

## **CHAPTER 4**

### **The Hong Kong Housing Authority**

#### **Housing Department**

<h4><b>Management of factory estates</b></h4>
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**Audit Commission  
Hong Kong  
22 March 2005**

*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

Report No. 44 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk/>

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# MANAGEMENT OF FACTORY ESTATES

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## **PART 1: INTRODUCTION**

1.1 This PART describes the background to the audit and outlines the audit scope.

### **Background**

1.2 Factory estates were originally built by the Government as part of the resettlement programme to reprovise squatter factories and cottage workshops displaced by clearance. In 1973, the Government enacted the Housing Ordinance (Cap. 283), which established the Housing Authority (HA). Through its executive arm, the Housing Department (HD), the HA is entrusted with the responsibility of implementing the public housing programme and the role of government agent in reprovise squatter factories and cottage workshops.

1.3 In the late 1970s, there was a shortage of small factory units in private factory buildings. The HA built a number of newer factory estates in the late 1970s and the early 1980s.

1.4 In 1989, the HA decided to absolve itself from the ownership and management of factory estates in phases. Since then, a number of factory estates had been redeveloped for public housing. As at 30 November 2004, there were 11 HA factory estates, providing about 13,300 factory units with a total floor area of about 325,300 square metres (m<sup>2</sup>). Of these 11 factory estates, 5 were built to the old design standards with no lift service (Note 1). Appendix A shows the typical floor plan of these older HA factory estates. The other 6 factory estates were built in the late 1970s and the 1980s to comparatively modern standards with lift service. Appendix B shows the typical floor plan of these newer HA factory estates. In 2003-04, the HA received a net income of \$48.5 million (Note 2) for managing these 11 factory estates. The particulars of these 11 factory estates are summarised in Appendix C.

### **Types of tenancy**

1.5 Depending on the way they acquire their tenancies, tenants of the HA factory estates are classified into six groups. Each of these groups has different characteristics in terms of rent, frequency of rent review, and tenant's right to assign the tenancy and keep the premium received from the incoming tenant. Table 1 summarises the characteristics of these six groups.

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**Note 1:** *Four of these five factory estates were built in the 1950s and the 1960s, prior to the establishment of the HA. The other one was built in the 1970s.*

**Note 2:** *In 2003-04, the HA received a gross income of \$135 million for managing the 11 factory estates. The total cost incurred was \$86.5 million. The net income was \$48.5 million (\$135 million – \$86.5 million).*

**Table 1**  
**Summary of tenant groups**

<b>Group</b>	<b>Tenancy</b>	<b>Rental basis</b>	<b>Tenant's right</b>
A1	Monthly	Scheduled rents (Note 1)	To assign tenancy privately and receive premium from the incoming tenant who pays scheduled rents
A2	Monthly	Scheduled rents	To assign tenancy by Instant Rental Tender (Note 2) through the HD and receive premium from the incoming tenant who pays full market rents
B	Monthly	Full market rents (reviewed triennially)	To assign tenancy by Instant Rental Tender through the HD and receive premium from the incoming tenant who pays full market rents
C	Fixed-term (3 years)	Full market rents (reviewed on lease expiry)	To assign tenancy by Instant Rental Tender through the HD and receive premium from the incoming tenant who pays full market rents
D	Fixed-term (3 years)	Full market rents (reviewed on lease expiry)	To receive a lump sum payment of \$8,000 on surrender of tenancy to the HD
E	Fixed-term (3 years)	Full market rents (reviewed on lease expiry)	None

*Source: HD records*

*Note 1: Under the repealed Resettlement Ordinance, rents paid by squatter factory/cottage workshop operators, who were reprovisioned with a unit in government-built factory estates, were fixed by reference to the Schedule of the Ordinance. These rents were fixed in the 1950s and the 1960s and remained unchanged until the first review by the HA in 1977. Since then, biennial rent increase of 25% has been in force. As at 30 November 2004, the rents ranged from \$25.04 per m<sup>2</sup> to \$71.17 per m<sup>2</sup>, which were about 80% of full market rents.*

*Note 2: Under the current HD practice, interested tenderers may participate in the Instant Rental Tender exercise. The tenancy is immediately awarded to the tenderer who offers the highest monthly rent.*



1.6 As at 30 November 2004, 77% (i.e. 10,200 units) of the 13,300 units in the HA factory estates were let. Of these 10,200 units, 20% (i.e. 2,000 units) were occupied by scheduled rent tenants and the remaining 80% (i.e. 8,200 units) were occupied by tenants who paid full market rents.

### **Audit review**

1.7 The Audit Commission (Audit) has recently completed a review to examine the management of the 11 HA factory estates. The audit focused on the following areas:

- (a) estate management (see PART 2);
- (b) letting of factory units and parking spaces (see PART 3); and
- (c) redevelopment of factory estates (see PART 4).

### **General response from the Chairman, Housing Authority**

1.8 The **Chairman, Housing Authority** thanks the Audit Commission for conducting this audit review. He notes that:

- (a) the Director of Housing has already taken action to implement the agreed recommendations in this audit review relating to estate management, letting arrangement and redevelopment of factory estates; and
- (b) all the recommendations of this audit review will also be fully considered by the Commercial Properties Committee of the HA which will ensure implementation of the agreed recommendations.

### **Acknowledgement**

1.9 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HD during the course of the audit review.

## **PART 2: ESTATE MANAGEMENT**

2.1 This PART examines the effectiveness of the estate management services provided to HA factory estates in the following areas:

- (a) daily patrols;
- (b) enforcement action against non-compliances;
- (c) unauthorised structures;
- (d) unit-to-unit inspections; and
- (e) electricity tariff.

### **Background**

2.2 Estate management services basically comprise:

- (a) the management and maintenance of factory units, common areas and facilities of the estates, e.g. cleaning, security and maintenance and repairs; and
- (b) tenancy management, e.g. letting and rent collection.

2.3 As at 30 November 2004, of the 11 HA factory estates, 5 were managed by property management agents and 6 by HD staff. In 2003-04, the total cost incurred by the HA for providing estate management services to these 11 factory estates was about \$86.5 million.

### **Daily patrols**

2.4 Apart from being a security measure, daily patrols serve a number of estate management functions, e.g. to ensure that all building services systems (such as lifts and lighting in common areas) are working properly and that the common areas are clean and tidy. Effective daily patrols can help detect non-compliances (such as obstruction and unauthorised occupation of common areas) at the earliest opportunity.

2.5 During the period September to November 2004, Audit staff visited 4 of the 11 HA factory estates. These four factory estates were Kwun Tong, Tai Wo Hau, Yip On and Sui Fai. Kwun Tong and Tai Wo Hau Factory Estates are older factory estates with no lift

service. Yip On and Sui Fai Factory Estates were built by the HA in the early 1980s to relatively modern design standards with lift service. During the audit visits, Kwun Tong and Yip On Factory Estates were managed by the HD, and Tai Wo Hau and Sui Fai Factory Estates by property management agents.

