

CHAPTER 2

GOVERNMENT PROPERTY AGENCY

<p>Commercialisation and utilisation of government properties</p>
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**Audit Commission
Hong Kong
25 March 2008**

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. 50 of the Director of Audit contains 7 Chapters which are available on our website at <http://www.aud.gov.hk>.

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COMMERCIALISATION AND UTILISATION OF GOVERNMENT PROPERTIES

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PART 1: INTRODUCTION

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

Background

1.2 The Government Property Agency (GPA — Note 1) was established in April 1990 to administer and manage efficiently and cost-effectively all government-owned and leased properties. According to the Accommodation Regulations, the GPA's objectives in respect of the utilisation and commercialisation of government properties are:

- (a) to ensure that all government accommodation is fully utilised with maximum efficiency and value for money; and
- (b) to introduce appropriate commercial activities in suitable government accommodation so as to maximise the return to the Government for its capital investment.

1.3 To achieve the efficient use of available government office accommodation and meet user requirements in a more responsive and cost-efficient manner, the GPA requires all government bureaux and departments to conduct, on an annual basis, a comprehensive and critical review of all the office accommodation (including government-owned and leased accommodation) allocated to them. Government bureaux and departments are required to report surplus accommodation, exceeding 50 square metres, which may be surrendered to the GPA. They are also encouraged to submit proposals on the rationalisation of accommodation or co-location, where feasible, to achieve savings. According to Accommodation Circular No. 1/97, once surplus accommodation is available, the GPA will try to identify alternative government users. Failing this, the GPA will assess the commercial viability of the premises and dispose of those with commercial potential, either through commercial letting or by sale.

1.4 Commercialisation of government properties is usually pursued by the GPA when:

Note 1: *In April 1990, the GPA took over the responsibility for dealing with various aspects of government property matters from the Government Secretariat, the then Buildings and Lands Department, and the Rating and Valuation Department.*

- (a) the commercial potential of a government property has been identified;
- (b) a commercial operator or a member of the public has indicated interest in leasing government properties for commercial uses; or
- (c) a government department has asked for the provision of a commercial activity in a particular government building for the benefit of the users.

In 2007, the GPA identified new commercialisation opportunities in 22 government premises.

1.5 The GPA's work in relation to commercial activities in government buildings mainly includes undertaking tenancy management-related work, arranging advertising concessions and allowing location filming. The GPA initiates and executes letting of government accommodation with commercial potential. Government accommodation can be let out as residential or commercial tenancies (e.g. offices, shops, car parks, godowns, space for automatic teller machines and locations for rooftop aerials). There are cases where accommodation is let out on a part-time basis (e.g. car parks in government buildings for use by the public after office hours). The rental income from commercial tenancies was \$303 million in 2006-07.

1.6 The GPA is responsible for granting permissions for advertising at suitable locations on government buildings. Before granting such permissions, the GPA will consult the relevant government bureaux and departments. The advertising licence fees received by the GPA were \$62 million in 2006-07. The GPA is also responsible for granting the approval for location filming at non-departmental quarters under its management and joint-user buildings after consulting the relevant government departments. The fees received by the GPA for allowing location filming were \$1.2 million in 2006-07.

1.7 An organisation chart of the GPA is shown in Appendix A. In the GPA, the Site Utilisation Division (SUD) is responsible for handling matters relating to the efficient utilisation of government properties and the introduction of appropriate commercial activities in suitable government accommodation. This is done in accordance with the provisions and procedures stated in the GPA Manual, the Accommodation Regulations and the Accommodation Circulars.

Audit review

1.8 The Audit Commission (Audit) has recently carried out a review to examine the economy, efficiency and effectiveness of the GPA in respect of the commercialisation and utilisation of government properties. The review has focused on the following areas:

- (a) commercialisation of government properties (PART 2);
- (b) management and reporting of identified commercialisation opportunities (PART 3); and
- (c) utilisation of vacant and surplus government properties (PART 4).

1.9 In carrying out the audit review, Audit examined the records and interviewed the staff of the GPA. Audit has found that there are areas where improvements can be made. Audit has made a number of recommendations to address the issues.

Acknowledgement

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

PART 2: COMMERCIALISATION OF GOVERNMENT PROPERTIES

2.1 This PART examines the GPA's arrangements for realising the commercial potential of two government properties of considerable commercial value and suggests measures for improvement.

Determining factors for commercialisation

2.2 The GPA is responsible for introducing appropriate commercial activities within suitable government buildings to maximise the return to the Government for its capital investment. According to the GPA Manual, in determining the types of commercial letting to be pursued in a government building, the GPA should take into consideration the following factors:

- (a) the commercial potential of the subject premises and the market demand for the proposed retail business in the area;
- (b) the needs of building users and types of commercial activities in the area;
- (c) the availability of space for the particular trade having regard to the location of the building, its visibility, street frontage and pedestrian flow; and
- (d) the impact of the proposal on the image or outlook of the government building, circulation, fire services installation and operation/maintenance of building facilities and other considerations.

The GPA Manual reminds GPA staff to exercise their judgement to include other pertinent issues having regard to the circumstances of each case, the objectives of the activity, and the role and function of the GPA.

Government properties of considerable commercial value

2.3 Audit review of the government property portfolio found two properties of considerable commercial value. They are the Trade and Industry Department (TID) Tower in Mong Kok and the Queensway Plaza in Admiralty. The commercial potential of these two government properties is shown in Appendix B. The TID Tower (Note 2 — see Photograph 1) is one of the twin towers (Note 3). The location plan of the TID Tower is shown in Figure 1.

Note 2: *The TID Tower was known as the Argyle Centre Tower II before 1990. After acquisition by the Government in 1990, it was renamed the Trade Department Tower. As a result of reorganisation, the Trade Department was merged with the Industry Department in July 2000 and was renamed the TID. The Trade Department Tower was renamed the TID Tower. In this report, for the sake of simplicity, the building is referred to as the TID Tower.*

Note 3: *There is a footbridge connecting the TID Tower and the sister tower Argyle Centre Tower I. The footbridge was closed in 1990 after the closure of the shopping arcade in the TID Tower.*

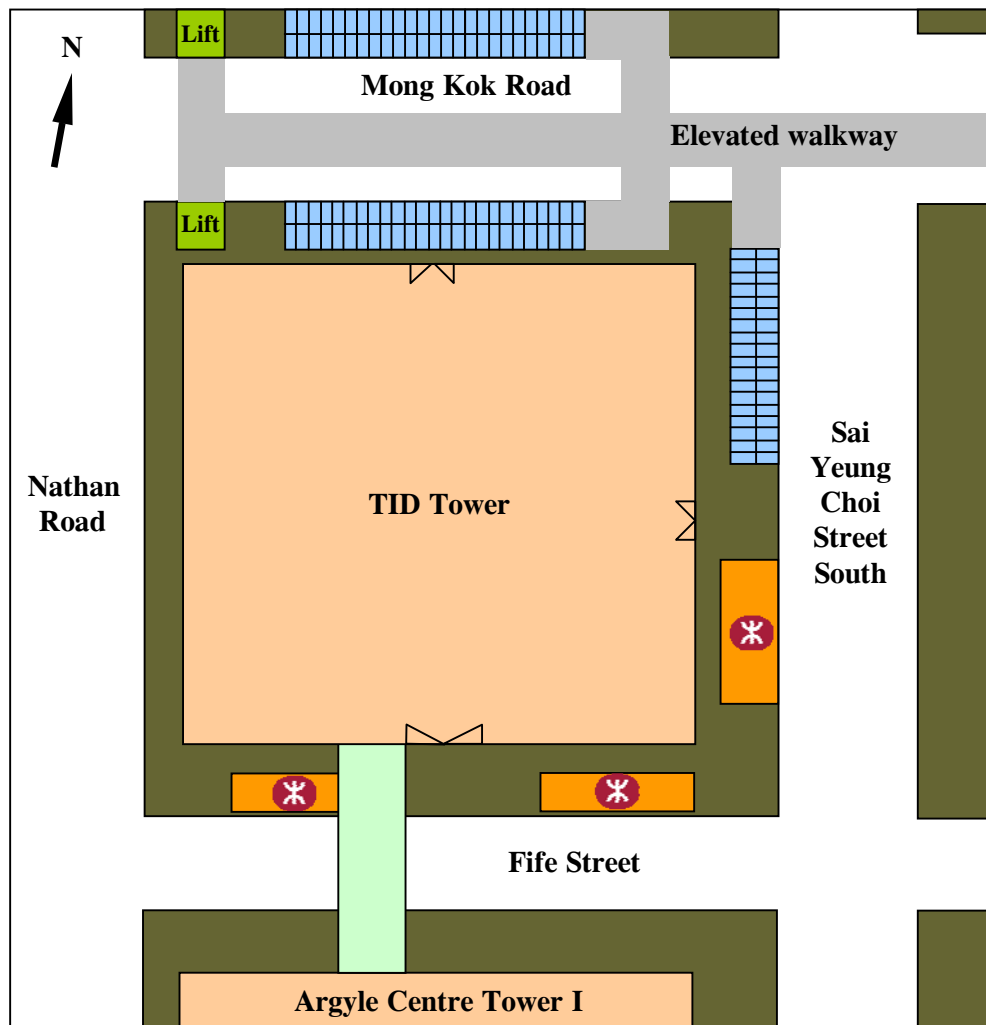
Photograph 1







The TID Tower



Source: Photograph taken by Audit in February 2008

Figure 1
Location plan of the TID Tower



- Legend:
-  Elevated walkway
 -  Escalator and stairway
 -  Footbridge
 -  Mass Transit Railway entrance/exit
 -  Pavement
 -  TID Tower entrance/exit

Source: Sketch location plan prepared by Audit based on GPA records

Remarks: The sketch location plan is not drawn to scale. The footbridge connecting the TID Tower and the Argyle Centre Tower I was closed in 1990 after the closure of the shopping arcade in the TID Tower.

Trade and Industry Department Tower

Acquisition for government use

2.4 The TID Tower is a 23-storey building built over the Mong Kok Mass Transit Railway (MTR) Station. In January 1989, the Finance Committee approved \$322.6 million, comprising \$210 million for the purchase price and \$112.6 million for refurbishment and fitting-out costs, for the acquisition of the TID Tower by the Government. The Finance Committee was informed in 1989 that the ground, the mezzanine, the first and the second floors (**i.e. the lower floors**) were fitted out as a shopping arcade and leased to retail shops with rental income of about \$15 million a year. After acquisition, except for the ground floor which would continue to be leased to compatible businesses, the remaining areas would be allocated to the then Trade Department (now the TID), the then Open Learning Institute of Hong Kong (now the Open University of Hong Kong) and the Customs and Excise Department. The user allocation of the TID Tower in 1990 is shown in Table 1.

Table 1

User allocation of the TID Tower in 1990

Occupant	Floor	Total area (Square metres)
TID	1st and 2nd basements, mezzanine floor, 1st to 8th floors, and 17th to 19th floors	11,530
The then Open Learning Institute of Hong Kong	9th to 13th floors	4,270
Customs and Excise Department	14th (part), 15th and 16th floors	2,210

Source: GPA records

Conversion of shopping arcade to office accommodation

2.5 In 1987-88, both the Rating and Valuation Department (RVD) and the then Buildings and Lands Department (now the Buildings Department (BD) and the Lands Department — Lands D) gave their comments (see paras. 2.6 and 2.7) to support the continuous use of the ground, the mezzanine, the first and the second floors as a shopping arcade.

