

Minutes of the Special Open Meeting of the HONG KONG HOUSING AUTHORITY held in the Housing Authority Chamber, 10th Floor, Block 2, Housing Authority Headquarters on Thursday, 24 July 2003

PRESENT

The Honourable Michael SUEN Ming-yeung GBS, JP	(Secretary for Housing, Planning and Lands) (Chairman)
Mr LEUNG Chin-man, JP	(Director of Housing) (Vice-chairman)
Ms SIU Yuen-sheung, BBS, JP	
Mr Walter CHAN Kar-lok, BBS, JP	
Mr CHAN Bing-woon, SBS, JP	
The Honourable NG Leung-sing, JP	
Mr NG Shui-lai, JP	
Mr WONG Kwun	
Mr Michael CHOI Ngai-min	
Mr HO Sai-chu, SBS, JP	
The Honourable IP Kwok-him, JP	
Mr George NG Sze-fuk, BBS, JP	
Mr CHENG Yan-kee, JP	
Professor Patrick LAU Sau-shing, SBS	
The Honourable CHAN Kam-lam, JP	
Ms Teresa CHENG Yeuk-wah, SC, JP	
Dr Martin KWONG Hoi-chau	
The Honourable SIN Chung-kai	
Mr LIU Sing-cheong	
The Honourable Tommy CHEUNG Yu-yan, JP	
Mr Martin McKenzie GLASS, JP	(Deputy Secretary for Financial Services and the Treasury) (Treasury) (2)
Mr Patrick LAU Lai-chiu, JP	(Director of Lands)
Mr Kenneth MAK Ching-yu	(Deputy Director (Corporate Services)) (Secretary of the Authority)

ABSENT WITH APOLOGIES

Professor Richard WONG Yue-chim, SBS, JP	(Out of Hong Kong)
Mr Philip Trevor NUNN, JP	(Out of Hong Kong)
Mr CHUNG Shui-ming, GBS, JP	(Out of Hong Kong)
Dr the Honourable David CHU Yu-lin, JP	(Out of Hong Kong)

IN ATTENDANCE

Mr Albert SO Chun-hin	(Member of Subsidised Housing Committee)
Miss WONG Lai-chun	(Member of Subsidised Housing Committee)
Miss IP Chiu-ping	(Member of Subsidised Housing Committee)
Mr Paul CHUNG Kwok-cheong	(Member of Commercial Properties Committee)
Mr Augustine WONG Ho-ming	(Member of Commercial Properties Committee)
Mr Martin DOWNEY	(Messrs Denton Wilde Sapte)
Ms Elaine CHUNG Lai-kwok, JP	(Deputy Director (Strategy))
Mr Vincent TONG Wing-shing, JP	(Deputy Director (Business Development) & (Construction))
Mr YUEN Tze-chu, JP	(Deputy Director (Allocation and Commercial))
Mr LAU Kai-hung, JP	(Deputy Director (Estate Management))
Mr Anthony WONG Kwok-hing	(Assistant Director (Legal Advice))
Ms LAM Lit-kwan	(Assistant Director (Divestment))
Mr Wilfred WU Kam-wing	(Committees' Secretary) (Meeting Secretary)

Opening Address

The meeting opened at 10:35 a.m. **The Chairman** thanked Members for attending the special meeting.

AGENDA ITEM 1

Divestment of Housing Authority's Retail and Car-parking (RC) Facilities (Paper Nos. [HA 40/2003](#), SPC 32/2003)

2. **Ms LAM Lit-kwan** introduced the paper with the aid of PowerPoint presentation.

3. **Mr Michael CHOI Ngai-min** declared that he was an independent non-executive director of the Café de Coral Group, which was a tenant of the Housing Authority (HA).

4. Mr CHOI said that since HA's core business was to provide subsidised housing for those in need, it should focus its resources in this area. Besides, as a public organisation, apart from market considerations, HA had to take into account the views of different strata of the community, and hence would have difficulties in operating its commercial facilities solely on commercial principles. Therefore, Mr CHOI believed that it would be more cost-effective for HA's commercial facilities to be operated by the private sector, and he supported divesting them.

