	<u>2013</u>
	HK\$M	HK\$M
(Expenditure) / Reversal of expenditure on divestment of retail and carparking facilities (Note 22)	(4)	22
Reimbursement from Urban Renewal Authority for the costs of the allocated rental flats for affected clearerees	19	12
Project costs for abortive sites	(99)	(125)
Adjustment on surplus HOS flats and carparking facilities sold to the Government	-	(10)
Other income	4	3
	<u>(80)</u>	<u>(98)</u>

## 7 PROPERTY, PLANT AND EQUIPMENT

	2014				2013			
	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
<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	(93)	-	(25)	(118)	(93)	-	(24)	(117)
Charge for the year	(1)	-	(1)	(2)	-	-	(1)	(1)
Accumulated depreciation at end of year	(94)	-	(26)	(120)	(93)	-	(25)	(118)
Net book value at end of year	11	-	31	42	12	-	32	44
<b>(b) Site formation</b>								
Cost at beginning of year	2,535	1	8	2,544	2,467	1	8	2,476
Additions	23	-	-	23	76	-	-	76
Transfers	-	-	-	-	-	-	-	-
Disposals / demolition	(7)	-	-	(7)	(8)	-	-	(8)
Cost at end of year	2,551	1	8	2,560	2,535	1	8	2,544
Accumulated depreciation at beginning of year	(1,114)	(1)	(6)	(1,121)	(1,079)	(1)	(6)	(1,086)
Charge for the year	(40)	-	-	(40)	(40)	-	-	(40)
Written back on disposals / demolition	4	-	-	4	5	-	-	5
Accumulated depreciation at end of year	(1,150)	(1)	(6)	(1,157)	(1,114)	(1)	(6)	(1,121)
Net book value at end of year	1,401	-	2	1,403	1,421	-	2	1,423
<b>(c) Buildings</b>								
Cost at beginning of year	149,862	536	1,834	152,232	142,669	507	1,834	145,010
Additions	10,164	-	1	10,165	7,484	-	-	7,484
Transfers	(29)	29	-	-	(29)	29	-	-
Disposals / demolition	(287)	-	-	(287)	(262)	-	-	(262)
Cost at end of year	159,710	565	1,835	162,110	149,862	536	1,834	152,232
Accumulated depreciation at beginning of year	(46,594)	(321)	(780)	(47,695)	(44,119)	(307)	(749)	(45,175)
Charge for the year	(2,784)	(6)	(31)	(2,821)	(2,647)	(6)	(31)	(2,684)
Transfers	9	(9)	-	-	8	(8)	-	-
Written back on disposals / demolition	177	-	-	177	164	-	-	164
Accumulated depreciation at end of year	(49,192)	(336)	(811)	(50,339)	(46,594)	(321)	(780)	(47,695)
Net book value at end of year	110,518	229	1,024	111,771	103,268	215	1,054	104,537

## 7 PROPERTY, PLANT AND EQUIPMENT (Continued)

2014

2013

	2014				2013			
	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
<b>(d) Improvement works</b>								
Cost at beginning of year	2,944	-	102	3,046	2,905	-	102	3,007
Additions	124	-	3	127	45	-	-	45
Disposals	(45)	-	-	(45)	(6)	-	-	(6)
Cost at end of year	3,023	-	105	3,128	2,944	-	102	3,046
Accumulated depreciation at beginning of year	(1,976)	-	(99)	(2,075)	(1,902)	-	(97)	(1,999)
Charge for the year	(87)	-	1	(86)	(77)	-	(2)	(79)
Written back on disposals	41	-	-	41	3	-	-	3
Accumulated depreciation at end of year	(2,022)	-	(98)	(2,120)	(1,976)	-	(99)	(2,075)
Net book value at end of year	1,001	-	7	1,008	968	-	3	971
<b>(e) Computer equipment</b>								
Cost at beginning of year	-	-	294	294	-	-	259	259
Additions	-	-	28	28	-	-	40	40
Disposals	-	-	-	-	-	-	(5)	(5)
Cost at end of year	-	-	322	322	-	-	294	294
Accumulated depreciation at beginning of year	-	-	(204)	(204)	-	-	(185)	(185)
Charge for the year	-	-	(30)	(30)	-	-	(24)	(24)
Written back on disposals	-	-	-	-	-	-	5	5
Accumulated depreciation at end of year	-	-	(234)	(234)	-	-	(204)	(204)
Net book value at end of year	-	-	88	88	-	-	90	90
<b>(f) Electronic equipment</b>								
Cost at beginning of year	564	-	7	571	566	-	7	573
Additions	-	-	-	-	2	-	-	2
Disposals	(13)	-	(1)	(14)	(4)	-	-	(4)
Cost at end of year	551	-	6	557	564	-	7	571
Accumulated depreciation at beginning of year	(564)	-	(7)	(571)	(566)	-	(7)	(573)
Charge for the year	-	-	-	-	(2)	-	-	(2)
Written back on disposals	13	-	1	14	4	-	-	4
Accumulated depreciation at end of year	(551)	-	(6)	(557)	(564)	-	(7)	(571)
Net book value at end of year	-	-	-	-	-	-	-	-
<b>Total net book value at end of year <sup>1</sup></b>	<b>112,931</b>	<b>229</b>	<b>1,152</b>	<b>114,312</b>	<b>105,669</b>	<b>215</b>	<b>1,181</b>	<b>107,065</b>
<sup>1</sup> Represented by assets of								
Domestic rental housing	105,577	229	-	105,806	98,959	215	-	99,174
Non-domestic facilities	7,354	-	-	7,354	6,710	-	-	6,710
Housing Authority office buildings and others	-	-	1,152	1,152	-	-	1,181	1,181
	<b>112,931</b>	<b>229</b>	<b>1,152</b>	<b>114,312</b>	<b>105,669</b>	<b>215</b>	<b>1,181</b>	<b>107,065</b>



