

Hong Kong Housing Authority

Financial statements for the year ended 31 March 2016

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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 2016, 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 2016 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

27 September 2016

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 2016
(Expressed in millions of Hong Kong dollars)

	Note	2016	2015
Income			
Rental income	4(a)	16,682	15,905
Sales and premium income	4(b)	2,520	3,007
Investment income	4(c)	1,101	3,609
Other income	4(d)	237	233
		<u>20,540</u>	<u>22,754</u>
Expenditure			
Personal emoluments		3,410	3,334
Government rent and rates		1,323	1,257
Maintenance and improvements		3,092	3,067
Depreciation and amortisation		3,490	3,257
Expenditure on home ownership schemes	5	207	344
Other expenditure		4,927	4,655
		<u>16,449</u>	<u>15,914</u>
Operating surplus		4,091	6,840
Net non-operating income	6	<u>56</u>	<u>26</u>
Surplus for the year		4,147	6,866
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>4,147</u></u>	<u><u>6,866</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 2016
(Expressed in millions of Hong Kong dollars)

	Note	2016	2015
Non-current assets			
Property, plant and equipment	7	119,348	115,099
Capital works / projects in progress	8	36,068	25,546
Intangible assets	9	242	281
Placements with the Exchange Fund	10	40,009	37,923
Investments in securities and bank deposits	11(a)	928	3,834
Home Purchase / Assistance Loans	12	41	78
Other assets	13	-	11
		<u>196,636</u>	<u>182,772</u>
Current assets			
Inventories	14	1	1
Debtors, deposits and prepayments	15	701	1,789
Amount due from the Government	23(b)	19	33
Investments in securities and bank deposits	11(b)	14,237	23,607
Bank balances and cash	16	1,842	752
		<u>16,800</u>	<u>26,182</u>
Current liabilities			
Creditors, deposits and other payables	17	6,891	5,820
Amount due to the Government	23(c)	266	402
Provisions and other liabilities	18	2,049	2,048
		<u>9,206</u>	<u>8,270</u>
Net current assets		<u>7,594</u>	<u>17,912</u>
Total assets less current liabilities		204,230	200,684
Non-current liabilities			
Provisions and other liabilities	18	425	483
Net assets		<u>203,805</u>	<u>200,201</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 2016 (Continued)
(Expressed in millions of Hong Kong dollars)

	Note	2016	2015
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		98,391	95,616
Housing Capital Works Fund	20	48,036	34,768
Development Fund	21	38,423	50,862
		203,805	200,201
		203,805	200,201



Professor Anthony BL Cheung
Chairman

Hong Kong Housing Authority

27 September 2016

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 2016
(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 2014	13,489	5,454	12	94,523	24,403	55,954	193,835
Total comprehensive income for the year	-	-	-	6,866	-	-	6,866
Dividend to the Government for the year	-	-	-	(500)	-	-	(500)
Transfer from / (to) accumulated surplus	-	-	-	(5,273)	10,365	(5,092)	-
Balance at 31 March 2015	<u>13,489</u>	<u>5,454</u>	<u>12</u>	<u>95,616</u>	<u>34,768</u>	<u>50,862</u>	<u>200,201</u>
Balance at 1 April 2015	13,489	5,454	12	95,616	34,768	50,862	200,201
Total comprehensive income for the year	-	-	-	4,147	-	-	4,147
Dividend to the Government for the year	-	-	-	(543)	-	-	(543)
Transfer from / (to) accumulated surplus	-	-	-	(829)	13,268	(12,439)	-
Balance at 31 March 2016	<u>13,489</u>	<u>5,454</u>	<u>12</u>	<u>98,391</u>	<u>48,036</u>	<u>38,423</u>	<u>203,805</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 2016
(Expressed in millions of Hong Kong dollars)

	Note	2016	2015
Cash flows from operating activities			
Surplus for the year		4,147	6,866
Adjustments for:			
Investment income	4(c)	(1,101)	(3,609)
Reversal of expenditure on divestment of retail and carparking facilities	6	(24)	(25)
Depreciation of property, plant and equipment		3,357	3,136
Amortisation of intangible assets		160	148
Written down value of Tenants Purchase Scheme flats sold		101	119
Written down value of rental estates demolished		-	14
Adjustment of capital expenditure		1	78
Decrease in Home Purchase / Assistance Loans		60	71
Decrease in impairment allowance for Home Purchase / Assistance Loans		(5)	(4)
Decrease in other assets		23	35
Increase in Home Ownership Scheme (Domestic) properties under development		(3,459)	(1,028)
Decrease in inventories		-	1
Decrease in securities at fair value		6,609	2,841
Decrease in debtors, prepayments and other receivables		731	567
Increase / (Decrease) in creditors, accruals and other payables		983	(1,390)
Decrease in provisions and other liabilities		(54)	(169)
Net cash from operating activities		11,529	7,651

