

Hong Kong Housing Authority

Financial statements for the year ended 31 March 2018

Contents

	Page
Report of the Director of Audit	1-3
Financial Statements	
Statement of Comprehensive Income	4
Statement of Financial Position	5-6
Statement of Changes in Net Assets	7
Statement of Cash Flows	8-9
Notes to the Financial Statements	
1 Financial arrangements with the Government	10-12
2 Significant accounting policies	13-25
3 Critical accounting judgement in applying the Authority's accounting policies	25
4 Income	26-27
5 Expenditure on subsidised sale flats	27
6 Net non-operating income	27
7 Property, plant and equipment	28-29
8 Capital works/projects in progress	30
9 Intangible assets	31
10 Placements with the Exchange Fund	31
11 Home Purchase/Assistance Loans	32-33
12 Other assets	34
13 Inventories	34
14 Debtors, deposits and prepayments	34
15 Investments in securities and bank deposits	35
16 Cash and cash equivalents	36
17 Creditors, deposits and other payables	36
18 Provisions and other liabilities	37
19 Government's contribution	38-39
20 Housing Capital Works Fund	40
21 Development Fund	41

22	Divestment of retail and carparking facilities	41
23	Related party transactions	42
24	Contingent liabilities	43-44
25	Capital commitments	45
26	Derivative financial instruments	45
27	Financial risk management	45-50
28	Fair values of financial instruments	50-51
29	Supplemental information required under the financial arrangements with the Government	
	(a) Consolidated Appropriation Account	52
	(b) Rental Housing Operating Account	53
	(c) Commercial Operating Account	54
	(d) Home Ownership Assistance Operating Account	55
	(e) Funds Management Account	56
	(f) Agency Account	57

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report

Opinion

I have audited the financial statements of the Hong Kong Housing Authority set out on pages 4 to 57, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Responsibilities of the Hong Kong Housing Authority for the financial statements

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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



David Sun
Director of Audit

27 September 2018

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 2018
(Expressed in millions of Hong Kong dollars)

	Note	2018	2017
Income			
Rental income	4(a)	18,214	17,026
Sales and premium income	4(b)	9,969	2,693
Investment income	4(c)	2,171	2,377
Other income	4(d)	266	156
		<u>30,620</u>	<u>22,252</u>
Expenditure			
Personal emoluments		3,802	3,700
Government rent and rates		426	406
Maintenance and improvements		3,398	3,279
Depreciation and amortisation		4,175	3,628
Expenditure on subsidised sale flats	5	4,776	888
Other expenditure		5,347	5,049
		<u>21,924</u>	<u>16,950</u>
Operating surplus		8,696	5,302
Net non-operating income	6	<u>7</u>	<u>15</u>
Surplus for the year		8,703	5,317
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>8,703</u>	<u>5,317</u>

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

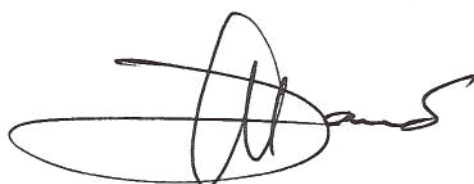
HONG KONG HOUSING AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018
(Expressed in millions of Hong Kong dollars)

	Note	2018	2017
Non-current assets			
Property, plant and equipment	7	138,644	131,992
Capital works/projects in progress	8	42,829	36,749
Intangible assets	9	124	152
Placements with the Exchange Fund	10	29,494	28,691
Home Purchase/Assistance Loans	11	22	30
		<u>211,113</u>	<u>197,614</u>
Current assets			
Inventories	13	1	18
Debtors, deposits and prepayments	14	619	996
Amount due from the Government	23(b)	2	1
Placements with the Exchange Fund	10	-	12,638
Investments in securities and bank deposits	15	15,610	7,517
Bank balances and cash	16	381	276
		<u>16,613</u>	<u>21,446</u>
Current liabilities			
Creditors, deposits and other payables	17	7,240	7,556
Amount due to the Government	23(c)	1,376	417
Provisions and other liabilities	18	2,184	2,188
		<u>10,800</u>	<u>10,161</u>
Net current assets		<u>5,813</u>	<u>11,285</u>
Total assets less current liabilities		216,926	208,899
Non-current liabilities			
Provisions and other liabilities	18	<u>420</u>	<u>410</u>
Net assets		<u>216,506</u>	<u>208,489</u>

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

HONG KONG HOUSING AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018 (Continued)
(Expressed in millions of Hong Kong dollars)

	Note	2018	2017
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		117,785	111,337
Housing Capital Works Fund	20	54,441	49,335
Development Fund	21	25,325	28,862
		<u>216,506</u>	<u>208,489</u>



CHAN Fan, Frank
Chairman
Hong Kong Housing Authority
27 September 2018

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

HONG KONG HOUSING AUTHORITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 MARCH 2018
(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 2016	13,489	5,454	12	98,391	48,036	38,423	203,805
Total comprehensive income for the year	-	-	-	5,317	-	-	5,317
Dividend to the Government for the year	-	-	-	(633)	-	-	(633)
Transfer (from)/ to accumulated balance	-	-	-	8,262	1,299	(9,561)	-
Balance at 31 March 2017	<u>13,489</u>	<u>5,454</u>	<u>12</u>	<u>111,337</u>	<u>49,335</u>	<u>28,862</u>	<u>208,489</u>
Balance at 1 April 2017	13,489	5,454	12	111,337	49,335	28,862	208,489
Total comprehensive income for the year	-	-	-	8,703	-	-	8,703
Dividend to the Government for the year	-	-	-	(686)	-	-	(686)
Transfer (from)/ to accumulated balance	-	-	-	(1,569)	5,106	(3,537)	-
Balance at 31 March 2018	<u>13,489</u>	<u>5,454</u>	<u>12</u>	<u>117,785</u>	<u>54,441</u>	<u>25,325</u>	<u>216,506</u>

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

HONG KONG HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018
(Expressed in millions of Hong Kong dollars)