5. Mr CHOI continued that divestment of the retail and car-parking (RC) facilities would no doubt help HA meet its need for cash flow in the next one or two years. However, the divestment would also mean that HA would be losing a main source of income. Given the cessation of the sales of Home Ownership Scheme (HOS) flats and the subsidy of nearly \$1 billion on Public Rental Housing (PRH) each year, it would be difficult for HA to balance its accounts in future. In the long run, the Housing Department (HD) had to review the operation structure of PRH and identify cost-saving measures to ease HA's financial pressure.

6. **Mr Kenneth MAK Ching-yu** responded that apart from addressing HA's short-term cash flow deficit, the proposed divestment would also give HA more time to formulate cost-saving measures. To cut costs, HD had planned to reduce its establishment by about 30% over the next few years, and would adopt more cost-effective construction methods. It would continue to explore other measures to address its medium to long-term financial

problems.

7. **Mr NG Leung-sing** supported HD's proposal in principle. He considered that the proposed divestment would have positive impact on politics, the economy and people's livelihood. Politically, the divestment could help achieve the "small government, big market" objective. Besides, private organisations could specify different tenancy conditions in accordance with the location and size of individual commercial centres/shops. Given its political role, it would be difficult for HA to run the RC facilities solely on commercial principles. Mr NG said that from an economic perspective, should the RC facilities be continued to be run by HA, optimal cost-effectiveness could hardly be achieved. The divestment proposal could basically address this problem and ease HA's short to medium-term financial pressure. He pointed out that HA needed to review its roles and functions as soon as possible.

8. Mr NG added that privatisation of HA's commercial facilities could lessen the impact on and intervention in people's livelihood. He noted that during an economic downturn, HA and the private sector would handle the rental issue differently. For instance, HA would generally implement an across-the-board rent reduction, while the private sector would determine the rate of reduction in light of the location and trade of the shops. Furthermore, since private organisations operated on commercial principles, market-related factors were already fully reflected in the rents. Therefore, the rents of private commercial centres located in the same district would not differ much.

9. Mr NG further pointed out that the divestment would have impact on HD's staff, HA's commercial tenants and the real estate industry. He hoped that HD could strengthen communication with them, consult them extensively and understand their concerns.

10. **Mr Kenneth MAK Ching-yu** said that HD attached great importance to staff's views on the divestment and the Director of Housing had briefed them earlier on the impact of the proposal on them. HD would adopt an open attitude, and would listen to staff's views to understand their concerns and worries before formulating and submitting specific proposals for HA's consideration. From what HD had gathered so far, the staff quite understood the purpose of the divestment and were not opposed to it. However, they hoped that HD could enhance communication with them and protect their interests. On staffing arrangements, HD would try its best to assist the staff to be recruited by the new company if they so wished. On the other hand, if they would like to stay in HD, the Department would arrange for redeployment. As regards communication with the commercial tenants, the real estate industry and

the public, Mr MAK said that subject to HA's approval of the proposed divestment, HD would introduce the proposal to them as soon as possible. If necessary, HD would in the coming months meet with them to explain the details of the proposal and listen to their views, which would then be reflected to the new company. Besides, subject to HA's agreement to the establishment of a Supervisory Group on Divestment, HD would consult the Supervisory Group on how to enhance communication with the affected parties.

11. **Mr WONG Kwun** pointed out that following the cessation of the sales of HOS flats, HA had to rely solely on the income from its commercial facilities to subsidise PRH. He worried that upon divestment of these commercial facilities, HA would have difficulties in balancing its accounts and sustaining its financial autonomy.

12. Mr WONG continued that during economic downturns, HA would have compassion for its commercial tenants and respond to their requests by introducing rent relief measures including rent reduction or even rent waivers. The private sector, however, would only reduce the rents by a much smaller rate. Mr WONG therefore worried that if HA's commercial facilities were to be run by the private sector solely on commercial principles, there would not be any protection for the rights of the commercial tenants and consumers.

13. On the other hand, welfare organisations needed only to pay "concessionary rents" for leasing commercial premises within PRH estates to provide community services. Mr WONG was concerned that services for the community and residents might be affected if such organisations could not continue to enjoy the "concessionary rents".