2.6 During the visits, Audit staff noted that obstruction and unauthorised occupation of common areas were common. These non-compliances give rise to not only hygiene problems but also safety concerns. For example, in the event of a fire, obstruction of corridors could block the route of escape, which may result in fatality. Furthermore, the cantilever corridors of factory estates (see Photograph 1) are not designed to bear the weight of heavy load. Heavy objects may also pose a serious risk of overloading the structure. In this connection, it is worth noting that a Senior Structural Engineer of the HD had sent a warning e-mail to all the Housing Managers responsible for managing factory estates in August 2004. His e-mail said, “..... *our older factory estates (San Po Kong, Tai Wo Hau, Kwun Tong, Kowloon Bay and Chai Wan) were found to have concrete strength problems, which had resulted in a reduction of permissible floor loading. The cantilever corridor is the most vulnerable part. During recent inspections, it was noted that storage/stockpiling of goods/debris at the corridors occurred at many locations. This practice poses serious risk to overloading of the structure and obstructs access ..... all such items should be removed immediately and clearance maintained .....*”.

### Photograph 1

#### Cantilever corridor of HA factory estates



Source: Photograph taken by Audit staff

2.7 According to the standard tenancy agreement (hereinafter refer to as the tenancy agreement) between the HA and its tenants, common areas shall not be obstructed nor occupied (Note 3). If an obstruction is discovered, estate management staff will issue a warning notice to the responsible tenant. Should the responsible tenant fail to clear the obstruction as required, estate management staff will take enforcement action either by seizing the obstacles or by prosecuting the responsible tenant (Note 4). The responsible tenant will have to pay removal and storage charges if he wants to claim back the seized articles. As a last resort, the HD may exercise the power it is provided with under the Housing Ordinance (Cap. 283) to terminate the tenancy.

2.8 ***Obstruction of common areas.*** Audit staff noted that in many cases, the obstruction was caused by:

- (a) unwanted articles, e.g. production waste and garbage (see Photograph 2); and

**Photograph 2**

**Obstruction of communal corridor  
caused by unwanted articles**



*Source: Photograph taken by Audit staff*

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**Note 3:** *Clause II(7)(i) of the tenancy agreement stipulates that tenants shall not “obstruct the common parts or any area outside the said premises within the boundary of the factory building”.*

**Note 4:** *Section 4A of the Summary Offences Ordinance (Cap. 228) empowers HD staff to prosecute the responsible tenant for causing obstruction in HA estates.*

- (b) finished goods or production materials (see Photographs 3 and 4).

**Photograph 3**

**Obstruction of communal corridor  
caused by finished goods**



**Photograph 4**

**Obstruction at lift lobby  
caused by production materials**



*Source: Photographs taken by Audit staff*

2.9 ***Unauthorised occupation of common areas.*** Examples of unauthorised occupation of common areas noted by Audit staff include:

- (a) common areas were occupied for production (see Photograph 5);

**Photograph 5**

**Common ground floor area occupied for production**



*Source: Photograph taken by Audit staff*

- (b) a motor cycle was parked at lift lobby (see Photograph 6); and

**Photograph 6**

**Motor cycle parked at lift lobby**



*Source: Photograph taken by Audit staff*

- (c) air-conditioners were installed in such a manner that they protruded into the communal corridor or occupied part of the corridor floor (see Photographs 7 and 8).

**Photograph 7**

**Air-conditioners protruded into communal corridor**



**Photograph 8**

**Air-conditioners occupied part of communal corridor floor**



*Source: Photographs taken by Audit staff*

### **Audit observations**

2.10 Audit examination of the daily patrol records kept by the four factory estates visited showed that:

- (a) daily patrols were carried out at least three times a day;
- (b) manual attendance books were used to monitor daily patrols;
- (c) the number of attendance books placed on each floor varied among the four factory estates; and



- (d) only a few cases of obstruction and unauthorised occupation of common areas were reported by HD staff in September 2004.

Table 2 summarises the daily patrol records of the four factory estates.

**Table 2**

**Daily patrol records of the four factory estates visited**

<b>Factory estate</b>	<b>Frequency of daily patrols</b>	<b>Number and locations of attendance books</b>	<b>Number of cases of obstruction and unauthorised occupation of common areas reported in September 2004</b>
Sui Fai	Three times a day	Four on each floor to ensure no blind spots	2
Tai Wo Hau	Six times a day	One at both ends of the corridor on every other floor	Nil
Kwun Tong	Ten times a day	One at both ends of the corridor on every floor	40
Yip On	Ten times a day	One at both ends of the corridor on every floor	8

*Source: Audit analysis of HD records*

2.11 The daily patrol records of the four factory estates visited by Audit staff showed that frequent daily patrols were carried out. The number of reported cases of obstruction and unauthorised occupation of common areas of the four factory estates in September 2004 ranged from nil to 40. This was not consistent with the multifarious problems noted by Audit staff (see paras. 2.8 and 2.9) and indicated that the daily patrol records might not reflect the actual situation. **Audit considers that the HD should carry out an investigation to find out the reasons for the deficiencies in the daily patrol records, and take necessary remedial actions accordingly.**

2.12 Audit notes that the HD has been using an Electronic Patrol Monitoring System to monitor the daily patrols in public rental housing estates (Note 5) since 1996. The system includes a hand-held device, electronic buttons, a data downloader station and associated computer software. Electronic buttons are installed at designated checkpoints in lieu of attendance books. When the patrolling staff's hand-held device contacts the electronic buttons, data (such as time and location) are recorded in the hand-held device and are subsequently uploaded to the HD computer, through the data downloader station. The software will generate a report showing the date and time of the presence of the security guard/HD staff at the designated checkpoints.

### **Audit recommendations**

2.13 **Audit has recommended that the Director of Housing should:**

- (a) **ensure that daily patrols are properly carried out and accurate patrol records are kept; and**
- (b) **consider introducing the Electronic Patrol Monitoring System to factory estates to enhance the monitoring of daily patrols.**

### **Response from the Administration**

2.14 The **Director of Housing** agrees with the audit recommendations. He has said that:

- (a) the HD is conscious of the factory tenants' loading and unloading needs as against their action of causing obstruction and encroachment of common areas;
- (b) more frequent daily patrols of common areas by property management agents and HD staff are now arranged to ensure efficient and safe operation of the factory estates; and
- (c) to ensure that daily patrols are carried out and proper records are kept, the HD has extended the Electronic Patrol Monitoring System to all six newer factory estates since March 2005.

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**Note 5:** *As at 30 November 2004, the HA managed 194 public rental housing estates. These estates were built for the provision of subsidised rental housing.*

## **Enforcement action against non-compliances**

2.15 In order to assess the effectiveness of the action taken by the HD to address the problems of obstruction and unauthorised occupation of common areas, Audit staff examined the enforcement action records kept at the estate management offices of Sui Fai and Tai Wo Hau Factory Estates for the period September 2003 to September 2004.