## 8 CAPITAL WORKS / PROJECTS IN PROGRESS

	1 April 2013	Additions, reclassification and adjustments <sup>1</sup>	Transfer to other asset categories or expenditure	31 March 2014	1 April 2012	Additions, reclassification and adjustments <sup>1</sup>	Transfer to other asset categories or expenditure	31 March 2013
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>(a) Housing Capital Works Fund - Construction Account</b>								
(i) Properties under development:								
New public rental housing								
Site formation	78	7	(23)	62	63	20	(5)	78
Buildings	14,457	6,474	(10,006)	10,925	8,701	7,415	(1,659)	14,457
	14,535	6,481	(10,029)	10,987	8,764	7,435	(1,664)	14,535
Redeveloped public rental housing								
Site formation	184	64	-	248	313	(58)	(71)	184
Buildings	1,373	1,656	(164)	2,865	6,181	1,016	(5,824)	1,373
	1,557	1,720	(164)	3,113	6,494	958	(5,895)	1,557
HOS (Domestic)								
Site formation	8	4	-	12	-	8	-	8
Buildings	259	687	(19)	927	47	229	(17)	259
	267	691	(19)	939	47	237	(17)	267
HOS (Commercial)								
Site formation	-	-	-	-	-	-	-	-
Buildings	15	19	-	34	7	8	-	15
	15	19	-	34	7	8	-	15
Housing Authority offices								
Buildings	-	-	-	-	-	1	(1)	-
	-	-	-	-	-	1	(1)	-
Sub-total	16,374	8,911	(10,212)	15,073	15,312	8,639	(7,577)	16,374
(ii) Computer equipment	40	153	(148)	45	100	189	(249)	40
Total	16,414	9,064	(10,360)	15,118	15,412	8,828	(7,826)	16,414
<b>(b) Housing Capital Works Fund - Improvement Account</b>								
(i) Improvement works on buildings	1,311	657	(129)	1,839	676	680	(45)	1,311
(ii) Electronic Equipment	-	-	-	-	-	2	(2)	-
Total	1,311	657	(129)	1,839	676	682	(47)	1,311
<b>Total capital works / projects in progress</b>	<b>17,725</b>	<b>9,721</b>	<b>(10,489)</b>	<b>16,957</b>	<b>16,088</b>	<b>9,510</b>	<b>(7,873)</b>	<b>17,725</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>2014</u>	<u>2013</u>
	HK\$M	HK\$M
<b>Computer software licences and system development costs</b>		
Cost:		
At beginning of year	1,424	1,345
Additions	120	209
Disposals	<u>(288)</u>	<u>(130)</u>
At end of year	<u>1,256</u>	<u>1,424</u>
Accumulated amortisation:		
At beginning of year	(1,041)	(1,048)
Charge for the year	(138)	(123)
Written back on disposals	<u>288</u>	<u>130</u>
At end of year	<u>(891)</u>	<u>(1,041)</u>
Net book value at end of year	<u>365</u>	<u>383</u>

## 10 PLACEMENTS WITH THE EXCHANGE FUND

The balance of the placements with the Exchange Fund amounted to HK\$36,605 million (2013: HK\$34,862 million), being the total principal sums of HK\$30,000 million (2013: HK\$30,000 million) plus HK\$6,605 million (2013: HK\$4,862 million) interest credited but not yet withdrawn at the end of the reporting period. The term of the placements is for a period of six years from the respective dates of placements, during which the Authority shall not demand repayment of the principal sums.

Interest on the placements is payable at a fixed rate determined every January. 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 Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher. The interest rate has been fixed at 3.6% per annum for 2014 and at 5.0% per annum for 2013.