14. In view of the above, Mr WONG had reservations about the proposed divestment of the RC facilities.

15. **Mr SIN Chung-kai** was of the view that the privatisation of HA's commercial facilities would not harm consumers' interests. Instead, he considered that privatisation could improve operational efficiency and both commercial tenants and consumers would benefit as a result. Also, the project offered one more choice to investors. Therefore, he supported the divestment project.

16. Mr SIN agreed that HA should progressively withdraw from its non-core activities and considered that HA was on the right track to focus its resources on the provision of subsidised housing. As to the funding arrangement, he opined that though the \$120 million initial expenses were a bit

high, it was acceptable provided that the amount was the upper limit. He also said that he was willing to join the Supervisory Group.

17. **Mr Tommy CHEUNG Yu-yan** agreed that the proposed divestment of the commercial facilities could only temporarily relieve HA of its financial stress. He said that HD had to devise long-term financial arrangements, otherwise the public housing policy would inevitably be greatly affected owing to the lack of funds.

18. Mr CHEUNG said that he was representing the catering sector in the Legislative Council. Many members of the industry, restaurant operators in particular, told him that the reason for their starting up the businesses in HA's shopping centres was that HA was a responsible landlord, and that it was the trust in HA that prompted them to carry on with their businesses amid the economic downturn. They worried that once HA's shopping centres were privatised, the new company might not be as accommodating as HA. Instead of granting timely rent concession, it might even increase the rents, which would only add to their burden.

19. Mr CHEUNG added that given the prevailing economic situation, the market demand for commercial properties and carparks in the next few years would not be very keen. Therefore, the consultant's estimate that the proposed divestment of RC facilities would generate net proceeds of over \$20 billion was a bit too optimistic.

20. Mr CHEUNG also said that some PRH tenants opposed to the sale of HA's commercial facilities to the private sector. It would be more desirable for HD to communicate with the relevant parties prior to seeking HA's endorsement of the divestment project lest the project would have to be shelved indefinitely because of strong opposition in future.

21. Owing to the above considerations, Mr CHEUNG opposed to the divestment project.

22. In response, **Mr Kenneth MAK Ching-yu** said that HD had discussed the divestment strategy with the consultant in detail and considered that the proposed strategy would provide investors with more stable yields. Given the current historical low point of the interest rate cycle, such investment was indeed quite attractive. According to the analysis of the consultant, if the new company could make good use of the current global environment of low interest rate, the chance that it would be listed was very high. Regarding the rents, the consultant also pointed out that compared to HA, private companies

had lower operating cost and higher operational flexibility, which could help solicit tenants, lower the vacancy rate and increase revenue eventually. In addition, the new company would determine the rents with reference to the affordability of its clients as well as the market conditions. Therefore, HD believed that the new company would not increase the rents hastily.

23. **Mr IP Kwok-him** was concerned about the impact of the proposed divestment on HD staff's career prospects, and he would like HD to provide specific information on listing-related expenses.

24. **Mr Kenneth MAK Ching-yu** said that the proposed divestment would affect about 700 posts. However, given HA's establishment of nearly 11 000 staff, even accounting for the streamlining of structure in future, there would still be room to absorb the affected staff. Mr MAK reiterated that HD would try its best to make proper arrangements for those affected.

25. As regards expenditure, Mr MAK pointed out that the ceiling of the initial expenses was \$120 million, which already covered the fees for appointing consultants, and the fees for the appointment of global coordinator(s) could be defrayed from the proceeds upon successful listing of the new company. Mr MAK said that HD planned to take up some of the work such as lease preparation, drawing and surveying, which would not be outsourced unless necessary. He estimated that the actual expenditure might be below \$120 million.

26. **Ms LAM Lit-kwan** supplemented that auditing and accounting costs made up quite a large proportion of the total consultant fee, because the consultants had to use the accounting system of the private sector to prepare HA's accounts. Besides, HA needed to appoint a financial consultant to give advice in its interest throughout the whole process. Ms LAM continued that HD would select consultants through tendering to ensure good quality and reasonable charges, and would try its best to control the expenditure in this area.