2.6 In October 1987 and January 1988, the RVD said that:

- (a) the conversion of retail areas to office space would appear to be an uneconomic use of space;
- (b) some ground floor shops were in prime locations and the upper floor retailing areas were generally well established; and
- (c) the space was rather more valuable, and was likely to remain so, than the upper floor office areas.

2.7 In March 1988, the Lands Administration Office of the then Buildings and Lands Department said that:

- (a) the bottom four floors had been designed and constructed for specialist shopping use;
- (b) the requirement should continue for that purpose particularly as it was generating a rental income of \$12 million a year;
- (c) the conversion to office accommodation would not only mean a large reduction of the rental, but there would be the additional cost of conversion and loss of rental income during the conversion period; and
- (d) it did not make sense to convert this successful shopping arcade to an uneconomic office use.

2.8 The Administration finally considered that it was justified to convert the shopping arcade (except the ground floor) to office accommodation for the TID. The justifications were that:

- (a) at that time, the TID was housed in leased accommodation in the Ocean Centre in Tsim Sha Tsui. It was desirable to take the opportunity to relocate the TID to government-owned accommodation;

- (b) the TID Tower offered suitable accommodation for the TID because it was easily accessible by public transport; and
- (c) the lower floors were directly accessible by escalators from the ground level and were ideal for the TID to serve a large clientele for whom easy access was essential.

Release of surplus areas by the TID

2.9 In early 1996, the then Open Learning Institute of Hong Kong moved out from the 9th to 13th floors of the TID Tower. The GPA allocated the surplus areas to the TID to meet its expansion requirements. In June 2000, the TID informed the GPA that:

- (a) the scheduled phase-out of textiles quotas by 2005 meant that its licensing work might be scaled down in future; and
- (b) the increasingly wider use of computerisation would much reduce the need for traders to patronise the service counters inside the TID Tower for the submission of licence applications and other documents. The need for the TID to be physically near traders and manufacturers had become less important.

2.10 In December 2004, after reviewing the office accommodation, the TID advised the GPA that:

- (a) the TID would undergo a major reorganisation in 2005 due to the implementation of a new textiles control system;
- (b) upon successful transfer of all surplus staff to other departments, and combining or closing some customer service counters, it was likely that the TID would have some surplus areas; and
- (c) subject to the detailed review in 2005-06 and the completion of renovation works arising from the relocation of offices, the TID might be able to deliver surplus areas to the GPA in 2006-07.

In June 2005, the TID informed the GPA that it would return surplus areas of 1,000 to 1,500 square metres to the GPA.

Proposed new government office building

2.11 In May 2006, the GPA considered that relocating government offices in the TID Tower to a proposed new government office building around 2013 would release sizeable commercial space and land for other development. The intention was to dispose of the TID Tower including the ground floor shopping areas after the relocation of the departments to the proposed new government office building.

Audit observations and recommendation

Need to realise the commercial potential of the TID Tower

2.12 In March 2007, after a detailed review of office accommodation and relocation of offices, the TID informed the GPA that surplus areas (about 1,790 square metres), including portions of the mezzanine and the first floors of the TID Tower, could be released. In May 2007, the GPA planned to allocate the surplus areas to the Student Financial Assistance Agency (SFAA — Note 4). The GPA advised the SFAA that the users of the TID Tower would tentatively be relocated to a proposed new government office building (see para. 2.11) in 2013. The SFAA informed the GPA that the surplus areas were suitable for meeting its accommodation requirements. It also agreed to be relocated to the proposed new government office building in future. Up to December 2007, the GPA allocated 1,600 square metres, including portions of the mezzanine and the first floors (i.e. 742 square metres), to the SFAA, and 190 square metres on the eleventh floor to the Labour Department.

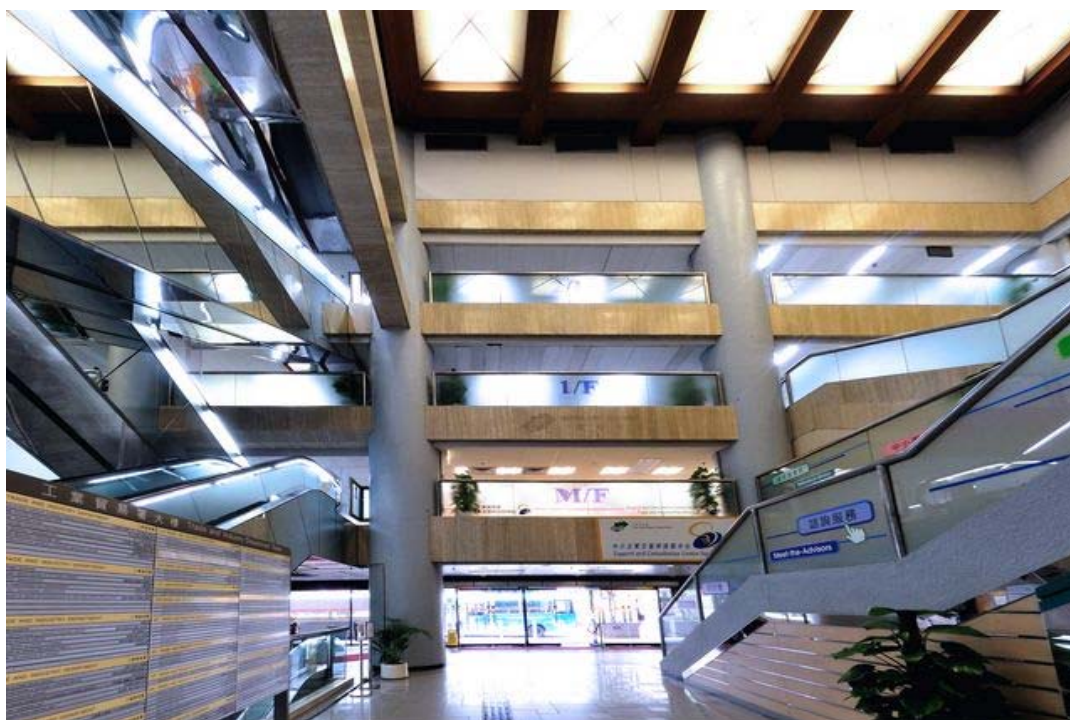
2.13 According to the GPA, once surplus accommodation is available, it will try to identify alternative government users before considering commercialisation (see para. 1.3). However, the TID Tower, similar to the Queensway Plaza (see paras. 2.15 to 2.18), is a unique government property located at a prime location and has considerable commercial value. **The basements, the ground, the mezzanine, the first and the second floors have valuable commercial potential for use as a shopping arcade.**

Note 4: *The SFAA requested that the office accommodation should be easily accessible by public transport. The SFAA looked for government-owned accommodation, preferably in Kowloon, but would revert to leased premises in case suitable government premises could not be identified.*

2.14 In Audit's view, without conducting a cost-benefit analysis, the relocation of the SFAA to the lower floors in 2007 might not be the most economic use of the space released by the TID because the ground, the mezzanine, the first and the second floors were designed as a retail shopping arcade (see Photograph 2). In addition, some areas on the first floor, used by the TID for common facilities (such as the staff recreation room), could also be converted for retail use after relocating the facilities to the other floors. As the TID informed the GPA in June 2005 that it would release surplus areas, the GPA might not have made use of the opportunity at that time to fully realise the commercial potential of the lower floors.

Photograph 2

The lower floors of the TID Tower



Source: Photograph taken by Audit in February 2008

Commercialisation of the Queensway Plaza

2.15 The Queensway Plaza is part of an enclosed elevated walkway at the Admiralty MTR Station. The structure was constructed by the MTR Corporation with full costs reimbursed by the Government. It is a shopping mall situated in a prime location above the Admiralty MTR Station. It is housed in an elevated walkway connecting the Pacific Place, Admiralty and Central, and has become a thoroughfare for pedestrians linking the MTR station with major office and hotel developments in the vicinity.

2.16 In January 1981, the letting rights of the shops in the shopping mall of the Queensway Plaza, with a gross floor area of about 5,700 square metres, were granted by open tender to a single agency for a fixed term of 21 years at a premium of \$106 million. In July 2000, the GPA requested the then Secretary for the Treasury (now the Secretary for Financial Services and the Treasury) to make a decision on how the shopping mall should be disposed of after the expiry of the tenancy in January 2002. The GPA advised the Secretary for Financial Services and the Treasury as follows:

“This is a unique property in the government portfolio, being both a commercial retail centre and an important public thoroughfare in a prominent location. Given the considerable commercial value, it is justifiable to preserve the entity and status-quo of the shopping mall as a whole than to convert any space to government use. There is no currently identified potential Government user and such as may arise could be more cost effectively accommodated elsewhere.”

2.17 In October 2000, the GPA recommended proceeding with the option of a 10-year lease of the shopping mall to a principal tenant with a payment of a premium at the start of the lease and a guaranteed monthly rental based on a percentage of the gross rental receipts. This option would allow the Government to enjoy a major share of rental growth throughout the tenancy. The Secretary for Financial Services and the Treasury agreed with the recommendation. In March 2001, the tenancy of the shopping mall for ten years, from January 2002 to January 2012, was awarded to a tenderer at a one-off premium of \$101.3 million, and a guaranteed monthly rent of \$5 million or 70% of the gross monthly receipt, whichever was the higher.

2.18 The GPA successfully realises the commercialisation potential of the Queensway Plaza and maximises the return to the Government by letting out all the shops to a principal tenant. Audit notes that it may not be appropriate to draw a direct comparison between the TID Tower and the Queensway Plaza. However, the lower floors of the TID Tower have considerable potential commercial value for use as a shopping arcade. **In Audit’s view,**

depending on the future use of the TID Tower, the GPA needs to explore the commercialisation opportunities of the basements, the ground, the mezzanine, the first and the second floors to maximise the return to the Government.

2.19 **Audit has recommended that the Government Property Administrator should explore the commercialisation opportunities of converting the basements, the ground, the mezzanine, the first and the second floors into a shopping arcade for retail use, taking into account the future use of the TID Tower, the market conditions and the successful experience of letting out the Queensway Plaza.**

Response from the Administration

2.20 The **Government Property Administrator** agrees with the audit recommendation. He has said that the GPA agrees to monitor the situation and will conduct further analyses on the viability of conversion as recommended should there be changes in circumstances in future. He has also said that:

- (a) according to the Accommodation Regulations, the GPA is responsible for introducing appropriate commercial activities in suitable government accommodation. The GPA also follows the general principle of Accommodation Circular No. 1/97 (see para. 1.3) that government-owned premises are to be used for providing accommodation for public facilities or use as government offices. By reducing the shortfall in government accommodation, the leased accommodation used by government departments will be minimised. In line with this principle, the space on the mezzanine, the first and the second floors of the TID Tower was allocated to the then Trade Department in 1990, even though it was used as a shopping arcade at the time of acquisition. Similarly, portions of the mezzanine and the first floors of the building were allocated to the SFAA to meet its demand for office accommodation when they were released by the TID in 2007. The conversion of existing office space to retail use in the face of a shortfall in government accommodation would not be consistent with the above principle and Accommodation Circular No. 1/97; and
- (b) the GPA has carried out a preliminary assessment on the viability of converting the lower three floors to retail use. The GPA has found that the cost of conversion is likely to exceed the financial benefit which may be derived from it, having regard to the current plans to vacate the building in 2013 and to dispose of it en bloc afterwards. Moreover, the generation of construction and demolition debris which would result from the conversion and the limited service life of the converted space also raise environmental issues which need to be addressed.