## 11 INVESTMENTS IN SECURITIES AND BANK DEPOSITS

	<u>2014</u>	<u>2013</u>
	HK\$M	HK\$M
<b>(a) Investments classified as non-current assets</b>		
Bank deposits at amortised cost, with original maturity over 1 year	<u>5,367</u>	<u>1,207</u>
Held-to-maturity securities at amortised cost, with remaining maturity over 1 year	<u>285</u>	<u>187</u>
	<u>5,652</u>	<u>1,394</u>
<b>(b) Investments classified as current assets</b>		
Bank deposits at amortised cost, with original maturity		
- not more than 3 months (Note 16)	<u>8,029</u>	<u>7,493</u>
- over 3 months but not more than 1 year	<u>1,477</u>	<u>1,184</u>
	<u>9,506</u>	<u>8,677</u>
Held-to-maturity securities at amortised cost, with remaining maturity not more than 1 year	<u>187</u>	<u>743</u>
Securities at fair value		
Debt securities designated at fair value with maturity		
- not more than 3 months from date of acquisition (Note 16)	<u>28</u>	<u>14</u>
- over 3 months from date of acquisition	<u>5,445</u>	<u>11,451</u>
	<u>5,473</u>	<u>11,465</u>
Equity securities designated at fair value	<u>11,920</u>	<u>11,520</u>
Money market funds designated at fair value (Note 16)	<u>218</u>	<u>562</u>
	<u>17,611</u>	<u>23,547</u>
	<u>27,304</u>	<u>32,967</u>
<b>Total investments</b>	<u><u>32,956</u></u>	<u><u>34,361</u></u>

## 12 HOME PURCHASE / ASSISTANCE LOANS

	2014				2013			
	Home Purchase Loan Scheme	Enhanced Home Purchase Loan Scheme	Home Assistance Loan Scheme	Total	Home Purchase Loan Scheme	Enhanced Home Purchase Loan Scheme	Home Assistance Loan Scheme	Total
	(Notes 12a & d)	(Notes 12b & d)	(Note 12c)		(Notes 12a & d)	(Notes 12b & d)	(Note 12c)	
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Gross carrying amount:								
At beginning of year	171	27	244	442	193	29	326	548
Loan repayments	(10)	(1)	(67)	(78)	(15)	(1)	(82)	(98)
Loans written off	(3)	(1)	-	(4)	(7)	(1)	-	(8)
At end of year	158	25	177	360	171	27	244	442
Impairment allowance for doubtful loans:								
At beginning of year	(144)	(24)	(2)	(170)	(151)	(25)	(2)	(178)
Impairment loss reversed	1	-	-	1	-	-	-	-
Loans written off	3	1	-	4	7	1	-	8
At end of year	(140)	(23)	(2)	(165)	(144)	(24)	(2)	(170)
Carrying amount at end of year	18	2	175	195	27	3	242	272
Portion classified as current assets (Note 15)	(7)	(1)	(49)	(57)	(8)	(1)	(54)	(63)
Portion classified as non-current assets	11	1	126	138	19	2	188	209

## 12 HOME PURCHASE / ASSISTANCE LOANS (Continued)

### (a) Home Purchase Loan Scheme

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 2014, as disclosed in Note 18, the remaining liability amounted to HK\$47 million (2013: HK\$61 million).

### 13 OTHER ASSETS

	<u>2014</u> HK\$M	<u>2013</u> HK\$M
<b>Contributions to the maintenance funds of individual TPS estates</b>		
Carrying amount at beginning of year	104	154
Amortisation for the year	(32)	(45)
Transfer to cost of sales for sold TPS flats	(4)	(5)
Carrying amount at end of year	<u>68</u>	<u>104</u>
Portion classified as current assets (Note 15)	<u>(32)</u>	<u>(33)</u>
Portion classified as non-current assets	<u>36</u>	<u>71</u>

### 14 INVENTORIES

	<u>2014</u> HK\$M	<u>2013</u> HK\$M
Stock of unsold new HOS/PSPS flats	1	615
Stock of repurchased HOS/PSPS flats	-	147
	<u>1</u>	<u>762</u>
Stores and spares	<u>1</u>	<u>1</u>
	<u>2</u>	<u>763</u>

During the year, 831 units (2013: Nil) of HOS/PSPS flats were sold. As at 31 March 2014, the stock balance consisted of 1 flat (2013: 832 flats).

### 15 DEBTORS, DEPOSITS AND PREPAYMENTS

	<u>2014</u> HK\$M	<u>2013</u> HK\$M
Debtors	55	50
Interest receivable from the placements		
with the Exchange Fund	325	430
Other interest receivable	164	136
Interest tax refund receivable	-	1
Dividends receivable	20	27
Dividend tax refund receivable	10	6
Unsettled sales and redemption of securities	1,329	197
Home Purchase / Assistance Loans (Note 12)	57	63
Deposits	95	100
Contributions to the maintenance funds of individual TPS estates (Note 13)	32	33
Prepayments	2	1
Lease incentives amortisation	45	37
Derivative financial instruments (Note 26)	21	84
	<u>2,155</u>	<u>1,165</u>

## 16 CASH AND CASH EQUIVALENTS

	<u>2014</u> HK\$M	<u>2013</u> HK\$M
Bank balances and cash	638	409
Bank deposits with original maturity not more than 3 months (Note 11)	8,029	7,493
Money market funds (Note 11)	218	562
Debt securities designated at fair value with maturity not more than 3 months from date of acquisition (Note 11)	<u>28</u>	<u>14</u>
Cash and cash equivalents in the statement of cash flows	<u><u>8,913</u></u>	<u><u>8,478</u></u>