### **Audit observations**

2.16 Audit noted that all enforcement action records were kept manually. Had a computerised database been used for keeping these records, the HD could have more easily kept track of the time taken to rectify the non-compliances and identified those tenants who repeatedly ignored warning notices. Such information would be helpful in determining the follow-up action to be taken, and in deciding whether to renew or terminate the tenancies of those tenants who repeatedly ignored warning notices.

2.17 During the period September 2003 to September 2004, the estate management offices of Sui Fai and Tai Wo Hau Factory Estates issued 304 and 125 warning notices respectively. Audit examination of these cases revealed that none of these cases resulted in prosecution or non-renewal/termination of tenancy. The estate accounts of Sui Fai and Tai Wo Hau Factory Estates did not show that removal and storage charges had been levied during the said period.

2.18 In order to ascertain whether the problem of obstruction and unauthorised occupation of common areas had been dealt with satisfactorily after the issue of warning notices, Audit selected two cases (one each from Sui Fai and Tai Wo Hau Factory Estates) for in-depth examination. **Audit found that the enforcement action against non-compliances could be enhanced (see paras. 2.19 to 2.21).**

### ***Case A in Sui Fai Factory Estate***

2.19 On 19 September 2002, the Fire Services Department received a complaint on obstruction caused by production waste in the lift lobby and referred the case to the HD for action. On 2 October 2002, the HD staff issued a warning notice to the responsible tenant, giving him seven days to clear the production waste. On 8 October 2002, another warning notice was issued to the responsible tenant. On 11 October 2002, the HD staff, with the assistance of the Police, cleared the obstruction. In November 2002, the responsible tenant was issued with a reminder to observe the terms and conditions of the tenancy agreement. No attempt had been made to recover the cost of clearance from him.

2.20 This case shows that the responsible HD staff only took action upon the Fire Services Department's referral. It also highlights the fact that the current HD practice of issuing a warning notice and seizing the obstacles is not effective, particularly when they are unwanted paraphernalia.

***Case B in Tai Wo Hau Factory Estate***

2.21 On 9 January 1992, a tenant was found to have occupied the common area in front of his ground floor unit for production. A warning was issued to the responsible tenant, requiring him to clear the obstruction by 21 January 1992. On 23 January 1992, the responsible HD staff reported that the situation had improved and no further action was needed. When the same situation was again found in June 2001, no further action had been taken after the issue of the warning notice. Audit staff noted that the same tenant was still occupying the common area for production during their visit in November 2004 (see Photograph 9).

**Photograph 9**

**Common ground floor area occupied for production**



*Source: Photograph taken by Audit staff*

## Audit recommendations

- 2.22 **Audit has recommended that the Director of Housing should:**
- (a) **take prompt and effective action against obstruction and unauthorised occupation of common areas;**
  - (b) **consider developing a computerised system to capture all relevant records to monitor the progress of enforcement action against non-compliances and, in doing so, ensure that such system is also applicable to the management of public rental housing estates; and**
  - (c) **consider taking stringent action against those tenants who repeatedly ignored warning notices. For example, the HD may:**
    - (i) **consider charging them for the cost of clearance operation; or**
    - (ii) **for more serious cases, consider to terminate or not to renew their tenancies.**

## Response from the Administration

- 2.23 The **Director of Housing** agrees with the audit recommendations. He has said that:
- (a) to deal with those serious cases and those tenants who repeatedly ignored warning notices, the HD would pursue actions such as termination of tenancy, non-renewal of tenancy, and prosecution;
  - (b) to achieve the necessary deterrent effect, the HD will seek to set up a Marking Scheme on Tenancy Enforcement for factory estates. Under the Scheme, accumulation of enough demerit points would lead to termination of tenancies. The Marking Scheme would cover obstruction and unauthorised occupation of common areas, unauthorised structures, unauthorised change of trade/tenant, and other non-compliance with the tenancy conditions; and
  - (c) the new system will be computerised for easy capturing of records and monitoring of progress. The HD aims to implement the Marking Scheme in April 2005.

## Unauthorised structures

2.24 According to the tenancy agreement, tenants should not make any structural alterations or additions to the premises, including the installation of air-conditioners, without the prior consent of the HD (Note 6). One reason for requiring tenants to obtain prior approval is to ensure that the structural alterations or the installation of air-conditioners would not affect the structural safety of the building and its electrical loading.

## Audit observations

2.25 In Sui Fai and Tai Wo Hau Factory Estates, Audit staff noted that installation of air-conditioners was common. In one case, the tenant installed seven air-conditioners in such a manner that they were hung on the wall, protruding into the communal corridor (see Photograph 10).

### Photograph 10

#### Unauthorised installation of air-conditioners in communal corridor



Source: Photograph taken by Audit staff

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**Note 6:** Clause II(3) of the tenancy agreement states that the tenants shall not “..... make any structural or other material alteration or addition to the premises or any electrical or air-conditioning installation therein or ..... without the prior consent of the Landlord in writing”. Clause II(26) states that the tenants shall not “..... erect any structure or roof on or over any such area”.

2.26 Audit randomly selected 60 air-conditioner installation cases in Tai Wo Hau and Sui Fai Factory Estates for examination. Of these 60 cases, prior approval from the HD was obtained for only 14 cases (or 23%). The HD had not taken action against the remaining 46 cases.

2.27 Audit staff also noted that some tenants had built lofts in their units. Some even had built structures in common areas for production and installation of machinery (see Photograph 9 in para. 2.21). **Audit could not find any record showing that prior approval from the HD had been obtained for these structures. The HD had not taken effective action to rectify these non-compliances.**

2.28 **In view of the latent risk to the structural safety of the factory buildings, Audit considers that, before structural alterations or additions to the premises are made, including the installation of air-conditioners, prior approval from the HD is obtained.**

### **Audit recommendations**

2.29 **Audit has *recommended* that the Director of Housing should:**

- (a) **ensure that tenants obtain prior approval from the HD before making any structural alterations or additions to the premises of the factory buildings, including the installation of air-conditioners; and**
- (b) **if it is found that the existing unauthorised structures pose a risk to the structural safety of the factory buildings, remove them immediately.**

### **Response from the Administration**

2.30 The **Director of Housing** agrees with the audit recommendations. He has said that the new Marking Scheme on Tenancy Enforcement for factory estates (see para. 2.23(b)) would also cover unauthorised structures as well as other non-compliance with tenancy conditions.

### **Unit-to-unit inspections**

2.31 According to the HD Factory Estates Operation Manual, all factory units should be visited and inspected at least once every 18 months. The objectives of carrying out such inspections are to ensure that:

- (a) no unit has been used for domestic purpose;
- (b) there is no subletting or unauthorised change of trade/tenant; and
- (c) there is no unauthorised structure inside the premises.

***Unit-to-unit inspections not carried out***

2.32 Audit examination of the estate management records of the four factory estates visited (see para. 2.5) revealed that unit-to-unit inspections were only carried out in Sui Fai and Tai Wo Hau Factory Estates, but not in Kwun Tong and Yip On Factory Estates. In response to Audit enquiries, the HD staff at Kwun Tong and Yip On Factory Estates said that factory units would be inspected when their tenancies were due for renewal.