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 2016 (Continued)
(Expressed in millions of Hong Kong dollars)

	Note	2016	2015
Cash flows from investing activities			
Proceeds from redemption of held-to-maturity securities		281	31
Increase in placements with the Exchange Fund		(2,086)	(1,318)
Decrease in bank deposits with original maturity over 3 months		3,798	1,889
Payments relating to divestment of retail and carparking facilities		(3)	(6)
Payments relating to capital works / projects in progress			
- New public rental housing		(11,628)	(8,846)
- Redeveloped public rental housing		(2,150)	(2,118)
- Home Ownership Scheme (Commercial)		(159)	(28)
- Housing Authority offices		-	2
- Motor vehicles		(2)	(1)
- Computer systems		(127)	(132)
- Improvement works		(815)	(654)
Interest received		2,460	1,672
Dividends received		234	298
Net cash used in investing activities		<u>(10,197)</u>	<u>(9,211)</u>
Cash flows from financing activities			
Dividend paid to the Government		(578)	(481)
Net cash used in financing activities		<u>(578)</u>	<u>(481)</u>
Net increase / (decrease) in cash and cash equivalents		754	(2,041)
Cash and cash equivalents at beginning of year		<u>6,872</u>	<u>8,913</u>
Cash and cash equivalents at end of year	16	<u><u>7,626</u></u>	<u><u>6,872</u></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, available-for-sale securities 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 or upon issue of a completion certificate, whichever is the later;
- 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, 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	
- 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
(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 (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’¹ – 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)’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.

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

‘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.

‘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) 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.

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

Investment in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the revaluation reserve.

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

(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, available-for-sale securities and 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;
- (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; and

- (iii) for available-for-sale securities, the cumulative loss that has been recognised in the revaluation reserve is reclassified to surplus or deficit. The amount of the cumulative loss that is recognised in surplus or deficit is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognised in surplus or deficit.

(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>2016</u>	<u>2015</u>
	HK\$M	HK\$M
(a) Rental income		
Rental housing	14,307	13,688
Commercial properties	2,375	2,217
	<u>16,682</u>	<u>15,905</u>
(b) Sales and premium income		
Sales of flats	1,340	1,506
Premium on removal of alienation restriction	1,180	1,501
	<u>2,520</u>	<u>3,007</u>
(c) Investment income		
Interest income from		
- placements with the Exchange Fund	1,900	1,507
- securities at fair value	23	96
- bank deposits	191	292
- held-to-maturity securities	10	14
	2,124	1,909
Net realised and revaluation (losses) / gains on securities designated at fair value	(1,071)	1,808
Net exchange gains / (losses) on		
- securities at fair value	67	(416)
- others	(248)	9
	(181)	(407)
Dividend income from securities at fair value	229	299
	<u>1,101</u>	<u>3,609</u>
(d) Other income		
Fees and charges	54	51
Miscellaneous income	183	182
	<u>237</u>	<u>233</u>
Total income	<u>20,540</u>	<u><u>22,754</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\$1,812 million (2015: HK\$1,718 million), including rents based on business turnover amounting to HK\$8 million (2015: HK\$6 million).

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

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Not later than one year	945	794
Later than one year but not later than five years	1,051	837
Later than five years	87	68
	<u>2,083</u>	<u>1,699</u>

5 EXPENDITURE ON HOME OWNERSHIP SCHEMES

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Cost of flats sold		
- Construction cost and overheads	97	146
- Government land cost	90	118
- Cost of repurchased flats	5	9
	<u>192</u>	<u>273</u>
Adjustments to the interest payable on HPLS loans sold	(2)	(11)
Other expenditure	17	82
	<u>207</u>	<u>344</u>

6 NET NON-OPERATING INCOME

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Reversal of expenditure on divestment of retail and carparking facilities (Note 22)	24	25
Reimbursement from Urban Renewal Authority for the costs of the allocated rental flats for affected clearerees	27	34
Reversal of project costs / (Project costs) for abortive sites	1	(37)
Other income	4	4
	<u>56</u>	<u>26</u>