## 17 CREDITORS, DEPOSITS AND OTHER PAYABLES

	<u>2014</u> HK\$M	<u>2013</u> HK\$M
Creditors and accruals	5,338	4,907
Unsettled purchases of securities	1,560	822
Payable for custodian's and fund managers' fees	19	21
Tenants' deposits	1,195	1,146
Other deposits	54	58
Retention money	562	513
Liquidated damages deductions	146	162
Other payables	1	1
Derivative financial instruments (Note 26)	<u>59</u>	<u>39</u>
	<u><u>8,934</u></u>	<u><u>7,669</u></u>

## 18 PROVISIONS AND OTHER LIABILITIES

	2014			2013		
	Current	Non-	Total	Current	Non-	Total
	portion	current		portion	current	
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Provision for maintenance and minor improvements	-	462	462	2	601	603
Rent received in advance	207	-	207	276	-	276
Unamortised income relating to liquefied petroleum gas	15	57	72	15	72	87
Interest payable on HPLS loans sold (Note 12(d))	17	30	47	24	37	61
Land cost provisions relating to sold HOS flats	-	51	51	-	29	29
Provision for management fee	42	-	42	-	-	-
Residual construction payment relating to sold and divested properties	23	-	23	18	-	18
Provision for audit fees	8	-	8	7	-	7
Provision for mortgage default guarantee payments	3	-	3	4	-	4
Others	5	-	5	6	1	7
	<b>320</b>	<b>600</b>	<b>920</b>	<b>352</b>	<b>740</b>	<b>1,092</b>



## 19 GOVERNMENT'S CONTRIBUTION

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

	2014			2013		
	Domestic	Non-	Total	Domestic	Non-	Total
	housing	domestic		housing	domestic	
	HK\$M	equity	HK\$M	equity	HK\$M	HK\$M
(i) Borrowings from the former Development Loan Fund						
- Cumulative interest-free loans up to 31.3.1976	254	46	300	254	46	300
- 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	2,952	2,505	447	2,952
(ii) Transfer value of Government built estates and staff quarters	1,226	149	1,375	1,226	149	1,375
(iii) Home Ownership Scheme						
- Unsold stock of flats and construction in progress at 31.3.1988 transferred from Government	827	-	827	827	-	827
	<b>4,812</b>	<b>642</b>	<b>5,454</b>	<b>4,812</b>	<b>642</b>	<b>5,454</b>

## 19 GOVERNMENT'S CONTRIBUTION (Continued)

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

	2014			2013		
	Domestic housing HK\$M	Non-domestic equity HK\$M	Total HK\$M	Domestic housing HK\$M	Non-domestic equity HK\$M	Total HK\$M
(i) Land revaluation surplus up to 31.3.1973 pertaining to the predecessor Authority	107	9	116	107	9	116
(ii) Value of land provided by Government						
- since 1.4.1973 pertaining to public rental housing estates and staff quarters	213,804	20,282	234,086	194,780	19,906	214,686
- for offices of the Authority	-	140	140	-	140	140
(iii) Home Ownership Scheme						
- excess of full market value of land over land cost	137,579	-	137,579	137,697	-	137,697
- land value for non-domestic elements	-	2,693	2,693	-	2,693	2,693
- premium on removal of alienation restriction	6,938	-	6,938	6,764	-	6,764
(iv) Tenants Purchase Scheme						
- excess of full market value of land at completion of the buildings over land cost	24,110	-	24,110	23,648	-	23,648
(v) Buy or Rent Option Scheme						
- excess of full market value of land over land cost	1,818	-	1,818	1,818	-	1,818
- land value for non-domestic elements	-	10	10	-	10	10
	<b>384,356</b>	<b>23,134</b>	<b>407,490</b>	<b>364,814</b>	<b>22,758</b>	<b>387,572</b>

**20 HOUSING CAPITAL WORKS FUND**

	2014			2013		
	Construction	Improvement	Total	Construction	Improvement	Total
	Account	Account		Account	Account	
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Balance at beginning of year	21,001	3,311	24,312	19,147	2,676	21,823
Transfer (to) / from accumulated surplus	(437)	528	91	1,854	635	2,489
Balance at end of year	<b>20,564</b>	<b>3,839</b>	<b>24,403</b>	21,001	3,311	24,312

## 21 DEVELOPMENT FUND

	<u>2014</u> HK\$M	<u>2013</u> HK\$M
Balance at beginning of year	55,041	58,090
Transfer from / (to) accumulated surplus	<u>913</u>	<u>(3,049)</u>
Balance at end of year	<u>55,954</u>	<u>55,041</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 upward adjustment on divestment related expenditure was HK\$4 million (2013: net downward adjustment of HK\$22 million).

## 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>2014</u> HK\$M	<u>2013</u> HK\$M
<b>(a) Income received from the Government</b>		
Rental income <sup>1</sup>	1,981	1,774
Reimbursement of costs of services provided to the Government	211	179
Supervision on-costs in respect of Government reimbursable projects	36	35
Other income	1	1
	<u>2,229</u>	<u>1,989</u>
<b>(b) Amount due from the Government</b>		
Receivable for Lotteries Fund projects	11	11
Receivable for Government-funded construction projects	1	5
On-costs accrual for entrusted projects	1	1
Deposits and others	1	1
	<u>14</u>	<u>18</u>
<b>(c) Amount due to the Government</b>		
Land cost	214	93
Advance from Government for rental payment	190	159
Payable for Government rent and rates	10	3
Over-recovery on Government funded agency functions	6	1
Dividend payable	44	66
Others (e.g. company and land searches)	25	29
	<u>489</u>	<u>351</u>

<sup>1</sup> It included the rent of HK\$1,935 million (2013: HK\$1,733 million) paid by the Government to the Authority on behalf of tenants living in the public rental housing flats of the Authority.