***Unauthorised tenants identified in clearance operations***

2.33 It is worth noting that the HD had identified unauthorised tenants on clearance of Kwai Chung, Cheung Sha Wan and Jordan Valley Factory Estates (Note 7). These unauthorised tenants claimed that they had acquired their tenancies by private assignment. The HD had difficulties in verifying their claims, particularly in cases where the private assignment was concluded years ago, because the former tenants might have migrated or passed away. **Had the HD staff carried out unit-to-unit inspections regularly and thoroughly, such unauthorised tenants should have been identified and dealt with in a timely manner.**

**Audit observations**

2.34 **The audit findings in paragraphs 2.32 and 2.33 indicate that unit-to-unit inspections have not been carried out properly as required by the HD Factory Estates Operation Manual.**

**Audit recommendations**

2.35 **Audit has recommended that the Director of Housing should:**

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**Note 7:** *The numbers of unauthorised tenants identified on clearance of Kwai Chung, Cheung Sha Wan and Jordan Valley Factory Estates were 23, 21 and 12 respectively.*



- (a) **ensure that unit-to-unit inspections are carried out in all factory estates as required by the HD Factory Estates Operation Manual; and**
- (b) **take immediate action to deal with those non-compliances.**

### **Response from the Administration**

2.36 The **Director of Housing** agrees with the audit recommendations. He has said that since March 2005, HD staff have been reminded to carry out inspections as required by the HD Factory Estates Operation Manual.

### **Electricity tariff**

2.37 There are two electricity supply companies (Companies A and B) in Hong Kong. Company A supplies electricity to Hong Kong Island and Lamma Island. Company B supplies electricity to Kowloon and the New Territories, including Lantau and several outlying islands.

2.38 The two electricity supply companies offer different types of tariffs to their customers. In general, high electricity consumption customers may benefit from selecting a lower tariff.

### **Audit observations**

2.39 Of the 11 HA factory estates, Chai Wan Factory Estate is the only estate using the service of Company A. Audit noted that it was using the most economical electricity tariff.

2.40 The other 10 estates are using the service of Company B. **Audit examination of their electricity consumption pattern between August 2003 and July 2004 revealed that in Tai Wo Hau, Wang Cheong, Sui Fai and Kwai On Factory Estates, considerable savings could have been achieved, had each of these estates combined its electricity accounts and applied for electricity supply under different tariffs.**

### ***Tariff structure of Company B***

2.41 As at 31 October 2004, Company B offered three types of tariffs to its non-domestic customers, namely:

- (a) **General Service Tariff.** The rate for each electricity unit measured in kilowatt-hour (kWh) was \$0.968 for the first 5,000 kWh and \$0.958 thereafter;
- (b) **Bulk Tariff.** Customers whose monthly electricity consumption was not less than 20,000 kWh might apply for supply under the Bulk Tariff. This tariff consisted of two charges. The unit rates of energy charge ranged from \$0.619 to \$0.694 per kWh and those of demand charge, which was based on the maximum electricity demand in the month measured in kilovolt-ampere (kVA), ranged from \$26 to \$66.5 per kVA. Compared to the General Service Tariff, the energy charge under the Bulk Tariff offered a discount of 28% to 35%; and
- (c) **Large Power Tariff.** This was the lowest tariff offered to high consumption customers with electricity demand not less than 3,000 kVA. The Large Power Tariff also consisted of two charges. The unit rates of energy charge ranged from \$0.434 to \$0.529 per kWh and those of demand charge ranged from \$33 to \$117 per kVA. Compared to the General Service Tariff, the energy charge under the Large Power Tariff offered a discount of 45% to 55%.

2.42 Customers of Company B using the General Service Tariff would have to install recorders to measure the actual kVA value of their installations in order to ascertain whether it is beneficial for them to change to other tariffs. According to the information provided by Company B to its customers, electricity accounts with a monthly consumption of 20,000 kWh or more would benefit from the lower unit rate by using the Bulk Tariff.

***Electricity consumption of Tai Wo Hau,  
Wang Cheong, Sui Fai and Kwai On Factory Estates***

2.43 **Tai Wo Hau Factory Estate.** Tai Wo Hau Factory Estate has four electricity accounts. They were all using the General Service Tariff as at 31 December 2004. The combined monthly electricity consumption of these four accounts between August 2003 and July 2004 ranged from 20,572 to 25,767 units. Since this estate's total monthly electricity consumption consistently exceeded the 20,000 kWh threshold, it might have been beneficial to the HD to apply for electricity supply under the Bulk Tariff.

2.44 **Wang Cheong Factory Estate.** Wang Cheong Factory Estate has three electricity accounts. As at 31 December 2004, two were using the General Service Tariff while the other one was using the Bulk Tariff. The total monthly electricity consumption of these three electricity accounts between August 2003 and July 2004 ranged from 54,376 to 66,590 units. It would be beneficial to the HD to combine the two General Service Tariff accounts with the Bulk Tariff account and apply for electricity supply under the Bulk Tariff.

2.45 ***Sui Fai and Kwai On Factory Estates.*** These two estates each have two electricity accounts. As at 31 December 2004, one was using the General Service Tariff while the other one was using the Bulk Tariff. It would be beneficial to the HD to combine the General Service Tariff account with the Bulk Tariff account and apply for electricity supply under the Bulk Tariff.

### **Audit recommendations**

2.46 **Audit has recommended that the Director of Housing should:**

- (a) **negotiate with Company B for combining various electricity accounts of Tai Wo Hau, Wang Cheong, Sui Fai and Kwai On Factory Estates and apply for electricity supply under the Bulk Tariff; and**
- (b) **regularly monitor the electricity consumption pattern of the electricity accounts of flatted factory estates to ensure that the most economical tariff is used.**

### **Response from the Administration**

2.47 The **Director of Housing** agrees with the audit recommendations. He has said that:

- (a) in March 2005, the HD applied to Company B for Bulk Tariff for three additional factory estates, namely Sui Fai, Wang Cheong and Kwai On Factory Estates. Consequently, all six newer factory estates would use the Bulk/Large Power Tariff; and
- (b) the electricity consumption pattern of all other factory estates will be closely monitored to ensure that the most economical electricity tariff is used, wherever practicable.

## **PART 3: LETTING OF FACTORY UNITS AND PARKING SPACES**

3.1 This PART examines the letting of factory units and parking spaces in the following areas:

- (a) letting of factory units by Instant Rental Tender;
- (b) letting of factory units by direct application;
- (c) advertisement for letting of vacant factory units; and
- (d) letting of parking spaces.

### **Background**

3.2 As at 30 November 2004, of the 11 HA factory estates, the 5 older estates were frozen from new letting (Note 8). One of these five estates, namely San Po Kong Factory Estate, was being vacated. Only the units in the six newer factory estates (namely, Kwai On, Yip On, Chun Shing, Hoi Tai, Sui Fai and Wan Cheong) were available for letting.