7 PROPERTY, PLANT AND EQUIPMENT

	2016				2015			
	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
(a) Lease premiums for land								
Cost at beginning and end of year	105	-	57	162	105	-	57	162
Accumulated depreciation at beginning of year	(94)	-	(28)	(122)	(94)	-	(26)	(120)
Charge for the year	-	-	(1)	(1)	-	-	(2)	(2)
Accumulated depreciation at end of year	(94)	-	(29)	(123)	(94)	-	(28)	(122)
Net book value at end of year	11	-	28	39	11	-	29	40
(b) Site formation								
Cost at beginning of year	2,588	1	8	2,597	2,551	1	8	2,560
Additions	31	-	-	31	48	-	-	48
Disposals / Demolition	(6)	-	-	(6)	(11)	-	-	(11)
Cost at end of year	2,613	1	8	2,622	2,588	1	8	2,597
Accumulated depreciation at beginning of year	(1,184)	(1)	(6)	(1,191)	(1,150)	(1)	(6)	(1,157)
Charge for the year	(42)	-	-	(42)	(41)	-	-	(41)
Written back on disposals / demolition	4	-	-	4	7	-	-	7
Accumulated depreciation at end of year	(1,222)	(1)	(6)	(1,229)	(1,184)	(1)	(6)	(1,191)
Net book value at end of year	1,391	-	2	1,393	1,404	-	2	1,406
(c) Buildings								
Cost at beginning of year	162,714	652	1,833	165,199	159,710	565	1,835	162,110
Additions	6,985	-	-	6,985	3,442	-	(2)	3,440
Transfers	(86)	73	13	-	(87)	87	-	-
Disposals / Demolition	(264)	-	-	(264)	(351)	-	-	(351)
Cost at end of year	169,349	725	1,846	171,920	162,714	652	1,833	165,199
Accumulated depreciation at beginning of year	(51,851)	(371)	(841)	(53,063)	(49,192)	(336)	(811)	(50,339)
Charge for the year	(3,016)	(10)	(31)	(3,057)	(2,903)	(8)	(30)	(2,941)
Transfers	29	(24)	(5)	-	27	(27)	-	-
Written back on disposals / demolition	168	-	-	168	217	-	-	217
Accumulated depreciation at end of year	(54,670)	(405)	(877)	(55,952)	(51,851)	(371)	(841)	(53,063)
Net book value at end of year	114,679	320	969	115,968	110,863	281	992	112,136

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

	2016				2015			
	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	3,522	2	108	3,632	3,023	-	105	3,128
Additions	634	(2)	12	644	565	2	3	570
Disposals	(8)	-	-	(8)	(66)	-	-	(66)
Cost at end of year	4,148	-	120	4,268	3,522	2	108	3,632
Accumulated depreciation at beginning of year	(2,094)	-	(98)	(2,192)	(2,022)	-	(98)	(2,120)
Charge for the year	(216)	-	-	(216)	(119)	-	-	(119)
Written back on disposals	4	-	-	4	47	-	-	47
Accumulated depreciation at end of year	(2,306)	-	(98)	(2,404)	(2,094)	-	(98)	(2,192)
Net book value at end of year	1,842	-	22	1,864	1,428	2	10	1,440
(e) Computer equipment								
Cost at beginning of year	-	-	335	335	-	-	322	322
Additions	-	-	46	46	-	-	20	20
Disposals	-	-	(6)	(6)	-	-	(7)	(7)
Cost at end of year	-	-	375	375	-	-	335	335
Accumulated depreciation at beginning of year	-	-	(259)	(259)	-	-	(234)	(234)
Charge for the year	-	-	(40)	(40)	-	-	(32)	(32)
Written back on disposals	-	-	6	6	-	-	7	7
Accumulated depreciation at end of year	-	-	(293)	(293)	-	-	(259)	(259)
Net book value at end of year	-	-	82	82	-	-	76	76
(f) Electronic equipment								
Cost at beginning of year	539	-	6	545	551	-	6	557
Disposals	(4)	-	-	(4)	(12)	-	-	(12)
Cost at end of year	535	-	6	541	539	-	6	545
Accumulated depreciation at beginning of year	(539)	-	(6)	(545)	(551)	-	(6)	(557)
Written back on disposals	4	-	-	4	12	-	-	12
Accumulated depreciation at end of year	(535)	-	(6)	(541)	(539)	-	(6)	(545)
Net book value at end of year	-	-	-	-	-	-	-	-
(g) Motor vehicles								
Cost at beginning of year	-	-	1	1	-	-	-	-
Additions	-	-	1	1	-	-	1	1
Cost at end of year	-	-	2	2	-	-	1	1
Accumulated depreciation at beginning of year	-	-	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-	-	-
Accumulated depreciation at end of year	-	-	-	-	-	-	-	-
Net book value at end of year	-	-	2	2	-	-	1	1
Total net book value at end of year¹	117,923	320	1,105	119,348	113,706	283	1,110	115,099
¹ Represented by assets of								
Domestic rental housing	109,940	320	-	110,260	106,291	282	-	106,573
Non-domestic facilities	7,983	-	-	7,983	7,415	1	-	7,416
Housing Authority office buildings and others	-	-	1,105	1,105	-	-	1,110	1,110
	117,923	320	1,105	119,348	113,706	283	1,110	115,099