2.21 The **Director-General of Trade and Industry** has said that, subsequent to the accommodation review in 2007, nearly all the surplus areas in the TID Tower have been returned to the GPA. If the conversion of the lower floors to shops is materialised, the GPA will have to allocate suitable alternative offices to the TID within the TID Tower. Currently, the TID provides seven public service counters and other minor support services on the lower floors. The TID is open for relocation but public accessibility is the major concern. Any relocation of service counters should not adversely affect the quality of service.

Audit views on the response from the Government Property Agency

2.22 In response to the comments made by the Government Property Administrator in paragraph 2.20, Audit has the following views:

- (a) **the lower floors of the TID Tower had been designed and constructed for specialist shopping use, and were more valuable than the upper floor office areas.** The GPA should have conducted a cost-benefit analysis of converting all or portions of the lower floors to retail use before allocating the surplus areas to the SFAA in 2007. As a result, the GPA might have missed the opportunity to fully realise the commercial potential of the lower floors (see para. 2.14); and
- (b) in addition to the preliminary assessment on the viability of converting the lower floors to retail use, the GPA needs to formulate a strategic plan and conduct further analyses on all possible options to cater for changes in circumstances in future.

Letting of shops in the Trade and Industry Department Tower

2.23 After the acquisition of the TID Tower in 1990, only the ground floor is used as retail shops and the remaining floors are used as government offices. The GPA is responsible for letting out the shops on the ground floor. In February 1990, in response to a request to prepare a detailed letting proposal from the then Property Division of the Finance Branch (now the GPA), the RVD said that:

- (a) the TID Tower was located at the centre of Mong Kok which was a very busy shopping district;
- (b) the building was bounded by Nathan Road, Mong Kok Road, Sai Yeung Choi Street South and Fife Street;

- (c) the pedestrian flow was very heavy as the building was located close to the junction of Argyle Street and Nathan Road where the Mong Kok MTR Station was situated (Note 5);
- (d) the existing layout for the shops provided a good reference and all the shops, except one, would have street frontage;
- (e) the shop without frontage would be suitable for a speed delivery services centre;
- (f) Mong Kok was a major shopping district and these shops would enjoy a good pedestrian flow. Retail use would produce the best rental income; and
- (g) retail use in the TID Tower had been compatible with the then City Polytechnic of Hong Kong (now the City University of Hong Kong)'s occupation, and would continue to be so with the new office users. In addition, the prospective tenants of the upper floors were located in commercial buildings with similar retail use floors (e.g. the then Trade Department's office in the Ocean Centre).

Audit observations and recommendation

Need to enhance the commercial value of the shops

2.24 In 1990, when the GPA first let out the ground floor shops in the TID Tower, the monthly rents compared favourably with the corresponding RVD rental valuations of ground floor shops at nearby developments. According to the tender assessment reports prepared by the GPA in 1990, the monthly rents obtained through open tenders for the shops were mostly higher than the corresponding RVD rental valuations at that time. Details are shown in Appendix C.

2.25 The rents of the ground floor shops in the TID Tower in 1990 and 2007 are shown in Appendix D. Audit analysis of the changes in commercial value of the shops in the TID Tower over the 18-year period from 1990 to 2007 revealed that, on the whole, the annual rental income had increased by 38%. However, for seven shops, the monthly rents per square metre in 2007 were substantially lower than those in 1990. Details are shown in Table 2.

Note 5: *The TID Tower is bounded by three MTR entrances/exits (i.e. two along Fife Street and one along Sai Yeung Choi Street South — see Figure 1 in para. 2.3).*

Table 2

Decrease in monthly rents of seven ground floor shops in the TID Tower

Shop	Monthly rent per square metre		Decrease in monthly rent	
	1990	2007	Amount	Percentage
	(a) (\$)	(b) (\$)	(c) = (a) – (b) (\$)	(d) = $\frac{(c)}{(a)} \times 100\%$ (%)
D	1,388	765	623	45
E	2,200	1,429	771	35
F	3,864	2,727	1,137	29
H	797	344	453	57
I	545	212	333	61
J	2,222	123	2,099	94
K	2,222	123	2,099	94

Source: GPA records

2.26 As shown in Appendix D, the monthly rents of the shops in 2007 varied significantly (i.e. from \$123 to \$4,800 per square metre). The lowest rent of Shops J and K was \$123 per square metre a month. In September 2006, in its tender report submitted to the Government Logistics Department Tender Board, the GPA indicated that the location of the two shops was inferior to the other ground floor shops because:

- (a) there was a bridge and an escalator in front of the two shops obstructing the views and sunlight to these shops, thereby adversely affecting the attractiveness and trading potential of the shops;
- (b) the pedestrian flow was particularly low; and
- (c) the location was less convenient.

2.27 The current shopping environment of the TID Tower does not maximise pedestrian flow. The TID Tower is closed in the evenings, on weekends and public holidays. At present, shoppers can only enter the shops on the ground floor from the streets. Such arrangements put shoppers off the premises, particularly in the summer season when they prefer to shop freely inside an air-conditioned environment. Moreover, it seems unreasonable that the rents of the seven shops in 2007 are lower than those in 1990. **As the TID Tower is located in a prime commercial location, Audit considers that there is a need to enhance the commercial value of the shops on the ground floor so as to maximise the return on the Government's investment.**

2.28 **Audit has recommended that the Government Property Administrator should take measures (e.g. holding marketing promotion activities and improving the shopping environment) to enhance the commercial value of the shops on the ground floor of the TID Tower.**

Response from the Administration

2.29 The **Government Property Administrator** generally accepts the audit recommendation. He has said that:

- (a) the significant decrease in rent in respect of some shops in the TID Tower is mainly due to the construction of an elevated pedestrian walkway system over Mong Kok Road and its connecting escalators/lift, and the removal of a pedestrian crossing connecting the south and the north of Mong Kok Road in 2003; and
- (b) notwithstanding the plan to dispose of the whole TID Tower in 2013 upon relocation of all government offices in the TID Tower, the GPA is prepared to explore means to enhance the attractiveness of the shops to retailers in the interim but considers that there is very limited room for manoeuvre. Rental values of high street shops depend very much on the pedestrian flow in front of the shops, which can vary a lot from one stretch to another of the same street and even around the corner. However, the level of pedestrian flow in front of a high street shop is outside the control of its owner. There is very limited space not occupied by shops on the ground floor (mainly lift lobby and fire escape) available for improving the shopping environment.

PART 3: MANAGEMENT AND REPORTING OF IDENTIFIED COMMERCIALISATION OPPORTUNITIES

3.1 This PART examines the management and reporting of identified commercialisation opportunities by the GPA and suggests measures for improvement.

Processing of identified commercialisation opportunities

3.2 The SUD of the GPA is responsible for the commercial letting of government properties and management of tenancies or licences. According to the GPA Manual, the processing of identified commercialisation opportunities in respect of commercial letting by the GPA is as follows:

- (a) **Commercial viability.** The SUD conducts site inspections and decides on the appropriate trade for commercialisation. The SUD consults the Technical Services Division of the GPA or the Architectural Services Department (ArchSD) on the technical feasibility and conducts a cost-benefit analysis of the proposed letting;
- (b) **Tender documents.** The SUD drafts the tender documents, including the tender notice, licence agreement and location plan of the proposed letting;
- (c) **Consultation.** The SUD issues the draft tender documents to the relevant parties for comments. Extensive consultations both within the GPA and with the relevant departments or parties (such as the Planning Department, the Lands D, the ArchSD, the District Office and the building management committee concerned) are necessary before tendering. Planning permission is required from the Town Planning Board if the proposed commercial use does not conform to the zoned use;
- (d) **Tender notice.** The SUD gazettes the tender notice, and advertises it in the local press and on GPA website. Government properties for commercial use are generally let out by open tender for a period of three years; and
- (e) **Award of tender.** The SUD evaluates tenders received and submits the tender report to the relevant tender authority for approval. The SUD follows up the post-tender formalities, arranges the execution of tenancy or licence agreement, and the handover of the premises to the successful tenderer.

The SUD undertakes the tenancy management of the letting and re-tendering of government properties.

Audit observations and recommendations

Delay in processing an identified commercialisation opportunity

3.3 Audit found that there was an undue delay in the processing of an identified commercialisation opportunity by the SUD. In January 2004, the Leisure and Cultural Services Department (LCSD) informed the GPA that an advertising agent had expressed interest in using the external fence wall of the Mong Kok Stadium facing Boundary Street (see Photograph 3) for displaying outdoor advertisements. In July 2004, after site inspections, the SUD proposed to let out the external fence walls of the Mong Kok Stadium facing Boundary Street and Flower Market Road for outdoor advertisements. However, after the drafting of the tender documents in July 2004, no proper follow-up action was taken by the SUD to pursue the case until April 2007. A chronology of key events of the commercialisation opportunity at the Mong Kok Stadium is shown in Appendix E.

Photograph 3

The external fence wall of the Mong Kok Stadium facing Boundary Street



Source: Photograph taken by Audit in March 2008

3.4 In April 2007, the SUD found that the commercialisation opportunity at the Mong Kok Stadium had not been followed up since 2004. The SUD proposed a tender for a licence of the advertising area on the external fence wall of the Mong Kok Stadium facing Boundary Street. In September 2007, the SUD issued letters to 32 potential bidders asking for their expression of interest in bidding for the proposed tender. In response, four companies indicated that they might be interested in bidding.

3.5 **Audit noted that the SUD had not followed up the commercialisation opportunity at the Mong Kok Stadium for an unduly long period of three years. In Audit's view, the financial benefits of the proposed tender for the commercialisation opportunity have been adversely affected and there are revenue implications to the Government. The SUD needs to process all identified commercialisation opportunities promptly in order to protect government revenue.**

Monitoring of identified commercialisation opportunities

3.6 The undue delay in the processing of the identified commercialisation opportunity at the Mong Kok Stadium indicated that this opportunity had not been monitored closely by the GPA. To keep track of the results and monitor the progress of identified commercialisation opportunities, the SUD maintains a list of these opportunities for each year. The SUD updates the progress of each case included in these lists on a quarterly basis.

3.7 Audit noted that the Mong Kok Stadium was included in the list of identified commercialisation opportunities for 2005. The remarks on the progress of this case were "Tender under consideration" in November 2005 and "Draft tender document is being prepared and to be circulated to department for comments" in August 2006. In April 2007, the SUD found that the case had not been followed up since July 2004. In May 2007, the progress of the case was reported as "Draft tender document is under circulation to departments for comments".

3.8 Although the progress of the case was updated quarterly, the actual status of the case was not reported and the management was not aware of the delay. **In Audit's view, the remarks on the progress of the identified commercialisation opportunities were inadequate for management control purposes. For management control purposes, the SUD needs to provide additional information (such as target and actual completion dates of each case, and reasons for variances at different stages) to facilitate the monitoring of the progress of the cases. The SUD also needs to step up its efforts in monitoring the progress of identified commercialisation opportunities and ensure that all cases are promptly and duly processed.**

Measures to protect government revenue

3.9 In June 2003, to protect government revenue, the Deputy Government Property Administrator instructed the following:

- (a) if recommendations were made for not pursuing the identified commercialisation opportunities in respect of the handling of:

- (i) new vacant surplus properties which had never been let out before, the Head of the SUD could approve the recommendations, and the Deputy Government Property Administrator should be informed; and
 - (ii) renewal cases or properties which were let out, the decisions of the Head of the SUD had to be endorsed by the Government Property Administrator via the Deputy Government Property Administrator. Properties which were let out had commercial values and the GPA should be cautious for deciding not to process further letting. However, for cases with an estimated monthly rental of less than \$10,000, the Head of the SUD could approve the recommendations; and
- (b) the instructions in (a) were interim skeleton standing instructions and the SUD should draft the detailed instructions within two months.