## 24 CONTINGENT LIABILITIES

### (a) Financial guarantees issued

As at 31 March 2014, the Authority had outstanding mortgage default guarantees issued in respect of mortgage loans made by banks and other authorised financial institutions on HOS/PSPS/TPS flats sold as follows:

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

Default guarantees for flats built and sold under HOS and PSPS amounted to HK\$24,284 million (2013: HK\$24,683 million) for the primary market and HK\$12,006 million (2013: HK\$8,061 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 it has no financial exposure (2013: Nil) for the primary market and HK\$63 million (2013: HK\$1 million) for the secondary market.

#### (ii) TPS flats sold

Default guarantees for flats sold under TPS amounted to HK\$2,917 million (2013: HK\$2,586 million) for the primary market and HK\$757 million (2013: HK\$538 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 3<sup>rd</sup> to the 5<sup>th</sup> 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 (2013: Nil) for the primary market and its financial exposure for the secondary market is HK\$77 million (2013: HK\$32 million).

**(b) Structural Safety Guarantee**

Structural Safety Guarantee (SSG) covers all newly completed HOS and PSPS 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 2014, there were 27,365 units (2013: 27,941 units) of HOS and PSPS 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\$0.6 million (2013: HK\$4.9 million).

## 25 CAPITAL COMMITMENTS

The Authority had the following capital commitments outstanding at 31 March 2014 not provided for in the financial statements:

	<u>2014</u> <u>HK\$M</u>	<u>2013</u> <u>HK\$M</u>
Capital Works/Projects		
Contracted for:		
- Public rental housing construction projects	<b>12,708</b>	8,326
- HOS construction projects	<b>330</b>	11
- Other projects	<b>1,404</b>	1,487
	<u><b>14,442</b></u>	<u>9,824</u>
Authorised but not yet contracted for:		
- Public rental housing construction projects	<b>11,516</b>	16,544
- HOS construction projects	<b>496</b>	4
- Other projects	<b>33</b>	62
	<u><b>12,045</b></u>	<u>16,610</u>
	<u><b>26,487</b></u>	<u>26,434</u>

## 26 DERIVATIVE FINANCIAL INSTRUMENTS

	<u>2014</u>		<u>2013</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	<u>HK\$M</u>	<u>HK\$M</u>	<u>HK\$M</u>	<u>HK\$M</u>
Forward currency exchange contracts, at fair value	<u><b>21</b></u>	<u><b>59</b></u>	<u>84</u>	<u>39</u>
	(Note 15)	(Note 17)	(Note 15)	(Note 17)

The forward currency exchange contracts are used for managing the Authority's currency exposure and are carried at fair value. Their carrying values have been included in "Debtors, deposits and prepayments" and "Creditors, deposits and other payables". These contracts have a remaining life of 3 months or less and a total notional amount of HK\$7 billion (2013: HK\$7 billion). The notional amounts of these contracts indicate the volume of outstanding transactions and do not represent the amounts at risk.



## 27 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, debt securities at fair value, money market funds and held-to-maturity debt securities. Most of these assets bear interest at fixed 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 and held-to-maturity debt securities, 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 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 2014, the outstanding principal balance of the home purchase loans sold was HK\$1,037 million (2013: HK\$1,510 million) and their average remaining maturity was 38 months (2013: 42 months).

Sensitivity analysis based on a 50 basis points (2013: 50 basis points) increase / decrease in market interest rates, which may be reasonably possible, shows that the revaluation gains on debt securities at fair value and money market funds and surplus for the year would have decreased / increased by HK\$138 million (2013: HK\$257 million). This sensitivity analysis has been prepared assuming that the change in interest rates had been applied to the securities in existence at the end of the reporting period, with all other variables being held constant.

(ii) Currency risk

On currency risk management, the investment guidelines set limits on currency exposure. Forward currency exchange contracts are also used for managing the Authority's currency exposure (Note 26).

Apart from Renminbi, 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 Renminbi and other currency exposures at the end of the reporting period after taking into account the effect of forward currency exchange contracts:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	HK\$M	HK\$M	HK\$M	HK\$M
Renminbi	6,737	-	3,365	-
Other currencies				
- US dollars	12,805	3,008	16,392	1,482
- Pound sterling	1,152	675	1,643	1,076
- Euro	3,964	2,660	3,861	2,466
- Others	3,422	2,204	4,494	2,749
	<u>28,080</u>	<u>8,547</u>	<u>29,755</u>	<u>7,773</u>

Other currencies include mainly currencies of major developed countries. The major part of the currency risk arising from these currencies is mainly hedged through the use of forward currency exchange contracts.

Sensitivity analysis based on a 0.5% (2013: 0.5%) increase / decrease in the exchange rate of the US dollar against the Hong Kong dollar, which may be reasonably possible, shows that the exchange gains and surplus for the year would have increased / decreased by HK\$49 million (2013: HK\$75 million).