8 CAPITAL WORKS / PROJECTS IN PROGRESS

	1 April 2015	Additions, reclassification and adjustments ¹	Transfer to other asset categories or expenditure	31 March 2016	1 April 2014	Additions, reclassification and adjustments ¹	Transfer to other asset categories or expenditure	31 March 2015
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
(a) Housing Capital Works Fund - Construction Account								
(i) Properties under development								
New public rental housing								
Site formation	89	57	(8)	138	62	43	(16)	89
Buildings	17,154	11,576	(6,289)	22,441	10,925	8,770	(2,541)	17,154
	17,243	11,633	(6,297)	22,579	10,987	8,813	(2,557)	17,243
Redeveloped public rental housing								
Site formation	291	22	(23)	290	248	75	(32)	291
Buildings	3,991	2,132	(696)	5,427	2,865	2,017	(891)	3,991
	4,282	2,154	(719)	5,717	3,113	2,092	(923)	4,282
Subsidised sales flat (Domestic)								
Site formation	40	33	-	73	12	28	-	40
Buildings	1,920	3,432	(1)	5,351	927	990	3	1,920
	1,960	3,465	(1)	5,424	939	1,018	3	1,960
Subsidised sales flat (Commercial)								
Site formation	3	2	-	5	-	3	-	3
Buildings	59	157	-	216	34	21	4	59
	62	159	-	221	34	24	4	62
Housing Authority offices								
Buildings	-	-	-	-	-	(2)	2	-
	-	-	-	-	-	(2)	2	-
Sub-total	23,547	17,411	(7,017)	33,941	15,073	11,945	(3,471)	23,547
(ii) Computer equipment / motor vehicles	93	129	(169)	53	45	134	(86)	93
Total	23,640	17,540	(7,186)	33,994	15,118	12,079	(3,557)	23,640
(b) Housing Capital Works Fund - Improvement Account								
Improvement works on buildings	1,906	812	(644)	2,074	1,839	646	(579)	1,906
Total capital works / projects in progress	25,546	18,352	(7,830)	36,068	16,957	12,725	(4,136)	25,546

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>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Computer software licences and system development costs		
Cost:		
At beginning of year	1,306	1,256
Additions	121	64
Disposals	<u>(45)</u>	<u>(14)</u>
At end of year	<u>1,382</u>	<u>1,306</u>
Accumulated amortisation:		
At beginning of year	(1,025)	(891)
Charge for the year	(160)	(148)
Written back on disposals	45	14
At end of year	<u>(1,140)</u>	<u>(1,025)</u>
Net book value at end of year	<u>242</u>	<u>281</u>

10 PLACEMENTS WITH THE EXCHANGE FUND

The balance of the placements with the Exchange Fund amounted to HK\$40,009 million (2015: HK\$37,923 million), being the total principal sums of HK\$30,000 million (2015: HK\$30,000 million) plus HK\$10,009 million (2015: HK\$7,923 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. For one placement with principal sum of HK\$10,000 million, the Authority shall not demand repayment of the principal sum during the period of placement. For the other 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.

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 (three-year Government Bonds with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The interest rate has been fixed at 3.3% per annum for 2016 and at 5.5% per annum for 2015.

11 INVESTMENTS IN SECURITIES AND BANK DEPOSITS

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
(a) Investments classified as non-current assets		
Bank deposits at amortised cost, with original maturity over 1 year	928	3,678
Held-to-maturity securities at amortised cost, with remaining maturity over 1 year	-	156
	<u>928</u>	<u>3,834</u>
(b) Investments classified as current assets		
Bank deposits at amortised cost, with original maturity		
- not more than 3 months (Note 16)	5,784	5,980
- over 3 months but not more than 1 year	-	1,286
	<u>5,784</u>	<u>7,266</u>
Held-to-maturity securities at amortised cost, with remaining maturity not more than 1 year	-	285
Securities at fair value		
Available-for-sale debt securities	150	-
Debt securities designated at fair value with maturity		
- not more than 3 months from date of acquisition (Note 16)	-	80
- over 3 months from date of acquisition	162	3,642
	<u>162</u>	<u>3,722</u>
Equity securities designated at fair value	8,141	12,274
Money market funds designated at fair value (Note 16)	-	60
	<u>8,453</u>	<u>16,056</u>
	<u>14,237</u>	<u>23,607</u>
Total investments	<u><u>15,165</u></u>	<u><u>27,441</u></u>

12 HOME PURCHASE / ASSISTANCE LOANS

	2016				2015			
	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	148	23	118	289	158	25	177	360
Loan repayments	(5)	(1)	(50)	(56)	(8)	(1)	(59)	(68)
Loans written off	(4)	-	-	(4)	(2)	(1)	-	(3)
At end of year	139	22	68	229	148	23	118	289
Impairment allowance for doubtful loans:								
At beginning of year	(137)	(22)	(2)	(161)	(140)	(23)	(2)	(165)
Impairment loss reversed	1	-	-	1	1	-	-	1
Loans written off	4	-	-	4	2	1	-	3
At end of year	(132)	(22)	(2)	(156)	(137)	(22)	(2)	(161)
Carrying amount at end of year	7	-	66	73	11	1	116	128
Portion classified as current assets (Note 15)	(2)	-	(30)	(32)	(4)	(1)	(45)	(50)
Portion classified as non-current assets	5	-	36	41	7	-	71	78

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 2016, as disclosed in Note 18, the remaining liability amounted to HK\$17 million (2015: HK\$26 million).