3.3 Apart from factory units, parking spaces are also available for letting in HA factory estates. As at 30 November 2004, about 1,600 parking spaces in the 11 HA factory estates were available for letting to the public on either a monthly or an hourly basis. Factory estate tenants are given priority to renting parking spaces on a monthly basis.

### **Letting of factory units by Instant Rental Tender**

3.4 The current HA policy is to let vacant units of the six newer factory estates on a market-rent basis. Instant Rental Tender (Note 9) is used for letting vacant units in factory

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**Note 8:** *The HA decided in 2001 to suspend the letting of vacant factory units in older factory estates with a view to facilitating the eventual clearance of factory estates. This policy, however, does not apply to tenancy renewal.*

**Note 9:** *Under the current HD practice, interested tenderers may participate in the Instant Rental Tender exercise. The tenancy is immediately awarded to the tenderer who offers the highest monthly rent.*

estates where the vacancy rate is 5% or lower. Vacant units in factory estates where the vacancy rate is higher than 5% are let by direct application on a first-come-first-served basis. As at 30 November 2004, the vacancy rate of each of the six newer factory estates was below 5%.

## **Audit observations**

### ***Instant Rental Tender process***

3.5 Currently, the HD holds bi-monthly Instant Rental Tender exercises for letting vacant units in factory estates with a vacancy rate of 5% or lower. During the period December 2003 to November 2004, six such tender exercises were held. Each tender exercise took about 60 days to complete. The factory units concerned were vacant during this 60-day tendering period.

3.6 In order to ascertain whether the tendering period could be shortened, Audit randomly selected one of these six tender exercises for examination. Audit examination revealed that the tender process could have been carried out more efficiently. Table 3 shows the chronological events of the tender exercise.

**Table 3**  
**Chronological events of the tender examined by Audit**

Date	Event	Remarks
9 July 2004	Vacant units to be included in the forthcoming tender confirmed	—
12 July 2004	(a) The Committees' Section of the HD was requested to make arrangement to advertise the tender	10 and 11 of July 2004 were Saturday and Sunday respectively
	(b) Management approval of the minimum acceptable rent was sought	—
30 July 2004	The Information Services Department was requested to make arrangement to advertise the tender	The request was made 21 days after the units available for letting had been identified
6 August 2004	Details of the tender were advertised in newspapers, and registration of applicants commenced	Prospective tenants were required to register with the HD prior to tender
20 August 2004	Registration of applicants ended	—
30 August 2004	Tender was held	The tender was held 10 days after the end of the registration period

*Source: Audit analysis of HD records*

3.7 Audit considers that the time lag of 21 days between the identification of available units for letting and making the request to the Information Services Department for arranging the advertisement was unduly long. The 10-day time lag between the end of the registration period and the date of tendering was also too long. **The HD should shorten the interval between the various stages of the tendering process.**

### **Audit recommendation**

3.8 **Audit has recommended that the Director of Housing should critically examine the workflow of the existing tendering process so as to ensure that vacant factory units are let as soon as possible.**

### **Response from the Administration**

3.9 The **Director of Housing** agrees with the audit recommendation. He has said that the HD will minimise the time required for processing Instant Rental Tenders so as to ensure that vacant factory units are let as soon as possible.

### **Letting of factory units by direct application**

3.10 According to the current HD practice, vacant units in factory estates where the vacancy rate is higher than 5% are let by direct application on a first-come-first-served basis. To ensure that vacant factory units are let on a market-rent basis, rent assessment is carried out by the HD monthly. The result of the monthly rent assessment is known as the minimum acceptable rent. Units let by direct application are charged this rent.

### **Audit observations**

3.11 The HD uses a broad-brush approach to determine whether vacant units should be let by Instant Rental Tender or by direct application, based on the vacancy rate of individual factory estates. It assumes that no popular units may exist in factory estates with high vacancy rates. Audit examination of Yip On Factory Estate records for the period January 2004 to November 2004 (Note 10) revealed that the number of prospective tenants, who registered for renting factory units by direct application in the months of February to April, June and July 2004, consistently exceeded the number of available units (see Table 4). **Had Instant Rental Tender been used to let the vacant units during the said period, some of the units might have been let at a higher rent.**

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**Note 10:** *Records for December 2003 or earlier were not available.*

**Table 4**  
**Number of units available for direct application and**  
**prospective tenants registered at Yip On Factory Estate**  
**(January to November 2004)**

<b>Month</b>	<b>Number of available units</b>	<b>Number of prospective tenants registered</b>
January	20	—
February	28	42
March	30	42
April	29	58
May	13	1
June	14	66
July	13	19
August	10	9
September	15	11
October	Note	Note
November	6	4

*Source: HD records*

*Note: The number of vacant units was below the 5% threshold (see para. 3.4). Hence, no direct application exercise was conducted.*



### **Audit recommendation**

3.12 **Audit has *recommended* that the Director of Housing should consider letting all vacant factory units by Instant Rental Tender in the first instance.**

### **Response from the Administration**


3.13 The **Director of Housing** agrees with the audit recommendation. He has said that, before inviting direct applications, the HD will arrange at least one open Instant Rental Tender so as to capture higher rental offers.

### **Advertisement for letting of vacant factory units**

3.14 Vacant factory units available for letting are advertised in newspapers. However, the HD advertisement only provides the name and address of the factory estates concerned. Key information (e.g. size and assessed rent) of the vacant factory units is not provided in the advertisement (see Figure 1).

Figure 1

**(A) Advertisement for letting of factory units**



葵涌晉昇工廠大廈、葵涌葵安工廠大廈、沙田穗輝工廠大廈及屯門開泰工廠大廈單位招租。

葵涌晉昇工廠大廈、葵涌葵安工廠大廈、沙田穗輝工廠大廈及屯門開泰工廠大廈分別有 8 組、6 組、10 組及 6 組工廠單位以公開現場投標方式招租。登記日期由 2004 年 10 月 2 日至 10 月 18 日，投標日期為 2004 年 10 月 27 日上午 10 時正。

有意承租此等單位者，請於辦公時間內撥：2407 5324（晉昇工廠大廈）、2420 2019（葵安工廠大廈）、2605 8251（穗輝工廠大廈）及 2455 1831（開泰工廠大廈）與工廠大廈辦事處聯絡。

Source: HD records

**(B) Audit translation of the above advertisement**

Letting of Factory Units at Chun Shing Factory Estate,  
Kwai On Factory Estate,  
Sui Fai Factory Estate and Hoi Tai Factory Estate

Eight sets of factory units at Chun Shing Factory Estate, 6 sets of factory units at Kwai On Factory Estate, 10 sets of factory units at Sui Fai Factory Estate and 6 sets of factory units at Hoi Tai Factory Estate are available for letting through Instant Rental Tender. Registration period will be from 2.10.2004 to 18.10.2004. Date of tender will be on 27.10.2004 at 10:00 a.m.