3.10 In August 2003, the SUD submitted the draft detailed instructions to the Deputy Government Property Administrator for comments. In March 2004, the Deputy Government Property Administrator instructed the SUD to improve and revise the draft detailed instructions. As at 31 December 2007, after a lapse of nearly four years, there was no further development. **Audit considers that the GPA needs to review the circumstances leading to the prolonged delay in finalising the detailed instructions and introduce measures to expedite the issue of the instructions.**

3.11 Audit noted that the instructions specified by the Deputy Government Property Administrator in June 2003 did not apply to the letting of advertising areas. Audit review found that, in two cases, the case officers had recommended not to proceed further with the identified commercialisation opportunities of letting out advertising areas. The recommendations were approved by the supervisors instead of the Head of the SUD, and the Deputy Government Property Administrator was not informed of the decisions. A chronology of key events of the two cases of commercialisation opportunities is shown in Appendix F. **Audit considers that the GPA needs to ensure that the management instructions cover all commercialisation opportunities, including the letting of advertising areas, and its staff comply with the management instructions in order to protect government revenue.**

3.12 **Audit has recommended that the Government Property Administrator should:**

Delay in processing an identified commercialisation opportunity

- (a) **process all identified commercialisation opportunities promptly in order to protect government revenue;**

Monitoring of identified commercialisation opportunities

- (b) provide additional information (such as target and actual completion dates of each case, and reasons for variances at different stages) to facilitate the monitoring of the progress of the cases;
- (c) step up efforts in monitoring the progress of identified commercialisation opportunities and ensure that all cases are promptly and duly processed;

Measures to protect government revenue

- (d) review the circumstances leading to the prolonged delay in finalising the detailed instructions and introduce measures to expedite the issue of the instructions; and
- (e) ensure that the detailed instructions cover all commercialisation opportunities, including the letting of advertising areas, and GPA staff comply with the management instructions in order to protect government revenue.

Response from the Administration

3.13 The **Government Property Administrator** generally accepts the audit recommendations. He has said that:

Delay in processing an identified commercialisation opportunity

- (a) the case quoted by Audit is an isolated incident. The GPA agrees that work on cases identified as having commercialisation opportunities should be followed up as soon as practicable;
- (b) systems and plans have been in place since 2006 to closely monitor the progress of identified commercialisation opportunities. This practice has been formalised in a Technical Circular issued in February 2008. The case mentioned was in fact captured by the new system;

Monitoring of identified commercialisation opportunities

- (c) since late 2007, the progress of identified commercialisation opportunities has been updated and discussed at the monthly Divisional Meeting chaired by the Head of the SUD. The inadequacy in the management control of the progress of identified commercialisation opportunities should have been addressed by the management's improved monitoring on a monthly basis;

- (d) the Technical Circular issued in February 2008 formalises the practice, which has been in place since late 2007, of requiring officers to update the progress of all newly identified commercialisation opportunities;

Measures to protect government revenue

- (e) the reason for not finalising the detailed instructions was due to other competing priorities and the fact that there were not many cases requiring implementation of the instructions in the past few years;
- (f) it has been the GPA’s practice for some time that a recommendation of not pursuing a newly identified commercialisation opportunity (i.e. the letting of advertising areas) should be approved by the Head of the SUD; and
- (g) a Technical Circular, issued in March 2008, covers all the existing practice in respect of commercialisation opportunities, including the letting of advertising areas not covered by the interim skeleton standing instructions. The Circular also formalises the existing practice that all proposals not to pursue newly identified commercialisation opportunities should be approved by the Head of the SUD.

Performance information in the Controlling Officer’s Report

3.14 *Controlling Officer’s Report (COR).* A COR provides performance information on the various programme areas of a government department. The setting of performance measures (i.e. indicators and targets) helps enhance government performance, transparency and accountability.

3.15 *GPA CORs.* The number of government premises identified as having new commercialisation opportunities, shown in GPA 2007-08 COR as a performance indicator, is shown in Table 3.

Table 3

Number of new commercialisation opportunities in GPA 2007-08 COR

Performance indicator	2005	2006	2007
	(Actual)	(Actual)	(Estimate)
Government premises identified as having new commercialisation opportunities	24	25	22

Source: GPA 2007-08 COR

Audit observations

Need to ensure the accuracy of performance information in CORs

3.16 Audit found that 6 out of the 71 cases identified as having new commercialisation opportunities for 2005, 2006 and 2007 in GPA 2007-08 COR were repeatedly treated as new cases in different years. Details are shown in Appendix G. **Audit considers that the GPA needs to include only newly identified commercialisation opportunities in GPA CORs.**

Need to disclose more relevant performance information in CORs

3.17 The GPA monitors the progress of identified commercialisation opportunities on a quarterly basis and indicates the realised opportunities in the lists of identified commercialisation opportunities for each year. The number of realised opportunities indicates the effectiveness of the GPA's performance in implementing the identified opportunities. According to the guidelines issued by the Financial Services and the Treasury Bureau (FSTB) on the reporting of performance information in CORs, Controlling Officers should focus on relevant information to reflect the effectiveness of their operations. Audit noted that the numbers of realised commercialisation opportunities were two in 2005, seven in 2006 and six in 2007. **In Audit's view, the GPA needs to consider providing more information, such as the target and actual number of realised commercialisation opportunities as well as explanations for any significant variances, in GPA CORs.**

Response from the GPA

3.18 In March 2008, in response to audit enquiries, the GPA said that:

- (a) newly identified commercialisation opportunities reported in GPA CORs refer to cases which do not have an existing commercial tenancy. The indicator reflects the efforts to be spent on these cases in establishing the feasibility of commercialisation. They are different from the efforts required on the on-going cases. To protect the Government's interest and revenue, the GPA is obliged to review cases which could not be leased out having regard to changes in circumstances and market trends. Cases (5) and (6) shown in Appendix G were cases involving canteens which could not be leased out in 2003. The GPA was obliged to revisit these cases upon the expiry of the service contract granted by the Head of Department and they were hence included in its 2007-08 COR. Cases (2) and (3) shown in Appendix G were shops within a purpose-built shopping arcade, and the GPA was obliged to lease them out. When these shops could not be leased out in one round of tender, the GPA explored ways to improve their commercialisation potential, including consideration of engaging a single principal tenant, making the use of the shops more specific, and expanding the allowable uses to increase their marketability in the next rounds of tenders;

- (b) a Technical Circular was issued in February 2008 to formalise the existing practice and intention for the CORs. The GPA will continue to report in GPA CORs cases which do not have an existing commercial tenancy as newly identified commercialisation opportunities in order to fully reflect the efforts spent by the GPA; and
- (c) the number of newly identified commercialisation opportunities that can be realised is bound to be diminishing. Factors resulting in these newly identified commercialisation opportunities not being realised are usually outside the control of the GPA. In this connection, it would not be appropriate to include the number of realised cases in GPA CORs.

PART 4: UTILISATION OF VACANT AND SURPLUS GOVERNMENT PROPERTIES

4.1 This PART examines the GPA's efforts in optimising the utilisation of vacant government properties and the handling of surplus specialist departmental buildings, and suggests measures for improvement.

Government premises in private developments

4.2 Government premises (e.g. public transport interchanges, community centres and government offices) may be provided in private developments under lease conditions imposed by the Lands D in connection with land sale, land grant or exchange. The grantee of the land is normally entrusted to construct the premises and assign the completed premises to the Financial Secretary Incorporated (FSI — Note 6). The GPA, on behalf of the FSI, liaises with government departments and deals with the Government's rights and obligations under the land lease, assignment and deed of mutual covenant (DMC — Note 7) in respect of the completed premises.

Two vacant premises vested in the FSI

4.3 Audit review of the government-owned premises register of the GPA found that the following two premises, located in private developments and vested in the FSI, had remained vacant for a long period of time:

- (a) **Building A.** In February 1980, the MTR entrance/exit areas in the basement (224 square metres) and on the ground floor (74 square metres) of Building A were assigned to the then Colonial Treasurer Incorporated (now the FSI). In 1981, the premises in Building A were no longer required by the MTR Corporation for use as MTR entrance/exit areas. The GPA took over the premises in 1990. As at 31 December 2007, the GPA could not find options to put the premises to other gainful uses. A chronology of key events is shown in Appendix H; and

Note 6: *The FSI is a corporation incorporated under the Financial Secretary Incorporation Ordinance (Cap. 1015). It has the capacity to acquire and to dispose of government lands/properties and to execute deeds and agreements.*

Note 7: *The DMC is a legal document binding the building owners. It sets out the rights, interests and obligations of the owners, occupiers, tenants and property management agents in respect of the control, administration, maintenance and management of private properties, common parts and facilities of buildings.*

- (b) **Building B.** In December 1982, the MTR entrance/exit areas in the basement (113 square metres) and on the ground floor (72 square metres) of Building B were assigned to the then Colonial Treasurer Incorporated. The GPA took over the premises in 1992. As at 31 December 2007, the GPA could not find options to put the premises to other gainful uses. A chronology of key events is shown in Appendix I.

Building A

Attempts to dispose of the premises or put them to other gainful uses

4.4 ***Request for a re-grant of the premises.*** In 1981, the developer of Building A asked for a re-grant of the premises as the premises were no longer required for use as MTR entrance/exit areas. In January 1982, the then Secretary for Lands and Works (now the Secretary for Development) approved the assignment of the premises to the developer at full market value. After a series of consultations with the then Building Development Department (now the BD) and the Lands D, the matter was finally referred to the Building Authority for approval in August 1983. The Building Authority decided that the premises should remain in public ownership and that only short-term waiver (i.e. to allow the use of the premises other than that permitted under the lease) or direct government use would be acceptable. As a result, the developer's request for a re-grant of the premises was rejected.

4.5 ***Letting of the premises for welfare use.*** In May 1990, there was a proposal to let out the premises to a non-government organisation. In November 1991, because of problems including water seepage, the Social Welfare Department informed the GPA that the non-government organisation had rejected the proposal.

4.6 ***Letting of the external wall of the premises for advertisement.*** In November 1990, the GPA found that the adjoining shop had placed a shop plate and advertisement on the external wall of the ground floor of the premises. In June 1995, the shop owner made a request to lease the external wall for advertisement, but the request was rejected because it might not be possible for the FSI to assign the right to the shop owner.

4.7 ***Letting of the premises for commercial use.*** In April 1995, a complaint was lodged by the management company of Building A in respect of an unauthorised occupation of the basement of the premises. In June 1995, the unauthorised occupant applied to the GPA to lease the premises for commercial use. After consulting the BD, the GPA rejected the request as it might not be appropriate to use the premises for commercial purposes.