13 OTHER ASSETS

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Contributions to the maintenance funds of individual TPS estates		
Carrying amount at beginning of year	33	68
Amortisation for the year	(21)	(31)
Transfer to cost of sales for sold TPS flats	(2)	(4)
Carrying amount at end of year	<u>10</u>	<u>33</u>
Portion classified as current assets (Note 15)	<u>(10)</u>	<u>(22)</u>
Portion classified as non-current assets	<u>-</u>	<u>11</u>

14 INVENTORIES

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Stock of unsold new HOS/PSPS flats	-	-
Stores and spares	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>

During the year, no HOS/PSPS flats were sold (2015: 86 units). As at 31 March 2016, the Authority had no stock balance (2015: nil).

15 DEBTORS, DEPOSITS AND PREPAYMENTS

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Debtors	55	49
Interest receivable from the placements with the Exchange Fund	329	514
Other interest receivable	61	212
Dividends receivable	17	23
Dividend tax refund receivable	9	8
Unsettled sales and redemption of securities	60	724
Home Purchase / Assistance Loans (Note 12)	32	50
Deposits	87	91
Contributions to the maintenance funds of individual TPS estates (Note 13)	10	22
Prepayments	2	2
Lease incentives amortisation	39	36
Derivative financial instruments (Note 26)	<u>-</u>	<u>58</u>
	<u>701</u>	<u>1,789</u>

16 CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Bank balances and cash	1,842	752
Bank deposits with original maturity not more than 3 months (Note 11)	5,784	5,980
Money market funds (Note 11)	-	60
Debt securities designated at fair value with maturity not more than 3 months from date of acquisition (Note 11)	-	80
Cash and cash equivalents in the statement of cash flows	<u>7,626</u>	<u>6,872</u>

17 CREDITORS, DEPOSITS AND OTHER PAYABLES

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Creditors and accruals	4,179	3,371
Unsettled purchases of securities	52	268
Payable for custodian's and fund managers' fees	10	16
Tenants' deposits	1,248	1,224
Other deposits	469	64
Retention money	917	749
Liquidated damages deductions	16	106
Other payables	-	1
Derivative financial instruments (Note 26)	-	21
	<u>6,891</u>	<u>5,820</u>

18 PROVISIONS AND OTHER LIABILITIES

	2016			2015		
	Current portion	Non- current portion	Total	Current portion	Non- current portion	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Provision for employee benefits	1,804	-	1,804	1,815	-	1,815
Provision for maintenance and minor improvements	-	346	346	-	383	383
Rent received in advance	205	-	205	183	-	183
Unamortised income relating to liquefied petroleum gas	14	35	49	16	50	66
Interest payable on HPLS loans sold (Note 12(d))	7	10	17	9	17	26
Land cost provisions relating to sold HOS flats	-	34	34	-	33	33
Residual construction payment relating to sold and divested properties	5	-	5	8	-	8
Provision for audit fees	8	-	8	10	-	10
Provision for mortgage default guarantee payments	1	-	1	1	-	1
Others	5	-	5	6	-	6
	2,049	425	2,474	2,048	483	2,531

19 GOVERNMENT'S CONTRIBUTION

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

	2016			2015		
	Domestic housing	Non-domestic equity	Total	Domestic housing	Non-domestic equity	Total
	HK\$M	HK\$M	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	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
	4,812	642	5,454	4,812	642	5,454

19 GOVERNMENT'S CONTRIBUTION (Continued)

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

	2016			2015		
	Domestic housing	Non-domestic equity	Total	Domestic housing	Non-domestic equity	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
(i) Land revaluation surplus up to 31.3.1973 pertaining to the predecessor Authority	107	10	117	107	10	117
(ii) Value of land provided by Government						
- since 1.4.1973 pertaining to public rental housing estates and staff quarters	234,594	24,341	258,935	225,556	22,410	247,966
- for offices of the Authority	-	140	140	-	140	140
(iii) Home Ownership Scheme						
- excess of full market value of land over land cost	137,565	-	137,565	137,565	-	137,565
- land value for non-domestic elements	-	2,693	2,693	-	2,693	2,693
- premium on removal of alienation restriction	7,399	-	7,399	7,211	-	7,211
(iv) Tenants Purchase Scheme						
- excess of full market value of land at completion of the buildings over land cost	25,016	-	25,016	24,576	-	24,576
(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
	406,499	27,194	433,693	396,833	25,263	422,096