	Note	2018	2017
Cash flows from operating activities			
Surplus for the year		8,703	5,317
Adjustments for:			
Investment income	4(c)	(2,171)	(2,377)
Expenditure on divestment of retail and carparking facilities	6	5	2
Depreciation of property, plant and equipment		4,090	3,506
Amortisation of intangible assets		115	152
Written down value of Tenants Purchase Scheme flats sold		108	67
Adjustment of capital expenditure		7	2
Decrease in Home Purchase/Assistance Loans		12	39
Decrease in impairment allowance for Home Purchase/ Assistance Loans		(1)	(5)
Decrease in other assets		-	10
Increase in subsidised sale flats (Domestic) properties under development		(1,699)	(3,627)
Decrease/(Increase) in inventories		17	(17)
Decrease in securities at fair value		831	5,007
Decrease/(Increase) in debtors, prepayments and other receivables		448	(423)
Increase in creditors, accruals and other payables		649	728
(Decrease)/Increase in provisions and other liabilities		(76)	98
Net cash from operating activities		<u>11,038</u>	<u>8,479</u>

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

HONG KONG HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018 (Continued)
(Expressed in millions of Hong Kong dollars)

	Note	2018	2017
Cash flows from investing activities			
Proceeds from redemption of held-to-maturity securities		-	154
Decrease/(Increase) in placements with the Exchange Fund		11,835	(1,320)
(Increase)/Decrease in bank deposits with original maturities over 3 months		(5,376)	895
Payments relating to divestment of retail and carparking facilities		(5)	(1)
Payments relating to capital works/projects in progress			
-New public rental housing		(11,271)	(10,309)
-Redeveloped public rental housing		(2,767)	(1,997)
-Subsidised sale flats (Commercial)		(380)	(231)
-Housing Authority offices		(7)	-
-Motor vehicles		(1)	(2)
-Computer systems		(120)	(103)
-Improvement works		(674)	(660)
Interest received		1,174	1,439
Dividends received		64	185
Net cash used in investing activities		<u>(7,528)</u>	<u>(11,950)</u>
Cash flows from financing activities			
Dividend paid to the Government		<u>(714)</u>	<u>(552)</u>
Net cash used in financing activities		<u>(714)</u>	<u>(552)</u>
Net increase/(decrease) in cash and cash equivalents		2,796	(4,023)
Cash and cash equivalents at beginning of year		<u>3,603</u>	<u>7,626</u>
Cash and cash equivalents at end of year	16	<u><u>6,399</u></u>	<u><u>3,603</u></u>

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

HONG KONG HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

1 FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT

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

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

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

(b) Government's contribution

The Government's contribution to domestic housing and non-domestic equity included in the accounts is shown in Note 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), Buy Or Rent Option Scheme (BRO), Tenants Purchase Scheme (TPS) and Green Form Subsidised Home Ownership Scheme (GSH) and the land value for the non-domestic

elements in rental estates and HOS, BRO and GSH courts (i.e. carpark and commercial facilities) are not included in the accounts but included as memorandum entries in Note 19(b).

(c) Dividend to the Government

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

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

The Authority took over since 1 April 1988 from the Government the contingent liabilities for mortgage default guarantees in respect of flats built under the HOS and the Private Sector Participation Scheme (PSPS) (Note 24(a)), and for unsold flats and the shortfall in selling price under the PSPS.

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

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

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

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

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

(f) Housing Capital Works Fund

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

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

(g) Development Fund

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

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

(i) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost except for securities managed by external fund managers 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 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/GSH flats which is recognised upon signing of the sale and purchase agreement or upon issue of an occupation permit, whichever is the later;
- proceeds from the sale/resale of flats under the TPS which is recognised upon signing of the Deed of Assignment; and
- premium payments from owners of HOS/PSPS/BRO/TPS/GSH flats (collectively referred to as subsidised sale flats) which are recognised as income when the alienation restrictions on the flats are removed;

(iii) Interest income

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

(iv) Dividend income

Dividend income is recognised on the ex-dividend date;

(v) Fees and charges

Fees and charges 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.

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

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

Interim Housing

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

Others

'HO' Head Office buildings.

'SQ' Staff quarters.

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

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

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

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

(ii) Computer equipment, electronic equipment and motor vehicles

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

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

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

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

(d) Depreciation

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

	<u>Expected useful life</u>
(i) Buildings	
- 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/GSH (Domestic) projects are completed, the related costs are transferred to “inventories”. Expenditure on improvement works costing less than

HK\$500,000 each is expensed to the statement of comprehensive income when incurred.

(f) Intangible assets

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

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

(g) Land

(i) Land under lease

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

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

(ii) Land under vesting order

For land not under lease, vesting orders have been made by the Director of Lands, acting on delegated authority from the Chief Executive, under

Section 5 of the Housing Ordinance. Such vesting orders confer on the Authority full powers of control and management of the land.

(iii) Land value

The value of land included in Note 19(b) in accordance with the financial arrangements with the Government (Note 1(b)) is determined on the following bases:

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

'HOS(Domestic)' - The land value associated with the domestic element of the HOS/BRO/TPS/GSH is the 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.

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

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

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

(h) 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 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.

(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)).

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

(k) Impairment of loans and receivables

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 subsidised sale flats and in respect of mortgage loans made by banks and other authorised financial institutions are a form of financial guarantees.