Audit observations

Need to consult the BD

4.8 The Building Authority's decision in 1983 (see para. 4.4) restricted the use of the premises in Building A to short-term waiver or direct government use. The proposals for using the external wall for advertisement and the premises for commercial use in 1995 were rejected. Audit notes that under section 41 of the Buildings Ordinance (Cap. 123), buildings belonging to the Government (i.e. including the premises vested in the FSI) shall be exempt from the provisions of the Buildings Ordinance. **In Audit's view, the GPA needs to clarify with the BD as to whether the premises may be put to commercial use through short-term waiver.**

Need to resolve the water seepage problem

4.9 The non-government organisation rejected the proposal to lease the premises mainly due to the water seepage problem. Audit noted that, up to 31 December 2007, the Government and the Incorporated Owners of Building A (IOBA) were in dispute over the legal responsibility for rectifying the water seepage problem. Water seepage is still a hurdle to letting out the premises. **Audit considers that the GPA needs to resolve the dispute over the legal responsibility for the water seepage in the basement of Building A and rectify the water seepage problem.**

Need to take prompt action on unauthorised use of government premises

4.10 The premises in Building A were used without authorisation on two occasions. On the first occasion, the GPA discovered an unauthorised advertisement on the external wall of the ground floor in November 1990. In June and July 2000, after a lapse of almost ten years, the GPA issued a notice to the unauthorised occupant to remove the advertising sign and requested reinstatement. In November 2000, the advertising sign was demolished by the ArchSD. On the second occasion, the GPA was not aware of the unauthorised occupation of the basement since October 1994 until after the receipt of a complaint in May 1995. The GPA resumed possession of the basement in October 1995. **Audit considers that the GPA needs to monitor closely the unused MTR entrance/exit areas located in private developments and prevent the unauthorised use of these government premises.**

Building B

Attempts to dispose of the premises or put them to other gainful uses

4.11 *Letting of the premises for retail use.* In January 1992, the GPA proposed to let out the premises for retail use. In February 1992, the BD commented that it was difficult to provide a secondary means of escape in the basement. The GPA's proposal was dropped.

4.12 *Allocation of the premises for government use.* In September 1992, the GPA offered the premises to the Hong Kong Police Force (HKPF) for storage. In October 1992, the HKPF informed the GPA that the premises were not suitable for storage due to security problem and the risk of flooding (see para. 4.16).

4.13 *Letting of the premises for welfare use.* In February 1993, the GPA and the Social Welfare Department conducted a joint visit to the premises with a view to assessing whether the premises were suitable for use as a home help and child care centre. After the site visit, the Social Welfare Department informed the GPA that the premises were not suitable.

4.14 *Using the premises as a cash point, for panel advertising or display boxes.* In February 2000, the Acquisition, Allocation & Disposal Division of the GPA advised the SUD that government departments had no interest in using the premises. It suggested that the premises could possibly be used as a "cash point" (e.g. space for automatic teller machines), for panel advertising or display boxes.

Audit observations

Need to explore the use of the premises as a cash point, for panel advertising or display boxes

4.15 Audit noted that, after a lapse of eight years, the GPA had not explored the option of using the premises as a cash point, for panel advertising or display boxes. **Audit considers that the GPA needs to explore the option so as to put the premises to other gainful uses.**

Need to expedite action to resolve the water seepage problem

4.16 Water seepage is a hurdle to putting the premises to other gainful uses. In March 2005, the GPA was of the view that the Incorporated Owners of Building B (IOBB) should bear the cost of repairs to prevent water seepage. In July 2006, the IOBB declined to provide assistance in resolving the water seepage problem. Up to 31 December 2007, the dispute over the responsibility for stopping the water seepage remained unresolved. The ArchSD had to regularly incur expenses on de-watering works. **Audit considers that the GPA needs to resolve the dispute over the legal responsibility for rectifying the water seepage problem so as to minimise government expenditure on the de-watering works.**

Audit enquiries

4.17 In January 2008, in response to audit enquiries on the various management issues in respect of Building A and Building B, the GPA said that:

Building A

- (a) while according to the assignment, the basement and the ground floor had an area of 224 square metres and 74 square metres respectively, there was no floor slab separating the basement and the ground floor. The ArchSD had advised that it was technically not feasible to construct a new floor slab;
- (b) between 1980 and 1990, the Lands D took actions to put the premises to alternative uses but without success. After taking over the premises in 1990, the GPA continued the actions and tried to put the premises to alternative uses until 1995 when it became clear that they were not suitable for any uses other than as MTR entrance/exit areas;
- (c) it was not possible to put the premises to any other uses and the GPA had no plan to do so due to the following reasons:
 - (i) according to the DMC and the occupation permit, the areas could only be used for MTR entrance/exit purposes. The view was taken that any variation or amendment to the subject DMC had to be agreed and executed by all the co-owners. The GPA was not aware of any successful cases in amending the DMC where developments were owned by different owners and the chance of obtaining such an agreement was remote;

- (ii) as the MTR entrance/exit areas had not been counted for plot ratio calculation in the originally approved building plans, amendment of the occupation permit to allow commercial use for the MTR entrance/exit areas would render the total gross floor area of the building exceeding that permitted under the Buildings Ordinance. This was unlikely to be acceptable to the BD. While the BD had suggested putting the premises to government, institution and community, or non-commercial use, there was no taker from either government departments or non-government organisations;
- (iii) inadequate means of escape rendered it very difficult to put the basement to any alternative uses;
- (iv) as there was no floor slab for the ground floor and the ArchSD had advised that there was a structural problem in building a floor slab, it was not feasible to put the ground floor to any alternative uses;
- (v) no building services such as electricity, water and air-conditioning had been provided in the premises. Without these basic building services, it was not feasible to put the premises to any alternative uses; and
- (vi) while the existing water pump had temporarily mitigated flooding of the basement, the root of the problem remained unresolved;

Building B

- (d) the GPA did not take up the premises until 1992. Between 1982 and 1992, the Lands D took actions to put the premises to alternative uses but without success. After taking over the premises, the GPA continued the actions and tried to put the premises to alternative uses until 2002 when the GPA decided not to proceed with the letting and locked up the premises due to technical difficulties and unavailability of essential building services. In 2004, the IOBB wrote to the GPA about the flooding of the basement. While discussing with the IOBB on resolving the water seepage problem, the GPA took the opportunity to reconsider letting out the premises. However, it became clear that the premises could not be put to any uses other than as MTR entrance/exit areas. The GPA decided on 1 April 2005 not to proceed with any commercialisation; and
- (e) due to the following reasons, it was considered not possible to put the premises to any other uses and the GPA had no plan to do so:

- (i) the Deed made between the then registered owner and the FSI stipulated that the premises were to be reserved for MTR purposes and building concession had been granted by the Building Authority. Similar to Building A, as the MTR entrance/exit areas had not been counted for plot ratio calculation in the originally approved building plans, amendment of the occupation permit to permit commercial use for the areas would render the total gross floor area of the building exceeding that permitted under the Buildings Ordinance. This was unlikely to be acceptable to the BD;

- (ii) according to the BD:
 - the use of the premises for MTR purposes was specified and no other use was mentioned in the Deed. The Government, in altering the use of the premises, undermined the grounds for granting the concessions. This situation was undesirable from an administrative point of view. Basically, there was no restriction on the use of the premises under the Buildings Ordinance. The use had to comply with provisions of the Buildings Ordinance, other legislation and lease. However, there were contractual and administrative implications. Without resolving these questions, the premises should not be put to any other uses; and

 - the use specified in the occupation permit was the use shown on the approved plans at the time of issuing the occupation permit. The use could be changed subject to compliance with the Buildings Ordinance, other legislation and lease;

- (iii) due to the unsatisfactory means of escape in the basement, it was not feasible to put it to any alternative uses;

- (iv) the Planning Department had advised that the premises could be used for office purposes. However, storage use, other than storage ancillary to office use, was not permitted. Due to the lack of windows and difficulties in providing air-conditioning and toilet/access for disabled persons, the ArchSD had advised that the premises were not suitable for government office use;

- (v) no chiller water connection was allowed by the management company of the building as it was fully utilised. The proposal to install split type air conditioners on external walls was rejected by the management company;

- (vi) the water seepage problem which remained unresolved due to the dispute over the responsibility between the FSI and the IOBB also rendered it not feasible to put the premises to other gainful uses; and
- (vii) without resolving the question of building concessions, the premises should not be put to any other uses.

It would appear that the issue of building concessions (see (c)(ii) and (e)(i) above) depends on whether FSI premises are exempt from the Buildings Ordinance (see para. 4.8). In Audit's view, the GPA needs to resolve all the outstanding issues, including the issue of building concessions. The GPA needs to consult the Department of Justice and the relevant government departments, and explore options to put the premises to other gainful uses or dispose of them by sale.

Building C

4.18 In November 2007, the Transport and Housing Bureau, in response to an enquiry of a local newspaper about the status of the unused MTR entrance/exit areas located in private developments and reserved for the West Island Line development project, said that:

- (a) according to the original development proposal of the MTR Corporation, four premises in private developments were required to be reserved as MTR entrance/exit areas. Two premises, one in Building B and another in Building C, were owned by the Government; and
- (b) the MTR Corporation subsequently revised the alignment of the development project. According to the revised development proposal, only one privately-owned premises would be required for the development project.

4.19 In normal circumstances, the developers of private developments assign the completed government accommodation to the FSI under the land sale or grant conditions. The GPA, as the representative of the FSI, is responsible for all the management issues of unused MTR entrance/exit areas vested in the FSI. Unlike the practice of Building A and Building B, the reserved MTR entrance/exit areas in Building C were not assigned to the FSI and were not included in the GPA's government-owned premises register. In January 2008, in response to audit enquiries, the GPA said that the reserved MTR entrance/exit areas in Building C:

- (a) were not managed by the GPA; and

- (b) were assigned to “the Government of Hong Kong” in July 1994 and the assignment was signed by the Director of Buildings.

Audit observations and recommendations

Need to properly manage the areas reserved for MTR entrance/exit

4.20 Audit enquiries indicated that the BD was responsible for managing the MTR entrance/exit areas in Building C and that these areas had been left vacant since 1994. **As all the other reserved MTR entrance/exit areas vested in the FSI are managed by the GPA, Audit considers that, for proper control purposes, the BD and the GPA need to consider the feasibility of transferring the management of the premises in Building C to the GPA. They also have to explore options to put the premises to other gainful uses, and consider the need for assigning the premises to the FSI.**

4.21 **Audit has recommended that the Government Property Administrator should:**

Building A and Building B

- (a) **in consultation with the Department of Justice and the relevant government departments, explore options to put the premises to other gainful uses;**
- (b) **explore the use of the premises as a cash point, for panel advertising or display boxes, and clarify with the Director of Buildings as to whether the premises may be put to commercial use through short-term waiver;**
- (c) **in consultation with the Department of Justice, resolve the dispute over the legal responsibility for the water seepage and rectify the water seepage problem in both premises;**

General

- (d) **monitor closely the unused MTR entrance/exit areas located in private developments and prevent the unauthorised use of these government premises; and**
- (e) **introduce measures to ensure that all the unused MTR entrance/exit areas located in private developments, assigned to the Government or vested in the FSI, are included in the government-owned premises register of the GPA.**

4.22 **Audit has recommended that the Director of Buildings and the Government Property Administrator should jointly:**

Building C

- (a) **consider the feasibility of transferring the management of the reserved MTR entrance/exit areas to the GPA;**
- (b) **explore options to put the premises to other gainful uses; and**
- (c) **consider the need for assigning the premises to the FSI.**