20 HOUSING CAPITAL WORKS FUND

	2016			2015		
	Construction Account	Improvement Account	Total	Construction Account	Improvement Account	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Balance at beginning of year	30,862	3,906	34,768	20,564	3,839	24,403
Transfer from accumulated surplus	13,100	168	13,268	10,298	67	10,365
Balance at end of year	<u>43,962</u>	<u>4,074</u>	<u>48,036</u>	<u>30,862</u>	<u>3,906</u>	<u>34,768</u>

21 DEVELOPMENT FUND

	<u>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Balance at beginning of year	50,862	55,954
Transfer to accumulated surplus	<u>(12,439)</u>	<u>(5,092)</u>
Balance at end of year	<u>38,423</u>	<u>50,862</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\$24 million (2015: net downward adjustment of HK\$25 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>2016</u> HK\$M	<u>2015</u> HK\$M
(a) Income received from the Government		
Rental income ¹	1,091	1,021
Reimbursement of costs of services provided to the Government	266	248
Supervision on-costs in respect of Government reimbursable projects	31	46
Other income	1	1
	<u>1,389</u>	<u>1,316</u>
(b) Amount due from the Government		
Receivable for Lotteries Fund projects	13	9
Receivable for Government-funded construction projects	3	4
On-costs accrual for entrusted projects	-	1
Deposits and others	3	19
	<u>19</u>	<u>33</u>
(c) Amount due to the Government		
Land cost	89	135
Advance from Government for rental payment	89	154
Payable for Government rent and rates	13	20
Over-recovery on Government funded agency functions	11	14
Over-recovery on on-costs for entrusted projects	1	-
Dividend payable	28	63
Others (e.g. company and land searches)	35	16
	<u>266</u>	<u>402</u>

¹ It included the rent of HK\$1,044 million (2015: HK\$977 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 2016, 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\$17,043 million (2015: HK\$20,494 million) for the primary market and HK\$15,130 million (2015: HK\$14,176 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 (2015: Nil) for the primary market and HK\$28 million (2015: HK\$5 million) for the secondary market.

(ii) TPS flats sold

Default guarantees for flats sold under TPS amounted to HK\$3,544 million (2015: HK\$3,272 million) for the primary market and HK\$1,332 million (2015: HK\$1,069 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 (2015: Nil) for the primary market and its financial exposure for the secondary market is HK\$155 million (2015: HK\$98 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 2016, there were 27,450 units (2015: 27,450 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\$0.2 million (2015: HK\$0.6 million).

25 CAPITAL COMMITMENTS

The Authority had the following contractual capital commitments outstanding at 31 March 2016 not provided for in the financial statements:

	<u>2016</u>	<u>2015</u>
	<u>HK\$M</u>	<u>HK\$M</u>
Capital Works/Projects		
- Public rental housing construction projects	29,574	25,789
- HOS construction projects	6,801	4,765
- Other projects	1,462	1,582
	<u>37,837</u>	<u>32,136</u>

26 DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	HK\$M	HK\$M	HK\$M	HK\$M
Forward currency exchange contracts, at fair value	-	-	58	21
	(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”. All these contracts would mature within one year and have a total notional amount of HK\$13 million (2015: HK\$4 billion). The notional amounts of these contracts indicate the volume of outstanding transactions and do not represent 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 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 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 2016, the outstanding principal balance of the home purchase loans sold was HK\$547 million (2015: HK\$730 million) and their average remaining maturity was 39 months (2015: 38 months).

Sensitivity analysis based on a 50 basis points (2015: 50 basis points) increase / decrease in market interest rates 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\$1 million (2015: HK\$106 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:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	HK\$M	HK\$M	HK\$M	HK\$M
Renminbi	1,135	-	6,967	-
Other currencies				
- US dollars	3,344	42	9,616	1,281
- Pound sterling	349	6	842	438
- Euro	652	1	3,362	1,906
- Others	726	25	2,286	978
	6,206	74	23,073	4,603

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% (2015: 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\$17 million (2015: HK\$42 million).

Sensitivity analysis based on a 5% (2015: 5%) increase / decrease in the exchange rate of the Renminbi against the Hong Kong dollar shows that the exchange gains and surplus for the year would have increased / decreased by HK\$57 million (2015: HK\$348 million).

Sensitivity analysis based on a 5% (2015: 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\$85 million (2015: HK\$158 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 2016, all equity investments were designated at fair value as shown in Note 11.