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

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

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities (including maintenance and minor improvements) when the Authority has a present obligation as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, the provision is stated at the present value of the expenditure expected to settle the obligation. Provisions are reviewed at 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>2018</u>	<u>2017</u>
	HK\$M	HK\$M
(a) Rental income		
Rental housing	15,336	14,411
Commercial properties	<u>2,878</u>	<u>2,615</u>
	<u>18,214</u>	<u>17,026</u>
(b) Sales and premium income		
Sales of flats	8,690	1,537
Premium on removal of alienation restriction	<u>1,279</u>	<u>1,156</u>
	<u>9,969</u>	<u>2,693</u>
(c) Investment income		
Interest income from		
- placements with the Exchange Fund	1,152	1,277
- securities at fair value	5	6
- bank deposits	<u>95</u>	<u>54</u>
	1,252	1,337
Net realised and revaluation gains on securities designated at fair value	782	974
Net exchange gains/(losses) on		
- securities at fair value	76	(79)
- others	-	(29)
	76	(108)
Dividend income from securities at fair value	61	174
	<u>2,171</u>	<u>2,377</u>
(d) Other income		
Fees and charges	77	64
Miscellaneous income	<u>189</u>	<u>92</u>
	<u>266</u>	<u>156</u>
Total income	<u>30,620</u>	<u>22,252</u>

4 INCOME (Continued)

Operating Leases Arrangements

The Authority leases out commercial properties under operating leases (except car-parks). The leases typically run for a period of three years. The rental income received during the year amounted to HK\$2,178 million (2017: HK\$1,989 million), including rents based on business turnover amounting to HK\$10 million (2017: HK\$11 million).

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

	<u>2018</u>	<u>2017</u>
	HK\$M	HK\$M
Not later than one year	1,028	895
Later than one year but not later than five years	1,003	1,003
Later than five years	29	56
	<u>2,060</u>	<u>1,954</u>

5 EXPENDITURE ON SUBSIDISED SALE FLATS

	<u>2018</u>	<u>2017</u>
	HK\$M	HK\$M
Cost of flats sold		
- Construction cost and overheads	3,471	614
- Government land cost	1,282	254
- Cost of repurchased flats	7	3
	<u>4,760</u>	<u>871</u>
Adjustments to the interest payable on HPLS loans sold	-	(2)
Other expenditure	16	19
	<u>4,776</u>	<u>888</u>

6 NET NON-OPERATING INCOME

	<u>2018</u>	<u>2017</u>
	HK\$M	HK\$M
Expenditure on divestment of retail and carparking facilities (Note 22)	(5)	(2)
Reimbursement from Urban Renewal Authority for the costs of the allocated rental flats for affected clearerees	9	21
Other income/(expenditure)	3	(4)
	<u>7</u>	<u>15</u>

7 PROPERTY, PLANT AND EQUIPMENT

	2018				2017				
	Rental Premises (excluding Interim Housing)		Interim Housing		Rental Premises (excluding Interim Housing)		Interim Housing		Total HK\$M
	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	(95)	-	(30)	(125)	(94)	-	(29)	(123)	
Charge for the year	-	-	(2)	(2)	(1)	-	(1)	(2)	
Accumulated depreciation at end of year	(95)	-	(32)	(127)	(95)	-	(30)	(125)	
Net book value at end of year	10	-	25	35	10	-	27	37	
(b) Site formation									
Cost at beginning of year	2,725	1	8	2,734	2,613	1	8	2,622	
Additions	28	-	-	28	118	-	-	118	
Disposals/Demolition	(7)	-	(5)	(12)	(6)	-	-	(6)	
Cost at end of year	2,746	1	3	2,750	2,725	1	8	2,734	
Accumulated depreciation at beginning of year	(1,261)	(1)	(6)	(1,268)	(1,222)	(1)	(6)	(1,229)	
Charge for the year	(44)	-	-	(44)	(43)	-	-	(43)	
Written back on disposals/demolition	5	-	5	10	4	-	-	4	
Accumulated depreciation at end of year	(1,300)	(1)	(1)	(1,302)	(1,261)	(1)	(6)	(1,268)	
Net book value at end of year	1,446	-	2	1,448	1,464	-	2	1,466	
(c) Buildings									
Cost at beginning of year	185,113	571	1,846	187,530	169,349	725	1,846	171,920	
Additions	8,904	-	-	8,904	16,017	-	-	16,017	
Transfers	(43)	43	-	-	(72)	72	-	-	
Disposals/Demolition	(307)	-	(36)	(343)	(181)	(226)	-	(407)	
Cost at end of year	193,667	614	1,810	196,091	185,113	571	1,846	187,530	
Accumulated depreciation at beginning of year	(57,756)	(215)	(908)	(58,879)	(54,670)	(405)	(877)	(55,952)	
Charge for the year	(3,435)	(11)	(30)	(3,476)	(3,230)	(11)	(31)	(3,272)	
Transfers	16	(16)	-	-	25	(25)	-	-	
Written back on disposals/demolition	206	-	36	242	119	226	-	345	
Accumulated depreciation at end of year	(60,969)	(242)	(902)	(62,113)	(57,756)	(215)	(908)	(58,879)	
Net book value at end of year	132,698	372	908	133,978	127,357	356	938	128,651	