Sensitivity analysis based on a 5% (2013: 5%) increase / decrease in the exchange rate of the Renminbi against the Hong Kong dollar, which may be reasonably possible, shows that the exchange gains and surplus for the year would have increased / decreased by HK\$337 million (2013: HK\$168 million).

Sensitivity analysis based on a 5% (2013: 5%) increase / decrease in the exchange rates of the other currencies against the Hong Kong dollar, which may be reasonably possible, shows that the exchange gains and surplus for the year would have increased / decreased by HK\$150 million (2013: HK\$185 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 end of the reporting period, 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 2014, all equity investments were designated at fair value as shown in Note 11.

Sensitivity analysis based on a 10% (2013: 10%) increase / decrease in equity prices, which may be reasonably possible, shows that the revaluation gains on equity investments and surplus for the year would have increased / decreased by HK\$1,192 million (2013: HK\$1,152 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 end of the reporting period, 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 every January (Note 10). Sensitivity analysis based on a 50 basis point increase / decrease in the interest rates for 2013 and 2014, with all other variables held constant, shows that the surplus for the year would have increased / decreased by HK\$178 million (2013: HK\$169 million).

(v) Credit risk

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

	<u>2014</u>	<u>2013</u>
	<u>HK\$M</u>	<u>HK\$M</u>
Placements with the Exchange Fund	<b>36,605</b>	34,862
Bank balances	<b>612</b>	360
Bank deposits	<b>14,873</b>	9,884
Amount due from the Government	<b>14</b>	18
Debtors and deposits	<b>2,019</b>	1,031
Held-to-maturity debt securities	<b>472</b>	930
Debt securities at fair value	<b>5,473</b>	11,465
Money market funds	<b>218</b>	562
Home Purchase / Assistance Loans	<b>195</b>	272
Mortgage default guarantees	<b>39,964</b>	35,868
	<u><b>100,445</b></u>	<u>95,252</u>

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

Debtors and deposits mainly include debtors, interest receivable, unsettled sales and redemption of securities, deposits and derivative financial instruments. 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 HOS/PSPS/TPS flats. Those loans are secured by mortgages on the flats concerned. As at 31 March 2014, provision for mortgage default guarantee payments amounted to HK\$3 million

(2013: HK\$4 million, Note 18), and the financial exposure not provided for in the financial statements amounted to HK\$140 million (2013: HK\$33 million, Note 24(a)).

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, investments in debt securities and money market funds, based on ratings designated by Moody's or their equivalents, is as follows:

	<u>2014</u> <b>HK\$M</b>	<u>2013</u> HK\$M
Aaa	<b>2,421</b>	6,423
Aa3 to Aa1	<b>5,601</b>	4,260
A3 to A1	<b>13,117</b>	11,855
Lower than A3 or un-rated	<b>510</b>	663
	<u><b>21,649</b></u>	<u>23,201</u>

## 28 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments traded in active markets are based on quoted market prices at the end of the reporting period. 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 end of the reporting period.

- (a) The fair values of held-to-maturity securities at the end of the reporting period are as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<b>HK\$M</b>	<b>HK\$M</b>	HK\$M	HK\$M
Held-to-maturity securities	<u><b>472</b></u>	<u><b>472</b></u>	<u>930</u>	<u>932</u>

Other financial instruments are stated in the statement of financial position at fair values or carried at amounts not materially different from their fair values.

- (b) The following table shows the carrying value of financial instruments measured at fair value at the end of the reporting period according to the fair value hierarchy:

**As at 31 March 2014**

	<u>Level 1</u> HK\$M	<u>Level 2</u> HK\$M	<u>Total</u> HK\$M
<b>Assets</b>			
Securities at fair value	15,042	2,569	17,611
Derivative financial instruments	-	21	21
	<u>15,042</u>	<u>2,590</u>	<u>17,632</u>
<b>Liabilities</b>			
Derivative financial instruments	-	59	59

**As at 31 March 2013**

	<u>Level 1</u> HK\$M	<u>Level 2</u> HK\$M	<u>Total</u> HK\$M
<b>Assets</b>			
Securities at fair value	18,764	4,783	23,547
Derivative financial instruments	-	84	84
	<u>18,764</u>	<u>4,867</u>	<u>23,631</u>
<b>Liabilities</b>			
Derivative financial instruments	-	39	39

No financial assets or liabilities were classified under Level 3.

During the year, there were transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy 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 (i.e. as prices) or indirectly (i.e. 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).