27. **Mr Kenneth MAK Ching-yu** said that after divesting the RC facilities to the new company, HA and the Government would not hold any of its equities, nor would they be involved in its business after listing. He went on to explain that the main characteristics of a "Real Estate Investment Trust" (REIT) included a dividend policy which paid out the majority of the earnings, restrictions on speculative development, and a focused business strategy on managing the RC facilities. Such a company was more prudent in its business approach and its dividend payout ratio was higher than that of a traditional real estate company.

28. **Mr NG Shui-lai** said that the divestment proposal should be discussed from HA's perspective, taking into account its stance and financial position. Given that HA's core function was to provide public housing, it should focus its resources in this area. He therefore gave strong support to divesting HA's non-core assets. However, he reminded HD that commercial facilities were an important part of a community. Even if HA was not going to operate commercial centres or car parks, it still had the responsibility to provide such facilities. Mr NG also pointed out that after divesting its commercial assets, HA would lose a major source of earnings for subsidising the deficit of its core business. The provision under the Housing Ordinance that HA had to ensure sufficient revenue to meet its expenditure might have become untimely. Therefore, this issue should also be reviewed when formulating HA's long-term financial plans.

29. **Mr CHAN Kam-lam** noted that according to HD's statistics, the vacancy rate of HA's car parks was rather high, which showed that HA's operation approach and management mechanism were not market-responsive enough and were inadequate. To have them run by private companies should achieve greater cost-effectiveness. He therefore supported in principle the proposed divestment.

30. Mr CHAN said that HD should not impose too many restrictions on the new company to avoid obstructing its development and operation in the market. Besides, it should not be under any Government influence, otherwise it could not operate on commercial principles.

31. Mr CHAN continued that the proceeds of \$20 billion from the proposed divestment could only meet HA's expenditure requirements for two to three years. HA had to examine its financial position thoroughly to see if it could sustain the provision of subsidised housing. It should also consult the public in this area. He said that from his experience with the Hong Kong Tracker Fund, HD could consider adjusting the subscription ratio to enable more direct participation from the public. This might enhance the popularity of the proposed divestment.

32. Mr CHAN said that many commercial tenants had been running their business in HA's commercial centres for quite a number of years, some even for decades. A change of landlords would inevitably cause worries among them. He hoped that HD could listen carefully to their difficulties. On the other hand, staff's interests should not be overlooked. Furthermore, Mr CHAN was concerned about the disposal of newly constructed commercial

centres.

33. **Mr Kenneth MAK Ching-yu** responded that newly constructed commercial centres in public housing estates would also be owned and managed by private companies. How they would be disposed of in future had not yet been finalised. Mr MAK said that one of the options was to invite property developers to jointly construct the commercial centres. HD would consult Members on this in due course.

34. On regulation of the new company, Mr MAK said that HD did not oppose in principle its running of non-HA commercial centres, unless its sole purpose was to speculate and resell the commercial centres for gain. Mr MAK continued that HD welcomed members of the public and commercial tenants to invest in the new company.

35. **Mr CHAN Bing-woon** supported the divestment proposal. He agreed that communication with affected parties was very important. As REIT was a rather new concept, he suggested that the Supervisory Group should make reference to and learn from the experience of other countries. Mr CHAN continued that it would be more desirable for members of the Supervisory Group to have experience in running business and knowledge about public sector operation. He pointed out that commercial centres and carparks were necessities of each community. HD should plan such facilities according to the needs of the community, rather than regard them as standard ancillaries.

36. **Ms SIU Yuen-sheung** supported the proposed divestment in principle. She was also concerned about HA's long-term financial arrangements, as future public housing policies depended on HA's finances. She hoped that HA could formulate policies promptly to achieve the objective of balancing its accounts.

37. On the appointment of consultants, Ms SIU pointed out that the public often had the impression the Government was overpaying its consultants. She hoped that HD could select suitable consultants through tendering, so that the public might think those selected were good value for money. Besides, Ms SIU supported the establishment of the Supervisory Group, and hoped that it could consult the public widely.