Sensitivity analysis based on a 15% (2015: 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\$1,221 million (2015: HK\$1,841 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 2015 and 2016, with all other variables held constant, shows that the surplus for the year would have increased / decreased by HK\$195 million (2015: HK\$187 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>2016</u>	<u>2015</u>
	HK\$M	HK\$M
Placements with the Exchange Fund	40,009	37,923
Bank balances	1,805	713
Bank deposits	6,712	10,944
Amount due from the Government	19	33
Debtors and deposits	618	1,679
Held-to-maturity securities	-	441
Available-for-sale debt securities	150	-
Debt securities designated at fair value	162	3,722
Money market funds	-	60
Home Purchase / Assistance Loans	73	128
Mortgage default guarantees	37,049	39,011
	<u>86,597</u>	<u>94,654</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 2016, provision for mortgage default guarantee payments amounted to HK\$1 million (2015: HK\$1 million, Note 18), and the financial exposure not provided for in the financial statements amounted to HK\$183 million (2015: HK\$103 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:

	2016	2015
	HK\$M	HK\$M
Aaa	-	1,472
Aa3 to Aa1	2,684	4,158
A3 to A1	5,868	9,906
Lower than A3	277	344
	8,829	15,880

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:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$M	HK\$M	HK\$M	HK\$M
Held-to-maturity securities	-	-	441	439

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 2016

	Level 1	Level 2	Total
	HK\$M	HK\$M	HK\$M
Assets			
Securities at fair value	8,141	312	8,453
Derivative financial instruments	-	-	-
	<u>8,141</u>	<u>312</u>	<u>8,453</u>
Liabilities			
Derivative financial instruments	-	-	-

As at 31 March 2015

	Level 1	Level 2	Total
	HK\$M	HK\$M	HK\$M
Assets			
Securities at fair value	14,390	1,666	16,056
Derivative financial instruments	-	58	58
	<u>14,390</u>	<u>1,724</u>	<u>16,114</u>
Liabilities			
Derivative financial instruments	-	21	21

No financial assets or liabilities were classified under Level 3.

During the year, there were no 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

	Note	<u>2016</u>	<u>2015</u>
		HK\$M	HK\$M
Consolidated Operating Account surplus / (deficit)			
Rental Housing	29(b)	(11)	(28)
Commercial	29(c)	1,086	1,000
Home Ownership Assistance	29(d)	1,985	2,341
Sub-total		3,060	3,313
Net non-operating income	6	56	26
		3,116	3,339
Funds Management Account surplus	29(e)	1,022	3,512
Agency Account surplus	29(f)	9	15
Surplus for the year		4,147	6,866
Distribution			
Dividend to the Government for the year		(543)	(500)
Surplus for the year after distribution		3,604	6,366

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

(b) RENTAL HOUSING OPERATING ACCOUNT

	2016				2015			
	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	14,289	18	-	14,307	13,671	17	-	13,688
Other income	58	-	-	58	73	-	-	73
TOTAL INCOME	14,347	18	-	14,365	13,744	17	-	13,761
EXPENDITURE								
Personal emoluments	2,778	10	2	2,790	2,718	10	2	2,730
Government rent and rates	1,189	3	-	1,192	1,115	5	-	1,120
Maintenance and improvements	2,927	31	-	2,958	2,910	30	-	2,940
Other expenditure	3,985	22	1	4,008	3,763	22	2	3,787
Depreciation and amortisation	3,217	10	-	3,227	3,007	9	-	3,016
Share of corporate supervision and support services expenses	200	1	-	201	195	1	-	196
TOTAL EXPENDITURE	14,296	77	3	14,376	13,708	77	4	13,789
Operating surplus / (deficit) for the year	51	(59)	(3)	(11)	36	(60)	(4)	(28)

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

(c) COMMERCIAL OPERATING ACCOUNT

	2016					2015				
	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	1,156	563	161	495	2,375	1,080	499	152	486	2,217
Other income	52	2	2	38	94	46	4	-	36	86
TOTAL INCOME	1,208	565	163	533	2,469	1,126	503	152	522	2,303
EXPENDITURE										
Personal emoluments	155	46	32	73	306	148	47	31	70	296
Government rent and rates	44	22	4	61	131	51	20	4	62	137
Maintenance and improvements	68	26	23	9	126	62	31	19	7	119
Other expenditure	236	142	36	85	499	224	131	34	81	470
Depreciation and amortisation	104	73	6	50	233	93	69	7	48	217
Share of corporate supervision and support services expenses	12	3	2	5	22	11	3	2	5	21
TOTAL EXPENDITURE	619	312	103	283	1,317	589	301	97	273	1,260
Operating surplus before exceptional items	589	253	60	250	1,152	537	202	55	249	1,043
Exceptional items ¹	(66)	-	-	-	(66)	(43)	-	-	-	(43)
Operating surplus for the year	523	253	60	250	1,086	494	202	55	249	1,000