Anyone who is interested in renting these factory premises is requested to contact Chun Shing Factory Estate at 2407 5324, Kwai On Factory Estate at 2420 2019, Sui Fai Factory Estate at 2605 8251 and Hoi Tai Factory Estate at 2455 1831 during office hours.

### **Audit observations**

3.15 **Audit considers that key information (e.g. size and assessed rent) of the vacant factory units available for letting should be provided in the advertisement.** Apart from advertising in newspapers, details of the vacant factory units available for letting should also be listed on the HD website. In this connection, it is worth noting that the Government Property Agency has been providing information of vacant government quarters which are available for letting to the public on its website since 1998.

### **Audit recommendations**

- 3.16 **Audit has recommended that the Director of Housing should:**
- (a) **ensure that key information (e.g. size and assessed rent) of the vacant factory units available for letting is provided in the HD advertisement; and**
  - (b) **consider listing the particulars of vacant factory units available for letting on the HD website.**

### **Response from the Administration**

3.17 The **Director of Housing** agrees with the audit recommendations. He has said that letting of vacant factory units is now advertised in a timely manner, with all the necessary detailed information on the vacant factory units being provided in the tender advertisements as well as on the HD website.

### **Letting of parking spaces**

3.18 As at 30 November 2004, there were about 1,600 parking spaces in the 11 HA factory estates. About 300 parking spaces were in San Po Kong Factory Estate that was being vacated. The remaining 1,300 parking spaces were available for letting to the public as well as factory estate tenants on either a monthly basis (1,200) or an hourly basis (100). In case there is a demand, monthly parking spaces that have not been let would be let on an hourly basis.

### **Audit observations**

3.19 Audit examination of the HD records as at 30 November 2004 showed that in three factory estates, more than 30% of the monthly parking spaces were vacant (see

Table 5). The examination did not cover hourly parking spaces because their vacancy records were not kept by the HD.

**Table 5**  
**Vacancy position of monthly parking spaces in HA factory estates**  
**(30 November 2004)**

Factory Estate	No. of parking spaces		Vacancy rate (%)
	Available	Vacant	
Yip On	332	150	45%
Chun Shing	173	59	34%
Hoi Tai	113	35	31%
Kowloon Bay	74	20	27%
Tai Wo Hau	92	15	16%
Sui Fai	152	21	14%
Kwai On	156	21	13%
Chai Wan	24	3	13%
Kwun Tong	59	3	5%
Wang Cheong	25	0	0%
<b>Total</b>	<b><u>1,200</u></b>	<b><u>327</u></b>	

Source: HD records

Remarks: San Po Kong Factory Estate was being vacated. Therefore, the vacancy position of this estate was excluded from the analysis.

3.20 Among these 10 HA factory estates, the vacancy rate of parking spaces of Yip On Factory Estate was the highest. During their visit to this estate, Audit staff noted that in the adjacent car park, which was managed by a private operator, only a few vacant parking spaces were available (see Photograph 11).

**Photograph 11**

**Private car park  
adjacent to Yip On Factory Estate**



*Source: Photograph taken by Audit staff*

3.21 There are two possible reasons why the adjacent car park was more popular than the car park of Yip On Factory Estate. First, the ascending scale of hourly parking fees of Yip On Factory Estate was uncompetitive. As at 30 November 2004, the hourly parking fees of this estate for private cars/vans were \$12 for the first two hours and \$24 thereafter, and those for goods vehicles were \$16 for the first two hours and \$32 thereafter (Note 11). Second, the adjacent car park had put up a large signboard to attract customers. Yip On Factory Estate, on the other hand, did not put up any advertisement signboard. It was doubtful whether the public knew that parking spaces were available.

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**Note 11:** *The parking fee of the adjacent car park as at 30 November 2004 was a flat rate of \$5 per hour.*

## **Audit recommendations**

- 3.22 **Audit has *recommended* that the Director of Housing should:**
- (a) **ensure that the fees of HA factory estate parking spaces are competitive; and**
  - (b) **publicise the availability and fees of parking spaces in HA factory estates.**

## **Response from the Administration**

3.23 The **Director of Housing** agrees with the audit recommendations. He has said that after receipt of the draft Audit Report in January 2005, immediate action has been taken:

- (a) to remove the ascending scale of parking fees of Yip On Factory Estate; and
- (b) to publicise the availability of parking spaces by mounting publicity boards and banners in various HA factory estates.

## **PART 4: REDEVELOPMENT OF FACTORY ESTATES**

4.1 This PART examines the phasing out of the five older factory estates, the units of which had been frozen from new letting, and the progress of demolition of those factory estates that had been vacated. The areas examined are as follows:

- (a) the plan for phasing out the four older factory estates;
- (b) the clearance operation of San Po Kong Factory Estate; and
- (c) the progress of demolition of vacated factory estates.

### **Background**

4.2 Of the 11 HA factory estates, Chai Wan, Kowloon Bay, Kwun Tong, San Po Kong and Tai Wo Hau Factory Estates were built to the old design standards with no lift service. According to the HD, the buildings of these five older factory estates are in poor condition with concrete strength problems (see para. 2.6). New letting of units in these five factory estates has been frozen since September 2001. As at 30 November 2004, about 50% of the units in these five factory estates were vacant.

### **Plan for phasing out the four older factory estates**

4.3 In October 2004, the HD informed Audit that it intended to clear the five older factory estates in the near future. In fact, the HD began the clearance operation of San Po Kong Factory Estate in November 2003. The target vacation date of this estate is 31 May 2005. Regarding the remaining four older factory estates, at the time of completion of this audit in December 2004, no timetable for phasing them out had been drawn up.

4.4 Because of the freeze on new letting, the vacancy rates of the remaining four older factory estates were high. Table 6 shows their vacancy position as at 30 November 2004.

**Table 6**  
**Vacancy position of the four older factory estates**  
**(30 November 2004)**

Factory Estate	Number of factory units		Vacancy rate (%)
	Available	Vacant	
Chai Wan	378	87	23%
Kowloon Bay	807	438	54%
Kwun Tong	817	499	61%
Tai Wo Hau	1,035	526	51%
<b>Total</b>	<b>3,037</b>	<b>1,550</b>	

Source: Audit analysis of HD records

### Audit observations

4.5 Due to their high vacancy rates (see Table 6), the operating surplus of the four older factory estates was declining. Their operating surplus decreased by 75% from \$15 million in 1999-2000 to \$3.8 million in 2003-04. Audit considers that:

- (a) because the buildings of these four factory estates are in poor condition, their maintenance cost could be expected to increase; and
- (b) because new letting of units in the four older factory estates has been frozen, their future rental income would decrease further.

**An operating deficit may be expected in these four older factory estates in a few years. There is an urgent need to draw up a timetable for phasing them out.**

### Audit recommendation

4.6 Audit has *recommended* that the Director of Housing should draw up a timetable to phase out the four older factory estates, i.e. Chai Wan, Kowloon Bay, Kwun Tong and Tai Wo Hau Factory Estates.