38. In view of the large area of retail facilities and the substantial number of car-parking spaces involved, **Mr George NG Sze-fuk** suggested that two new companies be established to take charge of the divestment of the commercial facilities in the urban area and new towns respectively so as to

introduce competition, enhance management quality and reduce the risk. **Mr Kenneth MAK Ching-yu** responded that he would not rule out this possibility at the present stage, and that HD would adopt an optimal divestment strategy which would generate the best yields for HA.

(Mr SIN Chung-kai left the meeting at this juncture.)

39. **Mr Walter CHAN Kar-lok** supported the direction of the proposed divestment of commercial facilities. He said that HD should closely monitor the progress of the divestment project so as to roll it out at the right time and seize the best opportunity to make an initial public offering to make the shares of the new company more attractive.

40. Mr CHAN pointed out that according to the timetable proposed by HD, HA would assign the cash flow of the RC facilities to the new company in the third quarter of 2004, but would only receive the proceeds from the divestment upon the listing of the new company in 2005. As such, there was an urgent need for HA to finalise the financial arrangements as soon as possible. Moreover, given the complexity of the listing exercise, Mr CHAN hoped that the publicity materials and other information regarding the divestment project to be released could be as comprehensive as possible lest the public should have any misunderstanding of the project. **Mr Kenneth MAK Ching-yu** said that HD would consult the Supervisory Group on the release of information and the publicity strategy.

41. In summing up, **the Chairman** said that most of the Members agreed to the direction of “small government, big market”, and that Members were all very concerned about whether HA could maintain a balanced budget in future and the financial arrangements in the long run. He informed Members that he was actively and thoroughly reviewing with HD the financial arrangements between the Government and HA. He would exchange views with Members as soon as possible so as to draw on their views and work out a desirable option.

42. In response to Members’ concerns about whether there would be sufficient retail facilities in new PRH estates, **the Chairman** said that there were established planning policies on the provision of ancillary facilities for a community and that HD would not deviate from the policies because of the divestment of the retail facilities.

43. After thorough discussion, the majority of the Members **agreed** to the recommendations stated in paragraph 26 of the paper as follows -

- (a) to agree in principle the proposal to divest HA's RC facilities;
- (b) to agree to the broad divestment strategy proposed in paragraph 10 of the paper and the appointment of global coordinator(s) and other advisers/consultants necessary for its implementation;
- (c) to note the financial implications as referred to in paragraphs 22 to 24 of the paper;
- (d) to agree to the supplementary funds of \$120 million to meet the initial expenses in 2003/04 as referred to in paragraph 23 of the paper; and
- (e) to agree to the establishment of a Housing Authority Supervisory Group on Divestment to monitor and steer the divestment project with the proposed terms of reference.

AGENDA ITEM 2

Judicial Review on Public Rental Housing Rents - Grounds for Appeal

(Paper No. HA 42/2003)

44. **The Chairman** said that as this agenda item involved the discussion of legal points, this might affect the legal proceedings which were underway. On the principle of confidentiality of the legal profession, **he announced that this item would be discussed in a closed session.**

45. **The Chairman** stressed once again that in order not to prejudice the legal proceedings which were underway, Members should refrain from commenting on the case in public and disclosing the discussions of the meeting.

46. HD and **Mr Martin DOWNEY**, the legal representative of HA, briefed Members on the legal advice and the various grounds and justifications in relation to this case. After thorough discussion, the meeting **agreed** that an appeal should be lodged against the ruling handed down by the High Court on 11 July 2003 on the Judicial Review on PRH rents. In view of the immense public interest implications of the Judicial Review case, HA would instruct its

legal representative to apply for the case to be heard directly by the Court of Final Appeal.

47. The meeting **noted** that Mr IP Kwok-him, Mr Tommy CHEUNG Yu-yan and Mr HO Sai-chu took an opposite stand. Their stand had been recorded accordingly as requested.

48. Members then discussed the statement on the lodging of an appeal to be issued to the media.

Closure of Meeting

49. The meeting closed at 3:15 p.m.

CONFIRMED on 2003.

Michael SUEN Ming-yeung
Chairman

Kenneth MAK Ching-yu
Secretary of the Authority

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