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

### (a) CONSOLIDATED APPROPRIATION ACCOUNT

	<u>Note</u>	<u>2014</u> <u>HK\$M</u>	<u>2013</u> <u>HK\$M</u>
Consolidated Operating Account surplus / (deficit)			
Rental Housing	29(b)	(179)	(1,234)
Commercial	29(c)	914	738
Home Ownership Assistance	29(d)	<u>2,152</u>	<u>2,099</u>
Sub-total		<u>2,887</u>	<u>1,603</u>
Net non-operating expenditure	6	<u>(80)</u>	<u>(98)</u>
		<u>2,807</u>	1,505
Funds Management Account surplus	29(e)	<u>3,547</u>	4,277
Agency Account surplus	29(f)	<u>19</u>	<u>40</u>
Surplus for the year		<u>6,373</u>	<u>5,822</u>
Distribution			
Dividend to the Government for the year		<u>(457)</u>	<u>(370)</u>
Surplus for the year after distribution		<u>5,916</u>	<u>5,452</u>



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

### (b) RENTAL HOUSING OPERATING ACCOUNT

	2014				2013			
	Rental Housing (excluding Interim Housing)	Interim Housing	Rent Allowance	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
INCOME								
Rental	11,847	15	-	11,862	10,345	13	-	10,358
Other income	37	-	-	37	55	-	-	55
<b>TOTAL INCOME</b>	<b>11,884</b>	<b>15</b>	<b>-</b>	<b>11,899</b>	<b>10,400</b>	<b>13</b>	<b>-</b>	<b>10,413</b>
EXPENDITURE								
Personal emoluments	2,651	11	2	2,664	2,588	8	2	2,598
Government rent and rates	140	-	-	140	132	-	-	132
Maintenance and improvements	2,572	44	-	2,616	2,487	18	-	2,505
Other expenditure	3,580	20	1	3,601	3,465	20	3	3,488
Depreciation and amortisation	2,869	7	-	2,876	2,726	7	-	2,733
Share of corporate supervision and support services expenses	180	1	-	181	191	-	-	191
<b>TOTAL EXPENDITURE</b>	<b>11,992</b>	<b>83</b>	<b>3</b>	<b>12,078</b>	<b>11,589</b>	<b>53</b>	<b>5</b>	<b>11,647</b>
Operating deficit for the year	<b>(108)</b>	<b>(68)</b>	<b>(3)</b>	<b>(179)</b>	<b>(1,189)</b>	<b>(40)</b>	<b>(5)</b>	<b>(1,234)</b>

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

### (c) COMMERCIAL OPERATING ACCOUNT

	2014					2013				
	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
INCOME										
Rental	963	445	138	475	2,021	851	396	127	429	1,803
Other income	40	10	-	24	74	27	1	1	26	55
TOTAL INCOME	<b>1,003</b>	<b>455</b>	<b>138</b>	<b>499</b>	<b>2,095</b>	<b>878</b>	<b>397</b>	<b>128</b>	<b>455</b>	<b>1,858</b>
EXPENDITURE										
Personal emoluments	141	43	31	69	284	130	43	28	62	263
Government rent and rates	29	16	-	51	96	22	13	-	42	77
Maintenance and improvements	51	28	20	6	105	74	21	23	7	125
Other expenditure	209	125	33	78	445	198	127	30	72	427
Depreciation and amortisation	77	67	5	48	197	65	60	5	45	175
Share of corporate supervision and support services expenses	10	3	2	5	20	10	3	2	5	20
TOTAL EXPENDITURE	<b>517</b>	<b>282</b>	<b>91</b>	<b>257</b>	<b>1,147</b>	<b>499</b>	<b>267</b>	<b>88</b>	<b>233</b>	<b>1,087</b>
Operating surplus before exceptional items	486	173	47	242	948	379	130	40	222	771
Exceptional items <sup>1</sup>	(34)	-	-	-	(34)	(33)	-	-	-	(33)
Operating surplus for the year	<b>452</b>	<b>173</b>	<b>47</b>	<b>242</b>	<b>914</b>	<b>346</b>	<b>130</b>	<b>40</b>	<b>222</b>	<b>738</b>

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

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

### (d) HOME OWNERSHIP ASSISTANCE OPERATING ACCOUNT

	2014					2013				
	HOS	PSPS	TPS	HPLS /HALS	Total	HOS	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
INCOME										
Sales	1,426	3	1,295	-	2,724	-	-	1,012	-	1,012
Premium on removal of alienation restriction	550	240	153	-	943	945	419	228	-	1,592
Other income	22	10	7	1	40	26	5	5	1	37
<b>TOTAL INCOME</b>	<b>1,998</b>	<b>253</b>	<b>1,455</b>	<b>1</b>	<b>3,707</b>	<b>971</b>	<b>424</b>	<b>1,245</b>	<b>1</b>	<b>2,641</b>
EXPENDITURE										
Personal emoluments	162	31	54	23	270	153	31	52	23	259
Maintenance and improvements	4	1	2	-	7	5	1	2	-	8
Other expenditure	18	3	5	5	31	12	3	5	3	23
Depreciation and amortisation	14	2	4	5	25	9	2	3	5	19
Share of corporate supervision and support services expenses	13	2	4	2	21	11	2	4	2	19
<b>Sub-total</b>	<b>211</b>	<b>39</b>	<b>69</b>	<b>35</b>	<b>354</b>	<b>190</b>	<b>39</b>	<b>66</b>	<b>33</b>	<b>328</b>
Expenditure on home ownership schemes										
Construction cost and overheads	633	-	111	-	744	8	-	97	-	105
Government land cost	139	-	96	-	235	6	-	80	-	86
Cost of repurchased flats sold	146	1	6	-	153	-	-	7	-	7
Other expenditure	54	-	13	(1)	66	20	-	19	-	39
<b>Sub-total</b>	<b>972</b>	<b>1</b>	<b>226</b>	<b>(1)</b>	<b>1,198</b>	<b>34</b>	<b>-</b>	<b>203</b>	<b>-</b>	<b>237</b>
<b>TOTAL EXPENDITURE</b>	<b>1,183</b>	<b>40</b>	<b>295</b>	<b>34</b>	<b>1,552</b>	<b>224</b>	<b>39</b>	<b>269</b>	<b>33</b>	<b>565</b>
Operating surplus / (deficit) before exceptional items	815	213	1,160	(33)	2,155	747	385	976	(32)	2,076
Exceptional items <sup>1</sup>	-	-	-	(3)	(3)	-	-	-	23	23
<b>Operating surplus / (deficit) for the year</b>	<b>815</b>	<b>213</b>	<b>1,160</b>	<b>(36)</b>	<b>2,152</b>	<b>747</b>	<b>385</b>	<b>976</b>	<b>(9)</b>	<b>2,099</b>