4.23 **Audit has recommended that the Director of Lands should, based on the advice from the Government Property Administrator and the Director of Highways, make provisions for other gainful uses in lease conditions in case future reserved MTR entrance/exit areas, located in private developments and vested in the FSI, are no longer required for the designated purposes.**

Response from the Administration

4.24 **The Government Property Administrator generally accepts the audit recommendations. He has said that:**

Building A and Building B

- (a) the GPA will, in consultation with the BD, the Department of Justice and other relevant government departments, explore options to put the premises to other gainful uses. However, apart from the building concession issue, there are other constraints, including restricted use for MTR purpose imposed by the relevant agreement or DMC, which may render it impossible to put the premises to other gainful uses. The BD is now prepared to revisit the issue as to whether the MTR entrance/exit areas could be put to other gainful uses;
- (b) the premises cannot be used as a cash point, for panel advertising or display boxes unless the questions of restricted use for MTR purposes and building concessions have been resolved;
- (c) the GPA has been liaising closely with the ArchSD to monitor the situation of water seepage. The GPA will keep on monitoring the situation closely;

- (d) the GPA is now seeking legal advice from the Department of Justice regarding the legal responsibility for the water seepage;

General

- (e) for the MTR entrance/exit areas under the GPA's management, it will continue to monitor closely to prevent unauthorised occupation;
- (f) the GPA will, in consultation with the relevant bureaux and departments, update its register to include government-owned unused MTR entrance/exit areas located in private developments;

Building C

- (g) regarding the audit recommendations mentioned in paragraph 4.22(a) and (b), the GPA is prepared to assist the BD in identifying alternative uses including commercialisation if the BD confirms that the MTR entrance/exit areas in Building C can be put to alternative uses without breaching the Buildings Ordinance or other agreements. The GPA will also liaise with the BD on the possibility of managing the premises on behalf of the BD;
- (h) regarding the audit recommendation mentioned in paragraph 4.22(c), the GPA has no objection to study the need for assigning the premises to the FSI. As the MTR entrance/exit areas have already been assigned to the Government, it appears that assigning the premises to the FSI is unnecessary and will not help put the premises to other gainful uses; and

Audit recommendation mentioned in paragraph 4.23

- (i) the GPA is prepared to work with the Lands D and the Highways Department to make provisions for other gainful uses in lease conditions in case future reserved MTR entrance/exit areas, located in private developments and vested in the FSI, are no longer required for the designated purposes.

4.25 The **Director of Architectural Services** supports the audit recommendations mentioned in paragraphs 4.21(a) and 4.23. He has said that:

- (a) in general, the ArchSD will give technical advice to the GPA as and when necessary on building-related matters of government buildings; and

- (b) the ArchSD will assist the GPA as and when required to explore options to put the premises to other gainful uses.

4.26 The **Director of Buildings** has said that:

Building A and Building B

- (a) regarding the audit recommendations mentioned in paragraph 4.21(a) and (b), the BD will cooperate with the GPA and other relevant government departments and, in consultation with the Department of Justice, provide input from the perspective of compliance with the Buildings Ordinance; and

Building C

- (b) he agrees with the audit recommendations mentioned in paragraph 4.22. The assignment in respect of the MTR entrance/exit areas in Building C was signed by the Director of Buildings on behalf of the Government. The GPA is the appropriate government agency to manage premises assigned to the Government. The BD will cooperate with the GPA in the follow-up actions.

4.27 The **Director of Lands** agrees with the audit recommendation mentioned in paragraph 4.23. She has said that:

- (a) reservation for MTR entrance/exit areas in private developments is made at the request of the Highways Department. For future reserved MTR entrance/exit areas located in private developments, the Lands D will, based on the instructions from the Highways Department and the GPA, make provisions for these areas to be used for other gainful uses when preparing the lease conditions for such developments; and
- (b) with a view to eliminating the problem of making such reservation redundant due to a revision of the alignment of the project, the Highways Department should, as far as possible, finalise the alignment of the project before requesting such reservation in private developments.

4.28 The **Director of Highways** agrees with the audit recommendation mentioned in paragraph 4.23. He has said that:

- (a) the railway alignment will not be finalised until the railway scheme is authorised by the Executive Council. The purpose of making the necessary reservation for the railway schemes prior to authorisation and finalisation is to minimise

disruption, abortive work and unnecessary resumption/compensation cost for railway schemes to be delivered at a later stage. The absence of any such reservation may also render the best option not feasible. This is certainly not in the public interest;

- (b) the most practicable approach is to make the best judgement at the time when any reservation is made, and to include the necessary provisions in the lease conditions for other gainful uses for reserved areas when they are no longer required for the designated purposes;
- (c) in future cases where there are reserved MTR entrance/exit areas in private developments, the Highways Department will advise the Lands D to incorporate provisions for other gainful uses of these areas into the lease conditions; and
- (d) the Highways Department will inform the parties concerned as soon as such reserved areas are no longer required for the designated purposes.

Handling of surplus specialist departmental buildings

4.29 From time to time, the GPA is requested by government departments to take over the management of surplus specialist departmental buildings. Since 2002, the GPA had declined to take over 28 surplus specialist departmental buildings (Note 8). These buildings were usually provided, at the user departments' initiative, on land directly allocated to the user departments. They were designed to meet the specific operational requirement of the user departments. Given the unique layout and design of the specialist departmental buildings, it would be difficult to put such surplus buildings to alternative beneficial uses economically. The GPA considered that it should not be saddled with such surplus buildings, which could not be put to alternative uses, because it did not have the resources to meet the management and maintenance costs. The GPA considered that, since such buildings were provided specifically for use by user departments with the support of bureaux, the responsibility for managing these surplus buildings should rest with the user departments. However, the user departments were aggrieved to be asked to manage these properties because such activities were not their core business. In June 2004, the HKPF, in response to the GPA's reluctance to take over the management of two surplus police stations, warned that the conditions of the buildings were deteriorating rapidly because they had been left unmanaged.

Note 8: *The surplus specialist departmental buildings did not include the vacant surplus schools handled by the Education Bureau (formerly the Education and Manpower Bureau). As at 31 May 2007, 33 school premises not suitable for education purposes were returned or being returned to the Lands D for disposal in accordance with the established policy.*

4.30 In June 2005, the FSTB, in conjunction with the GPA, prepared a Property Strategy Group (PSG — Note 9) paper with the following detailed proposals on the handling of surplus specialist departmental buildings:

- (a) free-standing surplus departmental/specialist properties should first be considered for returning, together with the site, to the Lands D. Only when the Lands D had confirmed that the sites were not required for other uses for a reasonable period and the buildings were safe for occupation would the GPA then consider circulating the information about the availability of the properties for other alternative uses or commercialisation. In cases where the properties concerned were clearly identified as not suitable for alternative uses or commercialisation, their ownership and management should remain with the user departments until they were returned to the Lands D for disposal;
- (b) as regards the funding arrangement of surplus properties for interim use, the user departments should be required to transfer the funding which the managing department would require for subsequent management and maintenance and for putting the premises to alternative uses; and
- (c) where it was subsequently found that after much effort, there was no alternative government use or prospect of commercialisation on economic grounds, it should be for the Lands D to see whether the site would be suitable for land disposal and for the Planning Department to see whether the site could be reserved for or re-zoned to other land uses.

4.31 In June 2005, at a PSG meeting to discuss the PSG paper, the Permanent Secretary for Financial Services and the Treasury (Treasury) suggested that the aim should be to rationalise the procedures and to develop an approach which would be most efficient and cost-effective from the overall government perspective. The PSG planned to promulgate an Accommodation Circular to implement the new arrangements. In January 2006, the FSTB advised the Security Bureau and the HKPF on the relinquishing of vacated police facilities that:

- (a) they were taking a holistic view of the problem and exploring options with a view to arriving at a satisfactory solution which was in the best interest of the Government. However, this had taken time; and

Note 9: *The PSG is chaired by the Permanent Secretary for Financial Services and the Treasury (Treasury). Its members comprise officers from the GPA, the Development Bureau (formerly the Housing, Planning and Lands Bureau), the FSTB, the Home Affairs Department, the ArchSD and the Planning Department. It is responsible for deciding on policies and strategies for the optimum utilisation of government sites, and monitoring all actions taken to optimise site utilisation.*

- (b) as an interim measure, the HKPF should continue to bear responsibility for the management of the vacant police stations. The GPA would offer to assist in identifying alternative users.

Latest developments

4.32 At another meeting of the PSG held in December 2006, the GPA advised that it had discussed with government departments to further examine the 2005 proposals on the handling of surplus specialist departmental buildings. The GPA would prepare a draft paper on the basis of the discussion. In July 2007, the GPA advised the FSTB that:

- (a) an examination of the 28 surplus specialist departmental properties in the hands of user departments revealed that 19 properties were no longer required to be dealt with mainly because they were still in use by government departments or were already on the Application List for land sale;
- (b) the remaining 9 surplus properties were vacant, and temporary use and management of these vacant premises would need to be reviewed; and
- (c) the GPA proposed to refine the proposals. Subject to the PSG's views on the refined proposals, it was planned to promulgate the new arrangements for implementation by an Accommodation Circular.

4.33 In November 2007, the GPA reached an agreement with the FSTB on the approach to be adopted to refine the proposals to be submitted to the PSG for consideration. Under the refined proposals, the land allocation would remain with the user departments so that they would continue to be accountable for their specialist departmental buildings. The GPA would provide professional support to assist user departments in exploring alternative uses and commercialisation opportunities. With a few exceptions, the GPA would also provide management services to specialist departmental buildings, with funding to be provided by user departments to cover the actual cost, so that departments would not be burdened with the management of such surplus buildings, which was not their core business. For such surplus buildings where, after much effort, there was no alternative government use or prospect of commercialisation on economic grounds, the GPA would assist user departments to decide whether to demolish the buildings by conducting a cost-benefit analysis.