¹ 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

	2016					2015				
	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	-	-	1,340	-	1,340	73	-	1,433	-	1,506
Premium on removal of alienation restriction	655	301	224	-	1,180	908	347	246	-	1,501
Other income	62	6	8	-	76	45	6	7	1	59
TOTAL INCOME	717	307	1,572	-	2,596	1,026	353	1,686	1	3,066
EXPENDITURE										
Personal emoluments	189	33	55	25	302	182	32	56	25	295
Maintenance and improvements	5	1	2	-	8	5	1	2	-	8
Other expenditure	27	3	5	4	39	20	3	5	4	32
Depreciation and amortisation	16	2	4	6	28	11	2	3	6	22
Share of corporate supervision and support services expenses	17	3	5	2	27	15	2	5	2	24
Sub-total	254	42	71	37	404	233	40	71	37	381
Expenditure on home ownership schemes										
Construction cost and overheads	1	-	96	-	97	36	-	110	-	146
Government land cost	-	-	90	-	90	20	-	98	-	118
Cost of repurchased flats sold	-	-	5	-	5	-	-	9	-	9
Other expenditure	14	-	4	(1)	17	60	-	23	(1)	82
Sub-total	15	-	195	(1)	209	116	-	240	(1)	355
TOTAL EXPENDITURE	269	42	266	36	613	349	40	311	36	736
Operating surplus / (deficit) before exceptional items	448	265	1,306	(36)	1,983	677	313	1,375	(35)	2,330
Exceptional items ¹	-	-	-	2	2	-	-	-	11	11
Operating surplus / (deficit) for the year	448	265	1,306	(34)	1,985	677	313	1,375	(24)	2,341

¹ These mainly represent adjustments of future interest liability on the outstanding balance of the HPLS loan portfolio sold after related interest payment of \$7 million (2015: \$10 million) made in the year.

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

(e) FUNDS MANAGEMENT ACCOUNT

	2016				2015			
	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	201	1,900	23	2,124	306	1,507	96	1,909
Dividend income	-	-	229	229	-	-	299	299
Net realised and revaluation gains / (losses)	-	-	(1,071)	(1,071)	-	-	1,808	1,808
Net exchange gains / (losses)	(248)	-	67	(181)	9	-	(416)	(407)
TOTAL INCOME / (LOSSES)	(47)	1,900	(752)	1,101	315	1,507	1,787	3,609
EXPENDITURE								
Investment expenditure								
Fund managers' fees	-	-	47	47	-	-	62	62
Custodian fees	-	-	4	4	-	-	6	6
Other investment expenditure	-	-	11	11	-	-	11	11
Sub-total	-	-	62	62	-	-	79	79
Recurrent expenditure								
Personal emoluments	6	1	5	12	6	-	7	13
Depreciation	1	-	1	2	1	-	1	2
Other expenditure	2	-	1	3	2	-	1	3
Sub-total	9	1	7	17	9	-	9	18
TOTAL EXPENDITURE	9	1	69	79	9	-	88	97
Surplus / (deficit) for the year	(56)	1,899	(821)	1,022	306	1,507	1,699	3,512

¹ The In-house portfolio comprises bank deposits stated at their principal amounts, debt securities intended to be held to maturity stated at amortised cost, as well as available-for-sale debt securities reclassified from held-to-maturity securities stated at fair value.

² 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.

³ 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

	2016				2015			
	Agency Functions ¹	Agency Management Services ²	Supervision of Government Reimbursable Projects ³	Total	Agency Functions ¹	Agency Management Services ²	Supervision of Government Reimbursable Projects ³	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
INCOME								
Supervision fee	-	162	-	162	-	159	-	159
Supervision on-costs	-	64	31	95	-	63	46	109
Amount reimbursed by Government	265	-	1	266	247	-	1	248
TOTAL INCOME	265	226	32	523	247	222	47	516
EXPENDITURE								
Personal emoluments	226	131	63	420	207	134	64	405
Maintenance and improvements	2	6	(1)	7	1	6	1	8
Other expenditure	25	10	9	44	28	10	5	43
Depreciation and amortisation	4	5	6	15	5	5	8	18
Share of corporate supervision and support services expenses	1	8	8	17	1	8	5	14
TOTAL EXPENDITURE	258	160	85	503	242	163	83	488
Surplus/(deficit) for the year before adjustments	7	66	(53)	20	5	59	(36)	28
Over recovery brought forward	14	-	-	14	6	1	-	7
Over recovery settled during the year	(14)	-	-	(14)	(6)	-	-	(6)
Over recovery carried forward	(11)	-	-	(11)	(14)	-	-	(14)
Surplus / (deficit) for the year	(4)	66	(53)	9	(9)	60	(36)	15

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