<sup>1</sup> These mainly represent adjustments of future interest liability on the outstanding balance of the HPLS loan portfolio sold after related interest payment of \$17 million (2013: \$28 million) made in the year.

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

### (e) FUNDS MANAGEMENT ACCOUNT

	2014				2013			
	In-house portfolio <sup>1</sup>	Placements with the Exchange Fund <sup>2</sup>	Portfolios managed by external fund managers <sup>3</sup>	Total	Main liquidity portfolio <sup>1</sup>	Placements with the Exchange Fund <sup>2</sup>	Portfolios managed by external fund managers <sup>3</sup>	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>INCOME</b>								
Interest income	225	1,638	208	2,071	137	1,819	284	2,240
Dividend income	-	-	267	267	-	-	334	334
Net realised and revaluation gains	-	-	1,332	1,332	-	-	1,967	1,967
Net exchange gains / (losses)	(63)	-	48	(15)	56	-	(202)	(146)
<b>TOTAL INCOME</b>	<b>162</b>	<b>1,638</b>	<b>1,855</b>	<b>3,655</b>	<b>193</b>	<b>1,819</b>	<b>2,383</b>	<b>4,395</b>
<b>EXPENDITURE</b>								
Investment expenditure								
Fund managers' fees	-	-	72	72	-	-	79	79
Custodian fees	-	-	8	8	-	-	10	10
Other investment expenditure	-	-	11	11	-	-	15	15
Sub-total	-	-	91	91	-	-	104	104
Recurrent expenditure								
Personal emoluments	6	-	6	12	5	-	6	11
Depreciation	1	-	-	1	1	-	-	1
Other expenditure	2	-	2	4	1	-	1	2
Sub-total	9	-	8	17	7	-	7	14
<b>TOTAL EXPENDITURE</b>	<b>9</b>	<b>-</b>	<b>99</b>	<b>108</b>	<b>7</b>	<b>-</b>	<b>111</b>	<b>118</b>
Surplus for the year	<b>153</b>	<b>1,638</b>	<b>1,756</b>	<b>3,547</b>	<b>186</b>	<b>1,819</b>	<b>2,272</b>	<b>4,277</b>

<sup>1</sup> In-house portfolio (previously referred to as Main liquidity portfolio) comprising bank deposits and investments intended to be held to maturity is stated at amortised cost less impairment losses.

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

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

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

### (f) AGENCY ACCOUNT

	2014				2013			
	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	-	152	-	152	-	158	-	158
Supervision on-costs	-	58	36	94	-	64	35	99
Amount reimbursed by Government	210	-	1	211	178	-	1	179
<b>TOTAL INCOME</b>	<b>210</b>	<b>210</b>	<b>37</b>	<b>457</b>	<b>178</b>	<b>222</b>	<b>36</b>	<b>436</b>
<b>EXPENDITURE</b>								
Personal emoluments	173	123	55	351	155	114	56	325
Maintenance and improvements	1	6	6	13	1	8	2	11
Other expenditure	31	10	4	45	15	6	5	26
Depreciation and amortisation	3	5	3	11	3	4	4	11
Share of corporate supervision and support services expenses	1	7	4	12	11	8	4	23
<b>TOTAL EXPENDITURE</b>	<b>209</b>	<b>151</b>	<b>72</b>	<b>432</b>	<b>185</b>	<b>140</b>	<b>71</b>	<b>396</b>
Surplus/(deficit) for the year before adjustments	1	59	(35)	25	(7)	82	(35)	40
Over recovery brought forward	-	1	-	1	6	1	-	7
Over recovery settled during the year	-	-	-	-	(6)	-	-	(6)
Over recovery carried forward	(6)	(1)	-	(7)	-	(1)	-	(1)
<b>Surplus / (deficit) for the year</b>	<b>(5)</b>	<b>59</b>	<b>(35)</b>	<b>19</b>	<b>(7)</b>	<b>82</b>	<b>(35)</b>	<b>40</b>

<sup>1</sup> The Authority acts as an agent for the Government for building control, private housing, appeal panel, 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.