Audit observations and recommendations

Need to expedite action to resolve the problem

4.34 After a lapse of two and a half years and as at 31 December 2007, the GPA had not finalised the arrangements for handling surplus specialist departmental buildings. **The PSG needs to expedite action to provide the GPA with strategic directions and support.**

4.35 **Audit has recommended that the Government Property Administrator should, in consultation with the Secretary for Financial Services and the Treasury:**

- (a) **resolve all the outstanding issues and finalise the arrangements for handling surplus specialist departmental buildings; and**
- (b) **urge the PSG to provide the GPA with strategic directions and support for handling surplus specialist departmental buildings.**

Response from the Administration

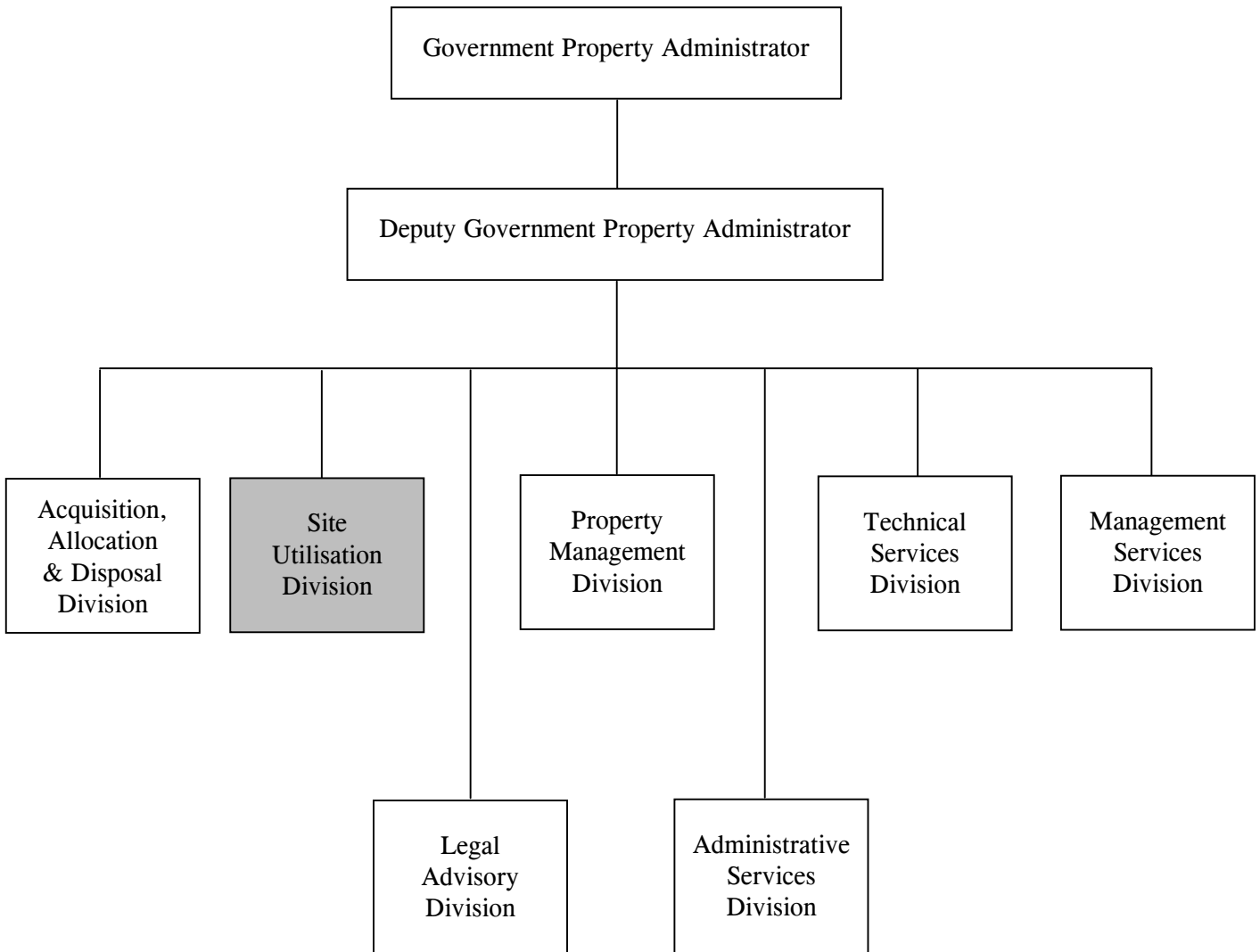
4.36 The **Government Property Administrator** accepts the audit recommendations. He has said that:


- (a) the GPA aims to develop a reasonable, holistic and cost-effective approach for handling departmental surplus accommodation. In the light of the experience gained in providing assistance to user departments for handling surplus accommodation, the GPA has made suggestions to refine the details of the proposed new arrangements;
- (b) the PSG recently held a meeting and decided on the arrangements for handling surplus specialist departmental buildings. An Accommodation Circular is being prepared and will be issued to set out the agreed arrangements; and
- (c) although the GPA did not take over the management of the surplus premises from the HKPF, the GPA did proactively assist the HKPF to put the surplus premises to alternative uses. A number of surplus police premises have been taken over by other government departments. There are no premises which have been left unmanaged and deteriorating.

4.37 The **Secretary for Financial Services and the Treasury** has said that:

- (a) the GPA, together with the FSTB, had worked out a paper setting out the refined proposals and submitted it to the PSG for consideration in early February 2008; and
- (b) the PSG, at its meeting held on 18 February 2008, endorsed the refined proposals and agreed that the GPA should issue an Accommodation Circular to promulgate the relevant arrangements.

Organisation chart of the Government Property Agency



Legend:  *Division responsible for handling matters relating to the efficient utilisation of government properties and the introduction of appropriate commercial activities in suitable government accommodation*

Source: *GPA records*

**Commercial potential of
the Trade and Industry Department Tower and the Queensway Plaza**

	TID Tower	Queensway Plaza
Location	Above the Mong Kok Mass Transit Railway (MTR) Station	Above the Admiralty MTR Station
Public thoroughfare	An elevated walkway connecting the Mong Kok MTR Station with the Mong Kok East Railway Station and a footbridge connecting the Argyle Centre Tower I	An enclosed elevated walkway connecting the Admiralty MTR Station with the Pacific Place and Central
Main activities in the area	A commercial retail centre	A commercial retail centre
Layout and design	The ground, the mezzanine, the first and the second floors: shopping use served by escalators and the office lift lobby on the second floor	An elevated walkway: shopping use
Use	Major portion of the ground floor: shops (the ground, the mezzanine, the first and the second floors: a shopping arcade before 1989)	A shopping mall

Source: GPA records

Comparison of monthly rent with
Rating and Valuation Department rental valuation
(1990)

TID Tower ground floor shop	RVD rental valuation (Note) (a) (\$ per month)	Rent through open tender (b) (\$ per month)	Variance (higher/lower than the rental valuation) $(c) = \frac{(b) - (a)}{(a)} \times 100\%$
A	160,000	138,000	14% lower
B	165,000	142,000	14% lower
C	22,000	27,000	23% higher
D	118,500	118,000	0.4% lower
E	22,000	22,000	Nil
F	60,000	85,000	42% higher
G	14,000	15,000	7% higher
H	47,500	51,000	7% higher
I	22,000	18,000	18% lower
J	77,000	100,000	30% higher
K	47,000	80,000	70% higher
L	33,000	38,000	15% higher
M	39,000	37,000	5% lower

Source: GPA records

Note: RVD rental valuation was based on letting of ground floor shops at Nathan Road, Sai Yeung Choi Street South and Mong Kok Road in 1990.

Appendix D
(paras. 2.25 and
2.26 refer)

**Monthly rents of the ground floor shops
in the Trade and Industry Department Tower
(1990 and 2007)**

Shop	Monthly rent per square metre		Increase/(decrease) in monthly rent	
	1990	2007	Amount	Percentage
	(a) (\$)	(b) (\$)	(c) = (b) - (a) (\$)	(d) = $\frac{(c)}{(a)} \times 100\%$ (%)
A	926	1,745	819	88
B	755	2,979	2,224	295
C	2,700	4,800	2,100	78
D	1,388	765	(623)	(45)
E	2,200	1,429	(771)	(35)
F	3,864	2,727	(1,137)	(29)
G	1,875	2,563	688	37
H	797	344	(453)	(57)
I	545	212	(333)	(61)
J	2,222	123	(2,099)	(94)
K	2,222	123	(2,099)	(94)
L	1,357	2,857	1,500	111
M	1,321	1,964	643	49

Source: GPA records

Remarks: From 1990 to 2007, the annual rental income increased by 38% (i.e. from \$10,452,000 in 1990 to \$14,422,152 in 2007). The rateable value of the ground floor shops in the TID Tower was \$15,021,000 in 2007-08.

Chronology of key events — Mong Kok Stadium

January 2004	The LCSD informed the GPA that an advertising agent had expressed interest in using the external fence wall of the Mong Kok Stadium facing Boundary Street for displaying outdoor advertisements.
March to June 2004	The SUD carried out site inspections at the Mong Kok Stadium.
July 2004	The SUD proposed to lease out the external fence walls of the Mong Kok Stadium facing Boundary Street and Flower Market Road for outdoor advertisements. The SUD prepared the draft tender documents.
April 2007	The SUD found that the case had not been followed up since 2004. According to GPA records, it was accorded with a low priority because there were other urgent cases. The SUD issued a draft tender for a licence of the advertising areas to the relevant departments and parties for comments. The SUD proposed to lease out the advertising areas by open tender for a period of three years.
May 2007	A Yau Tsim Mong District Council Member objected to the proposal because the lightings of the advertisements would affect residents nearby. The LCSD informed the SUD that there was a plan to redevelop the Mong Kok Stadium and the boundary fence was one of the possible reconstruction items. The LCSD suggested that the licence period of the advertising areas should be one year and could be terminated by prior notification of three to six months.
June 2007	The SUD advised the LCSD that: (a) taking into account the various considerations, the GPA would proceed with the proposed tender only for the external fence wall facing Boundary Street; and (b) the proposed one-year licence with an early termination clause of three to six months appeared too short. It would adversely affect the viability of the tender and would have revenue implications to the Government.
July 2007	The LCSD informed the SUD that the redevelopment at the Mong Kok Stadium was scheduled for the period from April 2009 to March 2011 and the boundary fence was one of the items in the redevelopment works.
August 2007	The SUD agreed that the licence for the proposed tender should expire in March 2009.
September 2007	The SUD issued letters to 32 potential bidders. In response, 4 companies indicated that they might be interested in submitting bids for the proposed tender.

Source: GPA records

**Chronology of key events of
two cases of commercialisation opportunities**

**Case 1: Advertisements on the sea wall of the
former Wan Chai Public Cargo Working Area**

- | | |
|---------------|---|
| December 2003 | The SUD planned to pursue a new commercialisation opportunity on the sea wall of the former Wan Chai Public Cargo Working Area. The SUD proposed to tender a licence for advertisements along the sea wall for a period of three years. |
| February 2004 | The SUD issued the draft tender documents to the relevant departments for comments. |
| March 2004 | The SUD noted that the area might be used as a barging point for spoil disposal in connection with the Sha Tin to Central Link project. |
| January 2005 | The SUD, awaiting the final schedule of the Sha Tin to Central Link project, held in abeyance the processing of the commercialisation opportunity. |
| November 2005 | The SUD was informed that the area might be used as a barging point by July 2007. |
| December 2005 | The SUD noted that the area would be converted into a public promenade as recommended by the Harbour-front Enhancement Committee Sub-Committee on Wan Chai Development Phase II Review. |
| June 2006 | The SUD was informed that the area would not be required for the Sha Tin to Central Link works before early 2008. |
| November 2006 | The case officer recommended not proceeding further. The recommendation was approved by the supervisor instead of the Head of the SUD. The Deputy Government Property Administrator was not informed of the decision. |

Case 2: Advertisements in four government properties

- September 2003 The SUD planned to pursue the commercialisation opportunity of letting out the advertising areas in four selected government properties.
- November 2003 The SUD issued the draft tender documents to the relevant departments for comments. The four selected government properties were located at the rooftops of the Sai Yee Street Garden Public Toilets, the rooftop of the Dundas Street Refuse Collection Point, the external wall of the Mong Kok Market facing Argyle Street and the external wall of the Tsuen Wan Market facing Chung On Street.
- November 2004 The Planning Department objected to the letting at the Dundas Street Refuse Collection Point because the proposed advertisement sign of 13 metres in height was unacceptable from an urban design perspective. The Lands D informed the SUD that the Dundas Street Refuse Collection Point was subject to a height restriction.
- December 2004 The Food and Environmental Hygiene Department informed the SUD that:
- (a) there was a possibility that the Mong Kok Market would be closed;
 - (b) it could not confirm whether there was adequate power supply and sufficient space for the installation of electricity meters at the Sai Yee Street Garden Public Toilets, the Dundas Street Refuse Collection Point and the Mong Kok Market because the information on the equipment and power to be used by the advertisements was not available; and
 - (c) the power supply of the Tsuen Wan Market was insufficient for the lighting of advertisement signs.
- July 2006 The case officer reported that preliminary comments indicated that some advertising operators had shown little interest in the sites. The officer recommended not proceeding further. The recommendation was approved by the supervisor instead of the Head of the SUD. The Deputy Government Property Administrator was not informed of the decision.