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

2018

2017

	2018			2017				
	Rental Premises (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Others HK\$M	Total HK\$M	Rental Premises (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Others HK\$M	Total HK\$M
(d) Improvement works								
Cost at beginning of year	4,194	-	132	4,326	4,148	-	120	4,268
Additions	1,898	-	2	1,900	51	-	12	63
Disposals	(10)	-	-	(10)	(5)	-	-	(5)
Cost at end of year	6,082	-	134	6,216	4,194	-	132	4,326
Accumulated depreciation at beginning of year	(2,450)	-	(100)	(2,550)	(2,306)	-	(98)	(2,404)
Charge for the year	(522)	-	(1)	(523)	(147)	-	(2)	(149)
Written back on disposals	5	-	-	5	3	-	-	3
Accumulated depreciation at end of year	(2,967)	-	(101)	(3,068)	(2,450)	-	(100)	(2,550)
Net book value at end of year	3,115	-	33	3,148	1,744	-	32	1,776
(e) Computer equipment								
Cost at beginning of year	-	-	391	391	-	-	375	375
Additions	-	-	17	17	-	-	16	16
Disposals	-	-	(4)	(4)	-	-	-	-
Cost at end of year	-	-	404	404	-	-	391	391
Accumulated depreciation at beginning of year	-	-	(333)	(333)	-	-	(293)	(293)
Charge for the year	-	-	(44)	(44)	-	-	(40)	(40)
Written back on disposals	-	-	4	4	-	-	-	-
Accumulated depreciation at end of year	-	-	(373)	(373)	-	-	(333)	(333)
Net book value at end of year	-	-	31	31	-	-	58	58
(f) Electronic equipment								
Cost at beginning of year	532	-	6	538	535	-	6	541
Disposals	(4)	-	-	(4)	(3)	-	-	(3)
Cost at end of year	528	-	6	534	532	-	6	538
Accumulated depreciation at beginning of year	(532)	-	(6)	(538)	(535)	-	(6)	(541)
Written back on disposals	4	-	-	4	3	-	-	3
Accumulated depreciation at end of year	(528)	-	(6)	(534)	(532)	-	(6)	(538)
Net book value at end of year	-	-	-	-	-	-	-	-
(g) Motor vehicles								
Cost at beginning of year	-	-	4	4	-	-	2	2
Additions	-	-	1	1	-	-	2	2
Cost at end of year	-	-	5	5	-	-	4	4
Accumulated depreciation at beginning of year	-	-	-	-	-	-	-	-
Charge for the year	-	-	(1)	(1)	-	-	-	-
Accumulated depreciation at end of year	-	-	(1)	(1)	-	-	-	-
Net book value at end of year	-	-	4	4	-	-	4	4
Total net book value at end of year¹	137,269	372	1,003	138,644	130,575	356	1,061	131,992
¹ Represented by assets of								
Domestic rental housing	127,891	372	-	128,263	121,599	356	-	121,955
Non-domestic facilities	9,378	-	-	9,378	8,976	-	-	8,976
Housing Authority office buildings and others	-	-	1,003	1,003	-	-	1,061	1,061
	137,269	372	1,003	138,644	130,575	356	1,061	131,992

8 CAPITAL WORKS/PROJECTS IN PROGRESS

(a) Housing Capital Works Fund - Construction Account

(i) Properties under development

	1 April 2017	Additions, reclassification and adjustments ¹	Transfer to other asset categories or expenditure	31 March 2018	1 April 2016	Additions, reclassification and adjustments ¹	Transfer to other asset categories or expenditure	31 March 2017
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
New public rental housing								
Site formation	176	64	(27)	213	138	65	(27)	176
Buildings	20,339	11,219	(8,593)	22,965	22,441	10,252	(12,354)	20,339
	20,515	11,283	(8,620)	23,178	22,579	10,317	(12,381)	20,515
Redeveloped public rental housing								
Site formation	210	14	-	224	290	12	(92)	210
Buildings	3,752	2,760	(269)	6,243	5,427	1,984	(3,659)	3,752
	3,962	2,774	(269)	6,467	5,717	1,996	(3,751)	3,962
Subsidised sale flats (Domestic)								
Site formation	89	19	(37)	71	73	17	(1)	89
Buildings	8,990	5,122	(3,316)	10,796	5,351	4,205	(566)	8,990
	9,079	5,141	(3,353)	10,867	5,424	4,222	(567)	9,079
Subsidised sale flats (Commercial)								
Site formation	6	1	(1)	6	5	1	-	6
Buildings	440	379	(47)	772	216	230	(6)	440
	446	380	(48)	778	221	231	(6)	446
Housing Authority offices								
Buildings	-	7	-	7	-	-	-	-
	-	7	-	7	-	-	-	-
Sub-total	34,002	19,585	(12,290)	41,297	33,941	16,766	(16,705)	34,002
(ii) Computer equipment/motor vehicles								
Total	78	121	(104)	95	53	105	(80)	78
	34,080	19,706	(12,394)	41,392	33,994	16,871	(16,785)	34,080
	2,669	674	(1,906)	1,437	2,074	659	(64)	2,669
(b) Housing Capital Works Fund - Improvement Account								
Improvement works on buildings								
Total capital works/projects in progress	36,749	20,380	(14,300)	42,829	36,068	17,530	(16,849)	36,749

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>2018</u>	<u>2017</u>
	HK\$M	HK\$M
Computer software licences and system development costs		
Cost:		
At beginning of year	1,442	1,382
Additions	87	62
Disposals	<u>(27)</u>	<u>(2)</u>
At end of year	<u>1,502</u>	<u>1,442</u>
Accumulated amortisation:		
At beginning of year	(1,290)	(1,140)
Charge for the year	(115)	(152)
Written back on disposals	<u>27</u>	<u>2</u>
At end of year	<u>(1,378)</u>	<u>(1,290)</u>
Net book value at end of year	<u>124</u>	<u>152</u>

10 PLACEMENTS WITH THE EXCHANGE FUND

The balance of the placements with the Exchange Fund amounted to HK\$29,494 million (2017: HK\$41,329 million), being the total principal sum of HK\$20,000 million (2017: HK\$30,000 million) plus HK\$9,494 million (2017: HK\$11,329 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. A placement with principal sum of HK\$10,000 million matured on 6 November 2017 and was withdrawn together with interest earned of HK\$2,938 million. For the remaining placement with principal sum of HK\$20,000 million, the Authority has the option to demand repayment of part of the principal sum up to HK\$15,000 million during the period of placement by giving six months advance notice.

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 Government Bond for the previous year subject to a minimum of zero percent, whichever is the higher. The interest rate has been fixed at 4.6% per annum for 2018 and at 2.8% per annum for 2017.