## Response from the Administration

4.7 The **Director of Housing** agrees with the audit recommendation. He has said that:

- (a) in March 2005, the Strategic Planning Committee of the HA approved in principle to clear the four older factory estates by phases; and
- (b) the Commercial Properties Committee of the HA will work out a timetable for phasing out these four factory estates in due course.

## Clearance operation of San Po Kong Factory Estate

4.8 The clearance operation of San Po Kong Factory Estate was approved by the Commercial Properties Committee of the HA in October 2003. The target vacation date of this estate is 31 May 2005. When the clearance operation was approved, there were 493 tenants in this estate. Since then, the number has been declining. As at 30 November 2004, there were 347 tenants. These tenants would have to surrender their units by 31 May 2005.

## Audit observations

4.9 When approving the clearance operation of San Po Kong Factory Estate, the Commercial Properties Committee specified that, in addition to the usual ex-gratia allowance:

- (a) either a 3-month rent-free period would be given to displaced tenants leasing HA factory units elsewhere; or
- (b) a cash sum, equivalent to \$5,200 per standard unit of 24 m<sup>2</sup>, if they chose to “go elsewhere in the private sector” i.e. to relocate their factories to buildings provided by the private sector.

4.10 Audit examination of San Po Kong Factory Estate clearance records up to November 2004 revealed that at least in seven cases (see Appendix D), cash sum was also given to displaced tenants leasing HA factory units elsewhere. **This seems to be at variance with the Commercial Properties Committee’s terms of approval.**

4.11 Audit also noted that, in paying the cash sum to displaced tenants, the HD staff had not checked to confirm that the displaced tenants genuinely relocated their factories to private buildings. **It is questionable whether these tenants should receive the cash sum.**

### **Audit recommendations**

4.12 **Audit has recommended that the Director of Housing should:**

- (a) **clarify the terms of approval of cash sum with the Commercial Properties Committee of the HA; and**
- (b) **ensure that it is paid accordingly.**

### **Response from the Administration**

4.13 The **Director of Housing** agrees with the audit recommendations. He has said that:

- (a) the HD will seek clarification from the Commercial Properties Committee of the HA on the terms of ex-gratia allowance, including the cash sum payable to affected tenants in lieu of participating in restricted tender exercises (Note 12) for leasing HA factory units elsewhere; and
- (b) the Committee's deliberation will also be applied to the clearance operation of San Po Kong Factory Estate.

### **Progress of demolition of vacated factory estates**

4.14 Apart from the 11 HA factory estates, 3 vacated HA factory estates were also under the management of the HD as at 30 November 2004. They are Jordan Valley, Shek Kip Mei and Cheung Sha Wan Factory Estates (see Photographs 12, 13 and 14).

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**Note 12:** *Only HA factory unit tenants who are affected by the HA's clearance operations may participate in the restricted tender exercises. The objective of these exercises is to assist these tenants to re-establish their business in HA factory units elsewhere.*

**Photograph 12**

**Jordan Valley Factory Estate**



**Photograph 13**

**Shek Kip Mei Factory Estate**



*Source: Photographs taken by Audit staff*

**Photograph 14**

**Cheung Sha Wan Factory Estate**



*Source: Photograph taken by Audit staff*

4.15 The vacating of Jordan Valley Factory Estate was completed in March 2004. The demolition works were scheduled to commence in March 2005. The vacating of Shek Kip Mei and Cheung Sha Wan Factory Estates was completed in May 2001 and April 2003 respectively. However, at the time of completion of this audit in December 2004, the demolition dates had not been fixed. In response to Audit enquiries, the HD stated that a number of government bureaux had expressed interests in the sites or the building blocks of Cheung Sha Wan and Shek Kip Mei Factory Estates. The Housing, Planning and Lands Bureau was liaising with the bureaux concerned on this matter. Until a decision was made on whether the building blocks should be retained, the demolition dates of Cheung Sha Wan and Shek Kip Mei Factory Estates could not be fixed.

### Audit observations

4.16 Although Cheung Sha Wan and Shek Kip Mei Factory Estates have been vacated for a long period, recurrent costs are still being incurred to provide estate management services (such as security and cleaning) to them. Table 7 shows the recurrent costs incurred in 2004-05 (up to 31 December 2004) for providing estate management services to these two vacated factory estates. **Audit considers that spending public money to provide estate management services to vacated factory estates for a long period is unacceptable.**

Table 7

**Recurrent costs incurred for providing  
estate management services to two vacated factory estates  
(2004-05)**

	<b>Cheung Sha Wan Factory Estate</b>	<b>Shek Kip Mei Factory Estate</b>	<b>Total</b>
	(\$)	(\$)	(\$)
Security	395,000	186,000	581,000
Cleaning	39,000	5,000	44,000
Rates	623,000	156,000	779,000
<b>Total</b>	<b><u>1,057,000</u></b>	<b><u>347,000</u></b>	<b><u>1,404,000</u></b>

Source: HD records

Remarks: The costs were up to 31 December 2004.

## Audit recommendations

4.17 **Audit has recommended that the Director of Housing should ensure that vacated factory estates would be demolished as soon as the clearance operation is completed.**

4.18 **Audit has recommended that the Secretary for Housing, Planning and Lands should make an early decision on whether the buildings of the vacated Cheung Sha Wan and Shek Kip Mei Factory Estates should be retained and put to other beneficial use.**

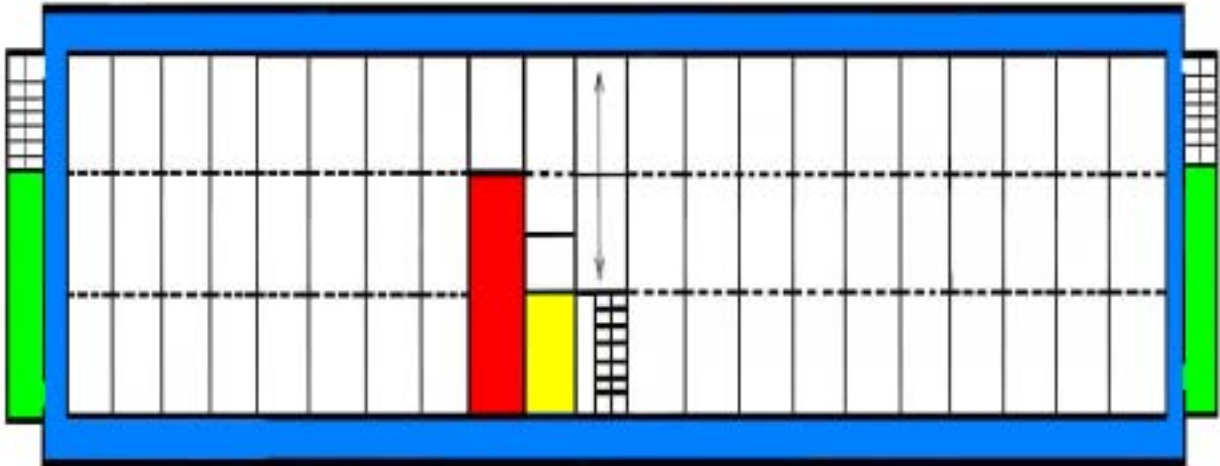
## Response from the Administration







4.19 The **Secretary for Housing, Planning and Lands** agrees with the audit recommendation. He has said that:

- (a) the future use of the vacated Cheung Sha Wan and Shek Kip Mei Factory Estates has been a subject of discussion within the Government at this time; and
- (b) he has now urged the relevant bureaux to make an early decision on this subject.