Source: GPA records

Identified commercialisation opportunities repeatedly treated as new cases

Cases reported as having new commercialisation opportunities in the 2007-08 COR		Year included as new commercialisation opportunities
Premises	Type	
(1) Sha Tin Police Station	Canteen	2004 and 2005
(2) Shun Lee Disciplined Services Quarters Shop No. 15B1	Shop	2003, 2004 and 2006
(3) Shun Lee Disciplined Services Quarters Shop No. 15C4	Shop	2003, 2004 and 2006
(4) Proposed advertising areas at Food and Environmental Hygiene Department properties	Advertising	2004 and 2006
(5) Aberdeen Police Station	Canteen	2003 and 2007
(6) Sai Kung Police Station	Canteen	2003 and 2007

Source: GPA records

Chronology of key events — Building A

- February 1980 An assignment was executed between the owner and the then Colonial Treasurer Incorporated (now the FSI) to assign the basement and the ground floor of Building A to the FSI.
- 1981 The Lands D noted that the MTR Corporation had abandoned the proposal to include the site within the railway reserve. The entrance/exit areas in Building A were no longer required by the MTR Corporation for the MTR Island Line development.
- The developer asked for a re-grant of the premises as the premises were no longer required for use as MTR entrance/exit areas.
- January 1982 The then Secretary for Lands and Works (now the Secretary for Development) approved the proposed assignment of the premises to the developer at full market value.
- August 1983 The Building Authority decided that the premises should remain in public ownership and that only short-term waiver or direct government use would be acceptable. The request for a re-grant of the premises was rejected.
- May 1984 The then Registrar General (now the Land Registrar) confirmed that there was no user restriction in the assignment to the FSI of the premises. However, the assignment was subject to the DMC in accordance with the user restriction designated by the occupation permit or approved building plans.
- September 1984 The Architectural Office of the then Building Development Department (now the ArchSD) advised the then Director, Councils and Administrative Branch (now the GPA) that it was technically not feasible to construct a new floor to separate the basement and the ground floor.
- April 1990 The GPA was set up to administer and manage all government-owned properties.
- May 1990 The Lands D reported that it intended to dispose of the property by tender but there were structural problems in building a floor slab and in accommodating an existing water pump in the basement to pump out the underground water to avoid flooding of the basement.
- The Lands D sought the then Registrar General's advice on letting out the premises to a non-government organisation.

Appendix H
(Cont'd)
(para. 4.3(a) refers)

- November 1990 The GPA found that the adjoining shop had placed a shop plate and advertisement on the external wall of the ground floor of the premises.
- November 1991 The Social Welfare Department informed the GPA that the non-government organisation had found the premises not suitable owing to problems like water seepage.
- May 1995 A complaint lodged by the management company of Building A in respect of an unauthorised occupation of the basement of the premises was referred to the GPA by the Lands D.
- The then Attorney General's Chambers (AGC — now the Department of Justice) issued eviction notices on the unauthorised occupation of FSI properties in the basement, and the external wall on the ground floor at Building A.
- June 1995 The unauthorised occupant intended to lease the premises from the GPA on a commercial basis. The unauthorised occupant revealed that he had leased the adjacent shop since October 1994 to serve as the entrance/exit so as to use the basement area. The owner of the adjoining shop also requested to rent the external wall on the ground floor for advertisement.
- According to its records, the GPA, after discussing with the BD, concluded that it might not be appropriate to use the areas for commercial purposes because plot ratio concessions were given and fully utilised in respect of these areas, which were excluded from gross floor area calculation. The request to lease the premises to the unauthorised occupant for commercial use could not be approved. However, government, institution and community use would be acceptable.
- August 1995 The GPA advised the then Secretary for the Treasury (now the Secretary for Financial Services and the Treasury) of the following difficulties in finding a successful occupier or owner:
- (a) a violation of the Buildings Ordinance to change to commercial use after the granting of bonus plot ratio;
 - (b) structural problem to construct a floor slab separating the void space on ground floor from the space on the basement; and
 - (c) water seepage problem.
- The Financial Secretary instructed the AGC to institute legal proceedings to recover possession of the premises.

Appendix H
(Cont'd)
(para. 4.3(a) refers)

October 1995	The GPA informed the AGC that the GPA had resumed possession of the basement.
June and July 2000	The GPA issued a notice to the unauthorised occupant to remove the advertising sign erected on the front-wall of the ground floor and requested reinstatement.
November 2000	The advertising sign on the ground floor was demolished by the ArchSD.
September 2002	The GPA asked the ArchSD to investigate the water seepage problem, which was noted during the take-over of the premises.
November 2002	The GPA wrote to the management company of Building A for rectification of the water seepage for which the company was responsible under the DMC.
June 2003	The GPA demanded the management company of Building A to stop the water seepage after joint site visits.
July 2003	The GPA sent a reminder to the management company asking for repair works to stop the water seepage.
September 2003	The management company of Building A informed the GPA that bids for repair works of the building and survey of water seepage of the premises were being invited by open tender.
December 2004	The GPA asked about the progress of the repair works to stop water seepage.
April 2005	The GPA sent a reminder to the management company asking about the progress of the repair works. The Incorporated Owners of Building A (IOBA) indicated that the GPA should be responsible for the repair of the water seepage according to the DMC provision that the owner should keep the interior of the basement area in good condition.
May 2005	The ArchSD requested the GPA to clarify with the IOBA the responsibility for rectifying the water seepage problem as the management company and the GPA had contradicting points of view.

Appendix H
(Cont'd)
(para. 4.3(a) refers)

June 2005	The ArchSD disclaimed maintenance responsibility for the repair of external wall leakage.
August 2005	The GPA disputed liability for the repair of the water seepage and informed the IOBA.
June 2006	The IOBA disputed that, under the DMC, the GPA should be liable for the repair works.
July 2006	The GPA asked the ArchSD to ascertain the cause of water seepage.
November 2006	<p>A Legislative Council Member asked the then Secretary for Housing, Planning and Lands (now the Secretary for Development) about the use of the premises.</p> <p>In response to the supplementary question raised, the GPA explained to the Secretary that, according to the DMC and the occupation permit, the areas could only be used for MTR entrance/exit purposes.</p> <p>The GPA explained to the Secretary that the required DMC amendment should be agreed by all co-owners of Building A. The chance of obtaining such an agreement was remote.</p>

Source: GPA records

Chronology of key events — Building B

December 1982	The premises were assigned to the FSI for future development of the MTR West Island Line.
November 1987	The developer of the building wrote to the Lands D requesting to rent the proposed MTR entrance/exit areas for shop use.
April 1989	The Lands D said that the Government could consider temporary use of the premises.
April 1990	The GPA was set up to administer and manage all government-owned properties.
January 1992	<p>The GPA took up the premises and circulated the draft tenancy agreement for the proposed tender to bureaux and departments for comments.</p> <p>The GPA proposed to let out the premises for retail use.</p>
February 1992	The BD objected to the GPA's proposal of letting out the premises because the means of escape was unsatisfactory in the basement.
March 1992	The BD had no objection if only the ground floor portion was to be let out.
September 1992	The GPA asked the Hong Kong Police Force (HKPF) to consider the use of the premises for storage.
October 1992	The HKPF informed the GPA that the premises were not suitable for storage due to security problem and the risk of flooding.
February 1993	The GPA conducted a joint site visit with the Social Welfare Department. After the site visit, the Social Welfare Department informed the GPA that the premises were not suitable for use as a home help and child care centre.
June 1994	The GPA proposed to invite tender. It sought comments from the BD and the ArchSD on the proposal of sealing up the basement and letting out the ground floor portion so as to meet the means of escape requirement. The BD and the ArchSD had no objection.

Appendix I
(Cont'd)
(para. 4.3(b) refers)

October 2001	The ArchSD reported that no chiller water connection was allowed by the management company as it was fully utilised.
November 2001	The GPA sought comments from the management company on the installation of split type air conditioners above the shop front on the external wall by the Government.
December 2001	The proposal of split type air conditioners submitted by the GPA was rejected by the management company.
July 2002	The GPA informed the ArchSD that it would not proceed with the letting and the premises were locked up.
October 2002	The GPA's internal approval was obtained to stop proceeding with the subject tender.
January 2003	The GPA received a media complaint that the basement of Building B reserved for MTR purpose would be left vacant until 2016 as the MTR development programme was deferred. It would be a waste of public resources if the premises remained unused.
February 2003	In response to the media complaint, the GPA said that the premises were temporarily placed in the GPA's custody pending the Lands D's instruction.
April 2003	The GPA sought the MTR Corporation's advice on the schedule of the development programme so as to plan for the short-term use of the premises.
May 2003	The MTR Corporation replied that the programme would not commence earlier than 2006.
December 2004	The Incorporated Owners of Building B (IOBB) wrote to the GPA about the flooding of the basement. During a joint site inspection, the basement was found seriously flooded. The ArchSD inspected the premises and started de-watering.

Appendix I
(Cont'd)
(para. 4.3(b) refers)

January 2005	<p>The GPA sought legal advice on who should be held responsible for rectifying the water seepage problem.</p> <p>The IOBB wrote to the GPA that according to the DMC, the GPA should repair the defects found.</p>
March 2005	<p>The view was taken that the FSI should not bear the cost of repairs to prevent water seepage. The IOBB should bear the cost instead.</p>
April 2005	<p>The SUD was of the view that the premises had no commercial value and the case was passed to the Property Management Division for management and maintenance.</p>
May 2005	<p>The GPA requested the management company to take action to rectify the water seepage problem.</p>
2005	<p>The reserved MTR entrance/exit areas in Building B were reported in GPA 2005-06 COR as government premises with newly identified commercialisation opportunities.</p>
June 2005 to July 2007	<p>The GPA regularly conducted de-watering works at the premises during this period.</p>
June 2006	<p>The GPA requested the management company to rectify the water seepage problem.</p>
July 2006	<p>The IOBB declined to provide assistance in resolving the water seepage problem.</p>
November 2007	<p>The GPA consulted the Lands D on the possibility of alternative uses of the subject premises.</p>
December 2007	<p>The GPA sought further information from the BD and the Lands D in relation to building concessions and permitted alternative uses.</p>
January 2008	<p>The BD replied to the GPA's enquiry of building concessions and permitted alternative uses of the premises.</p>

Source: GPA records

Acronyms and abbreviations

AGC	Attorney General's Chambers
ArchSD	Architectural Services Department
Audit	Audit Commission
BD	Buildings Department
COR	Controlling Officer's Report
DMC	Deed of mutual covenant
FSI	Financial Secretary Incorporated
FSTB	Financial Services and the Treasury Bureau
GPA	Government Property Agency
HKPF	Hong Kong Police Force
IOBA	Incorporated Owners of Building A
IOBB	Incorporated Owners of Building B
Lands D	Lands Department
LCSD	Leisure and Cultural Services Department
MTR	Mass Transit Railway
PSG	Property Strategy Group
RVD	Rating and Valuation Department
SFAA	Student Financial Assistance Agency
SUD	Site Utilisation Division
TID	Trade and Industry Department