11 HOME PURCHASE/ASSISTANCE LOANS

	2018				2017			
	Home Purchase Loan Scheme (Notes 11a & d) HK\$M	Enhanced Home Purchase Loan Scheme (Notes 11b & d) HK\$M	Home Assistance Loan Scheme (Note 11c) HK\$M	Total HK\$M	Home Purchase Loan Scheme (Notes 11a & d) HK\$M	Enhanced Home Purchase Loan Scheme (Notes 11b & d) HK\$M	Home Assistance Loan Scheme (Note 11c) HK\$M	Total HK\$M
Gross carrying amount:								
At beginning of year	133	21	36	190	139	22	68	229
Loan repayments	(2)	-	(9)	(11)	(2)	-	(32)	(34)
Loans written off	(1)	-	-	(1)	(4)	(1)	-	(5)
At end of year	130	21	27	178	133	21	36	190
Impairment allowance for doubtful loans:								
At beginning of year	(128)	(21)	(2)	(151)	(132)	(22)	(2)	(156)
Impairment loss reversed	-	-	-	-	-	-	-	-
Loans written off	1	-	-	1	4	1	-	5
At end of year	(127)	(21)	(2)	(150)	(128)	(21)	(2)	(151)
Carrying amount at end of year	3	-	25	28	5	-	34	39
Portion classified as current assets (Note 14)	(1)	-	(5)	(6)	(2)	-	(7)	(9)
Portion classified as non-current assets	2	-	20	22	3	-	27	30

11 HOME PURCHASE/ASSISTANCE LOANS (Continued)

(a) Home Purchase Loan Scheme (HPLS)

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

(b) Enhanced Home Purchase Loan Scheme

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

(c) Home Assistance Loan Scheme (HALS)

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

(d) Sale of Home Purchase Loans

The Authority entered into an agreement with The Hong Kong Mortgage Corporation Limited (HKMC) in 2000-01 whereby home purchase loans were sold to the HKMC in tranches. The last tranche of loan sale was completed in November 2003. The loans were sold at par and a monthly interest is payable at rates based on Hong Kong Interbank Offered Rate (HIBOR) on the balance of the portfolio sold after repayment of principal by the borrowers of home purchase loans. The present value of the estimated future interest payments was recognised as an expense and a liability when the loans were sold. As at 31 March 2018, as disclosed in Note 18, the remaining liability amounted to HK\$6 million (2017: HK\$10 million).

12 OTHER ASSETS

	<u>2018</u> HK\$M	<u>2017</u> HK\$M
Contributions to the maintenance funds of individual TPS estates		
Carrying amount at beginning of year	-	10
Amortisation for the year	-	(10)
Carrying amount at end of year	<u>-</u>	<u>-</u>

13 INVENTORIES

	<u>2018</u> HK\$M	<u>2017</u> HK\$M
Stock of unsold new HOS/GSH flats	-	17
Stores and spares	<u>1</u>	<u>1</u>
	<u>1</u>	<u>18</u>

During the year, 2,795 units of HOS/GSH flats were sold (2017: 222 units). As at 31 March 2018, the Authority has no stock balance (2017: 7 units).

14 DEBTORS, DEPOSITS AND PREPAYMENTS

	<u>2018</u> HK\$M	<u>2017</u> HK\$M
Debtors	49	46
Receivable from sale of HOS/GSH flats	-	492
Interest receivable from the placements with the Exchange Fund	334	285
Other interest receivable	32	3
Dividends receivable	7	9
Dividend tax refund receivable	5	6
Unsettled sales and redemption of securities	61	16
Home Purchase/Assistance Loans (Note 11)	6	9
Deposits	81	85
Prepayments	3	2
Lease incentives amortisation	<u>41</u>	<u>43</u>
	<u>619</u>	<u>996</u>

15 INVESTMENTS IN SECURITIES AND BANK DEPOSITS

	<u>2018</u> <u>HK\$M</u>	<u>2017</u> <u>HK\$M</u>
Bank deposits at amortised cost, with original maturities		
- not more than 3 months (Note 16)	6,018	3,327
- over 3 months but not more than 1 year	5,376	-
	11,394	3,327
Securities at fair value		
Debt securities designated at fair value with maturities over 3 months from date of acquisition	278	203
Equity securities designated at fair value	3,938	3,987
	4,216	4,190
Total investments	<u>15,610</u>	<u>7,517</u>

16 CASH AND CASH EQUIVALENTS

	<u>2018</u> HK\$M	<u>2017</u> HK\$M
Bank balances and cash	381	276
Bank deposits with original maturities not more than 3 months (Note 15)	<u>6,018</u>	<u>3,327</u>
Cash and cash equivalents in the statement of cash flows	<u><u>6,399</u></u>	<u><u>3,603</u></u>

17 CREDITORS, DEPOSITS AND OTHER PAYABLES

	<u>2018</u> HK\$M	<u>2017</u> HK\$M
Creditors and accruals	3,504	4,094
Unsettled purchases of securities	63	24
Payable for custodian's and fund managers' fees	6	6
Tenants' deposits	1,361	1,320
Deposits received for sale of HOS/TPS/GSH flats	937	945
Other deposits	68	62
Retention money	1,221	1,076
Liquidated damages deductions	<u>80</u>	<u>29</u>
	<u><u>7,240</u></u>	<u><u>7,556</u></u>

18 PROVISIONS AND OTHER LIABILITIES

	2018			2017		
	Current	Non-	Total	Current	Non-	Total
	portion	current		portion	current	
HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
Provision for employee benefits	1,734	-	1,734	1,800	-	1,800
Provision for maintenance and minor improvements	-	298	298	-	333	333
Rent received in advance	312	-	312	325	-	325
Unamortised income relating to liquefied petroleum gas	10	25	35	11	27	38
Interest payable on HPLS loans sold (Note 11(d))	3	3	6	4	6	10
Land cost provisions relating to sold HOS/GSH flats	-	94	94	-	44	44
Residual construction payment relating to sold and divested properties	113	-	113	31	-	31
Provision for audit fees	8	-	8	7	-	7
Provision for mortgage default guarantee payments	1	-	1	1	-	1
Others	3	-	3	9	-	9
	2,184	420	2,604	2,188	410	2,598

19 GOVERNMENT'S CONTRIBUTION

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

	2018		2017	
	Domestic housing HK\$M	Non-domestic equity HK\$M	Domestic housing HK\$M	Non-domestic equity HK\$M
(i) Borrowings from the former Development Loan Fund				
- Cumulative interest-free loans up to 31.3.1976	254	46	254	46
- Interest foregone by Government on loans related to domestic and non-domestic premises in public rental housing during the period 1.4.1976 to 31.3.1988	2,505	447	2,505	447
(ii) Transfer value of Government built estates and staff quarters	1,226	149	1,226	149
(iii) Home Ownership Scheme				
- Unsold stock of flats and construction in progress at 31.3.1988 transferred from Government	827	-	827	-
	4,812	642	4,812	642
				5,454
				827
				5,454