4.20 The **Director of Housing** agrees with the audit recommendation. He has said that the HD will demolish the buildings and return the sites to the Government, if necessary.

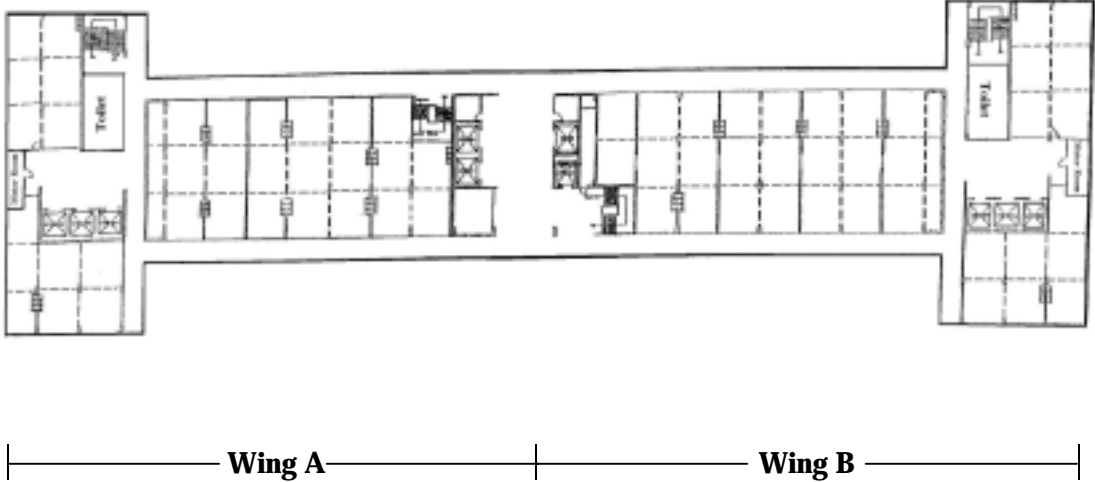
**Typical floor plan of older factory estates with no lift service**



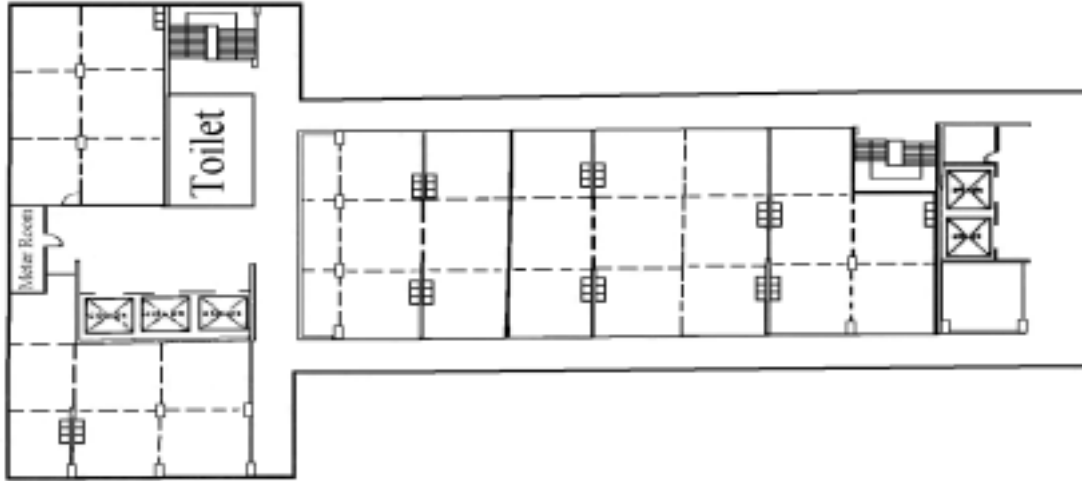
- Legend: ----- Removable Partition
-  Stairs
-  Ramp
-  Toilet
-  Transformer Room
-  Meter Room
-  Corridor



Source: HD records

Typical floor plan of newer factory estates with lift service



Floor plan of Wing A  
(Magnified)



- Legend: ----- Removable Partition  
           Lift  
           Stairs

Source: HD records

**Appendix C**  
(para. 1.4 refers)

**Eleven HA flatted factory estates**

<b>Factory estate</b>	<b>Year built</b>	<b>No. of lettable units as at 30 November 2004</b>	<b>Total floor area (m<sup>2</sup>)</b>	<b>Net operating surplus in 2003-04 (\$ million)</b>	<b>Managed by</b>
<b>(A) Older flatted factory estates with no lift service</b>					
Chai Wan	1959	378	6,804	0.2	HD
Tai Wo Hau	1961-66	1,035	21,900	1.1	Property management agent
San Po Kong	1962-65	2,008	48,096	4.2	HD
Kwun Tong	1966-73	817	19,392	0.6	HD
Kowloon Bay	1975	807	19,368	1.9	HD
<b>(B) Newer flatted factory estates with lift service</b>					
Kwai On	1979	766	19,210	3.9	Property management agent
Yip On	1980-81	1,440	36,378	13.2	HD
Chun Shing	1982	1,646	41,079	3.1	Property management agent
Hoi Tai	1982	1,764	44,663	1.5	Property management agent
Sui Fai	1982	1,597	41,725	9.1	Property management agent
Wang Cheong	1984	1,020	26,648	9.7	HD
<b>Total</b>		<b>13,278</b> <b>(say 13,300)</b>	<b>325,263</b> <b>(say 325,300)</b>	<b>48.5</b>	

Source: HD records



**Appendix D**  
(para. 4.10 refers)

**Seven cases of displaced tenants of San Po Kong Factory Estate  
leasing HA factory units elsewhere who were given cash sum**

<b>Tenants</b>	<b>Amount of cash sum given</b>	<b>HA factory units newly leased</b>
A	\$10,400	2 units in Yip On Factory Estate
B	\$15,600	1 unit in Yip On Factory Estate
C	\$10,400	1 unit in Wang Cheong Factory Estate
D	\$15,600	2 units in Yip On Factory Estate
E	\$5,200	1 unit in Yip On Factory Estate
F	\$10,400	2 units in Yip On Factory Estate
G	\$10,400	1 unit in Yip On Factory Estate

*Source: HD records*

**Acronyms and abbreviations**

Audit	Audit Commission
HA	Housing Authority
HD	Housing Department
kVA	Kilovolt-ampere
kWh	Kilowatt-hour