19 GOVERNMENT'S CONTRIBUTION (Continued)

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

	2018		2017	
	Domestic housing HK\$M	Non-domestic equity HK\$M	Domestic housing HK\$M	Non-domestic equity HK\$M
(i) Land revaluation surplus up to 31.3.1973 pertaining to the predecessor Authority	107	10	107	10
(ii) Value of land provided by Government				
- since 1.4.1973 pertaining to public rental housing estates and staff quarters for offices of the Authority	275,052	29,186	259,391	25,458
	-	140	-	140
(iii) Home Ownership Scheme and Green Form Subsidised Home Ownership Scheme				
- excess of full market value of land over land cost	143,560	-	137,574	-
- land value for non-domestic elements	-	2,841	-	2,695
- premium on removal of alienation restriction	7,947	-	7,644	-
(iv) Tenants Purchase Scheme				
- excess of full market value of land at completion of the buildings over land cost	25,802	-	25,304	-
(v) Buy or Rent Option Scheme				
- excess of full market value of land over land cost	1,818	-	1,818	-
- land value for non-domestic elements	-	10	-	10
	454,286	32,187	431,838	28,313
				460,151

20 HOUSING CAPITAL WORKS FUND

	2018		2017	
	Construction Account	Improvement Account	Construction Account	Improvement Account
	HK\$M	HK\$M	HK\$M	HK\$M
Balance at beginning of year	44,666	4,669	43,962	4,074
Transfer from/(to) accumulated surplus	6,338	(1,232)	704	595
Balance at end of year	51,004	3,437	44,666	4,669
		54,441		49,335
		49,335		48,036
				1,299

21 DEVELOPMENT FUND

	<u>2018</u> HK\$M	<u>2017</u> HK\$M
Balance at beginning of year	28,862	38,423
Transfer to accumulated surplus	<u>(3,537)</u>	<u>(9,561)</u>
Balance at end of year	<u>25,325</u>	<u>28,862</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 upward adjustment on divestment related expenditure was HK\$5 million (2017: net upward adjustment of HK\$2 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>2018</u> HK\$M	<u>2017</u> HK\$M
(a) Income received from the Government		
Rental income	53	50
Reimbursement of costs of services provided to the Government	305	288
Supervision on-costs in respect of Government reimbursable projects	95	50
Other income	<u>1</u>	<u>1</u>
	<u>454</u>	<u>389</u>
(b) Amount due from the Government		
Government rent refundable	1	-
Deposits and others	<u>1</u>	<u>1</u>
	<u>2</u>	<u>1</u>
(c) Amount due to the Government		
Land cost	1,233	243
Advance from Government for rental payment	1	1
Payable for Government rent and rates	6	5
Over-recovery on Government funded agency functions	20	20
Dividend payable	81	109
Others (e.g. company and land searches)	<u>35</u>	<u>39</u>
	<u>1,376</u>	<u>417</u>

24 CONTINGENT LIABILITIES

(a) Financial guarantees issued

As at 31 March 2018, the Authority had outstanding mortgage default guarantees issued in respect of mortgage loans made by banks and other authorised financial institutions on subsidised sale flats sold as follows:

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

Default guarantees for flats built and sold under HOS/PSPS/BRO/GSH amounted to HK\$17,283 million (2017: HK\$14,189 million) for the primary market and HK\$19,018 million (2017: HK\$17,188 million) for the secondary market. However, it is the Authority's view that it will have a financial exposure only if the outstanding indebtedness of mortgages to banks and other financial institutions cannot be covered by proceeds from resale of the flats concerned. The Authority estimates its financial exposure to be HK\$1 million (2017: Nil) for the primary market and HK\$1 million (2017: HK\$2 million) for the secondary market.

(ii) TPS flats sold

Default guarantees for flats sold under TPS amounted to HK\$4,054 million (2017: HK\$3,617 million) for the primary market and HK\$2,217 million (2017: HK\$1,842 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 (2017: Nil) for the primary market and its financial exposure for the secondary market is HK\$240 million (2017: HK\$282 million).

(b) Structural Safety Guarantee

Structural Safety Guarantee (SSG) covers all newly completed HOS/PSPS/BRO/GSH developments for a period of 10 years (20 years for Tin Shui Wai area) from the date of completion, including those existing developments which were within the relevant SSG period as at 13 April 2000. Pursuant to the sale of surplus HOS and PSPS flats in 2007, a SSG for a period of 10 years (20 years for Tin Shui Wai area) is also offered to cover each unsold block of these flats from the commencement date of flat selection period of the first sale phase. As at 31 March 2018, there were 26,645 units (2017: 25,194 units) of HOS/PSPS/BRO/GSH flats covered by the SSG. However, the Authority's liabilities under the SSG could not be reasonably ascertained and have not been recognised in the financial statements, except for the actual repair costs incurred under the SSG. During the year, such repair costs amounted to HK\$0.1 million (2017: HK\$0.2 million).

(c) Others

As at 31 March 2018, there were disputes between the Authority and a contractor in respect of extensions of time claims under a construction contract. Arbitration proceedings are in progress to resolve the disputes. Further information of the disputes is not disclosed in the financial statements as disclosure of such information may prejudice the outcome of the arbitration proceedings.

25 CAPITAL COMMITMENTS

The Authority had the following contractual capital commitments outstanding at 31 March 2018 not provided for in the financial statements:

	<u>2018</u> <u>HK\$M</u>	<u>2017</u> <u>HK\$M</u>
Capital Works/Projects		
- Public rental housing construction projects	27,871	33,391
- HOS/GSH construction projects	9,010	6,930
- Other projects	1,087	1,609
	<u>37,968</u>	<u>41,930</u>

26 DERIVATIVE FINANCIAL INSTRUMENTS

No forward currency exchange contract is used for managing the Authority's currency exposure at the end of the reporting period. For the year ended 31 March 2017, the carrying values of forward currency exchange contracts measured at fair value (i.e. assets of HK\$21,000) had been included in "Debtors, deposits and prepayments". All these contracts matured within one year and had a total notional amount of HK\$14 million. 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 and debt securities at fair value. Bank deposits and debt securities bear interest at fixed and floating rates. The Authority is exposed to fair value interest rate risk because their fair values will normally fall when market interest rates increase. The Authority monitors its interest rate risk with reference to the approved strategies and benchmarks. As regards bank deposits, since they are all stated at amortised cost, their carrying amounts and the Authority's income and accumulated surplus will not be affected by changes in market interest rates.

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

(2017: HK\$434 million) and their average remaining maturity was 33 months (2017: 39 months).

Sensitivity analysis based on a 50 basis points (2017: 50 basis points) increase/decrease in market interest rates shows that the revaluation gains on debt securities at fair value and surplus for the year would have decreased/increased by HK\$1 million (2017: HK\$1 million). This sensitivity analysis has been prepared assuming that the change in interest rates had been applied to the securities in existence at the 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).

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

The table below summarises the Authority's currency exposures at the end of the reporting period:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	HK\$M	HK\$M	HK\$M	HK\$M
US dollars	2,145	31	2,097	21
Pound sterling	54	3	174	-
Euro	328	11	479	5
Others	421	12	477	16
	<u>2,948</u>	<u>57</u>	<u>3,227</u>	<u>42</u>

Other currencies include mainly currencies of major developed countries.

Sensitivity analysis based on a 0.5% (2017: 0.5%) increase/decrease in the exchange rate of the US dollar against the Hong Kong dollar shows that the exchange gains and surplus for the year would have increased/decreased by HK\$11 million (2017: HK\$10 million).

Sensitivity analysis based on a 5% (2017: 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\$39 million (2017: HK\$55 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 2018, all equity investments were designated at fair value as shown in Note 15.

Sensitivity analysis based on a 15% (2017: 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\$591 million (2017: HK\$598 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 2017 and 2018, with all other variables held constant, shows that the surplus for the year would have increased/decreased by HK\$184 million (2017: HK\$206 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>2018</u> <u>HK\$M</u>	<u>2017</u> <u>HK\$M</u>
Placements with the Exchange Fund	29,494	41,329
Bank balances	325	248
Bank deposits	11,394	3,327
Debt securities designated at fair value	278	203
Amount due from the Government	2	1
Debtors and deposits	569	942
Home Purchase/Assistance Loans	28	39
Mortgage default guarantees	42,572	36,836
	<u>84,662</u>	<u>82,925</u>

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

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

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

	<u>2018</u> <u>HK\$M</u>	<u>2017</u> <u>HK\$M</u>
Aa3 to Aa1	983	229
A3 to A1	10,337	3,134
Lower than A3	677	415
	<u>11,997</u>	<u>3,778</u>

Debtors and deposits mainly include debtors, receivable from sale of HOS/GSH flats, 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 subsidised sale flats sold. Those loans are secured by mortgages on the flats concerned. As at 31 March 2018, provision for mortgage default guarantee payments amounted to HK\$1 million (2017: HK\$1 million, Note 18), and the financial exposure not provided for in the financial statements amounted to HK\$242 million (2017: HK\$284 million, Note 24(a)).

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.

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 2018

	<u>Level 1</u> HK\$M	<u>Level 2</u> HK\$M	<u>Total</u> HK\$M
Assets			
Securities at fair value	3,960	256	4,216
Derivative financial instruments	-	-	-
	<u>3,960</u>	<u>256</u>	<u>4,216</u>
Liabilities			
Derivative financial instruments	-	-	-

As at 31 March 2017

	<u>Level 1</u> HK\$M	<u>Level 2</u> HK\$M	<u>Total</u> HK\$M
Assets			
Securities at fair value	4,002	188	4,190
Derivative financial instruments	-	-	-
	<u>4,002</u>	<u>188</u>	<u>4,190</u>
Liabilities			
Derivative financial instruments	-	-	-

No financial assets or liabilities were classified under Level 3.

Transfers between levels are recognised at the end of the reporting period. The securities held at 31 March 2018 included one valued at HK\$15 million that was transferred from Level 2 to Level 1 to reflect the change in valuation basis (2017: no transfers between levels).

The three levels of the fair value hierarchy are:

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

Level 2: Fair values of financial instruments are determined involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (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>2018</u> <u>HK\$M</u>	<u>2017</u> <u>HK\$M</u>
Consolidated Operating Account surplus			
Rental Housing	29(b)	383	326
Commercial	29(c)	1,371	1,266
Home Ownership Assistance	29(d)	4,740	1,403
Sub-total		6,494	2,995
Net non-operating income	6	7	15
		6,501	3,010
Funds Management Account surplus	29(e)	2,128	2,319
Agency Account surplus/(deficit)	29(f)	74	(12)
Surplus for the year		8,703	5,317
Distribution			
Dividend to the Government for the year		(686)	(633)
Surplus for the year after distribution		8,017	4,684

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

(b) RENTAL HOUSING OPERATING ACCOUNT

	2018			2017			
	Rental Housing (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Rent Allowance HK\$M	Rental Housing (excluding Interim Housing) HK\$M	Interim Housing HK\$M	Rent Allowance HK\$M	Total HK\$M
INCOME							
Rental	15,317	19	-	14,392	19	-	14,411
Other income	43	-	-	33	-	-	33
TOTAL INCOME	15,360	19	-	14,425	19	-	14,444
EXPENDITURE							
Personal emoluments	3,041	13	2	3,017	9	2	3,028
Government rent and rates	282	-	-	277	-	-	277
Maintenance and improvements	3,206	18	-	3,105	27	-	3,132
Other expenditure	4,296	57	-	4,101	25	2	4,128
Depreciation and amortisation	3,858	13	-	3,337	11	-	3,348
Share of corporate supervision and support services expenses	207	3	-	204	1	-	205
TOTAL EXPENDITURE	14,890	104	2	14,041	73	4	14,118
Operating surplus/(deficit) for the year	470	(85)	(2)	384	(54)	(4)	326

29 SUPPLEMENTAL INFORMATION REQUIRED UNDER THE FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT (Continued)
(c) COMMERCIAL OPERATING ACCOUNT

	2018					2017				
	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	1,426	700	188	564	2,878	1,273	626	171	545	2,615
Other income	55	2	-	40	97	56	2	1	40	99
TOTAL INCOME	1,481	702	188	604	2,975	1,329	628	172	585	2,714
EXPENDITURE										
Personal emoluments	182	52	46	76	356	174	50	33	78	335
Government rent and rates	50	28	1	65	144	40	23	1	65	129
Maintenance and improvements	81	40	31	9	161	74	29	23	9	135
Other expenditure	257	159	39	94	549	247	148	37	88	520
Depreciation and amortisation	130	91	8	49	278	115	80	6	51	252
Share of corporate supervision and support services expenses	13	4	4	5	26	13	4	2	5	24
TOTAL EXPENDITURE	713	374	129	298	1,514	663	334	102	296	1,395
Operating surplus before exceptional items	768	328	59	306	1,461	666	294	70	289	1,319
Exceptional items ¹	(90)	-	-	-	(90)	(53)	-	-	-	(53)
Operating surplus for the year	678	328	59	306	1,371	613	294	70	289	1,266

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

	2018					2017				
	HOS /GSH	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	6,884	-	1,806	-	8,690	542	-	995	-	1,537
Premium on removal of alienation restriction	743	285	251	-	1,279	659	305	192	-	1,156
Other income	39	5	8	-	52	24	5	7	-	36
TOTAL INCOME	7,666	290	2,065	-	10,021	1,225	310	1,194	-	2,729
EXPENDITURE										
Personal enrolments	263	33	55	26	377	217	32	51	25	325
Maintenance and improvements	7	2	3	1	13	7	2	3	-	12
Other expenditure	46	4	7	2	59	35	3	6	3	47
Depreciation and amortisation	21	1	2	1	25	20	1	3	3	27
Share of corporate supervision and support services expenses	22	3	4	2	31	18	3	4	2	27
Sub-total	359	43	71	32	505	297	41	67	33	438
Expenditure on subsidised sale flats										
Construction cost and overheads	3,370	-	101	-	3,471	550	-	64	-	614
Government land cost	1,179	-	103	-	1,282	192	-	62	-	254
Cost of repurchased flats sold	-	-	7	-	7	-	-	3	-	3
Other expenditure	18	-	(2)	-	16	16	-	3	-	19
Sub-total	4,567	-	209	-	4,776	758	-	132	-	890
TOTAL EXPENDITURE	4,926	43	280	32	5,281	1,055	41	199	33	1,328
Operating surplus/(deficit) before exceptional items	2,740	247	1,785	(32)	4,740	170	269	995	(33)	1,401
Exceptional items ¹	-	-	-	-	-	-	-	-	2	2
Operating surplus/(deficit) for the year	2,740	247	1,785	(32)	4,740	170	269	995	(31)	1,403

¹These mainly represent adjustments of future interest liability on the outstanding balance of the HPLS loan portfolio sold after related interest payment of \$4 million (2017: \$5 million) made in the year.

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

(e) FUNDS MANAGEMENT ACCOUNT

	2018			2017		
	In-house portfolio ¹	Placements with the Exchange Fund ²	Portfolios managed by external fund managers ³	In-house portfolio ¹	Placements with the Exchange Fund ²	Portfolios managed by external fund managers ³
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
INCOME			Total			Total
Interest income	95	1,152	1,252	56	1,277	1,337
Dividend income	-	-	61	-	-	174
Net realised and revaluation gains	-	-	782	-	-	974
Net exchange gains/(losses)	-	-	76	(29)	-	(108)
TOTAL INCOME	95	1,152	2,171	27	1,277	2,377
EXPENDITURE						
Investment expenditure	-	-	19	-	-	28
Fund managers' fees	-	-	2	-	-	3
Custodian's fees	-	1	4	-	-	11
Other investment expenditure	-	1	25	-	-	42
Sub-total	-	1	26	-	-	42
Recurrent expenditure						
Personal emoluments	8	-	5	7	-	12
Depreciation	1	-	1	1	-	1
Other expenditure	2	-	1	2	-	3
Sub-total	11	-	17	10	-	16
TOTAL EXPENDITURE	11	1	43	10	-	58
Surplus for the year	84	1,151	2,128	17	1,277	2,319

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

² Placements with the Exchange Fund include the total principal sums and any interest credited but not yet withdrawn at the 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

	2018				2017						
	Agency Functions ¹		Agency Management Services ²		Supervision of Government Reimbursable Projects ³		Agency Management Services ²		Supervision of Government Reimbursable Projects ³		
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
INCOME											
Supervision fee	-	166	-	166	-	159	-	159	-	159	-
Supervision on-costs	-	70	94	164	-	66	50	66	50	116	-
Amount reimbursed by Government	304	-	1	305	287	-	1	287	1	288	-
TOTAL INCOME	304	236	95	635	287	225	51	287	51	563	-
EXPENDITURE											
Personal emoluments	248	131	73	452	233	133	93	233	93	459	-
Maintenance and improvements	1	7	1	9	1	8	1	1	1	10	-
Other expenditure	29	10	13	52	26	10	16	26	16	52	-
Depreciation and amortisation	4	3	6	13	5	4	8	5	8	17	-
Share of corporate supervision and support services expenses	1	8	6	15	1	9	7	1	9	17	-
TOTAL EXPENDITURE	283	159	99	541	266	164	125	266	125	555	-
Surplus/(deficit) for the year before adjustments	21	77	(4)	94	21	61	(74)	21	61	8	-
Over recovery brought forward	20	-	-	20	11	-	-	11	-	11	-
Over recovery settled during the year	(20)	-	-	(20)	(11)	-	-	(11)	-	(11)	-
Over recovery carried forward	(20)	-	-	(20)	(20)	-	-	(20)	-	(20)	-
Surplus/(deficit) for the year	1	77	(4)	74	1	61	(74)	1	61	(12)	-

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

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

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