CHAPTER 4

Development Bureau
Lands Department

Modification of conditions of land leases

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MODIFICATION OF CONDITIONS OF LAND LEASES

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MODIFICATION OF CONDITIONS OF LAND LEASES

Executive Summary

1. In Hong Kong, virtually all land is leased from the Government to individuals, legal persons or organisations for use or development. The Lands Department (LandsD) is the key government department in charge of land matters in Hong Kong. According to LandsD, a land lease is a private contract between the Government (as lessor) and the lot owner (as lessee) that sets out the terms and conditions, and the lease term of the land. Any variations to a land lease require mutual agreement of the Government and the lot owner. In general, a lot owner who wishes to use or develop a lot different from that permitted by the existing lease conditions may make application to LandsD for modification of conditions of land lease. The applications for modification of lease conditions are generally processed by 12 District Lands Offices (DLOs) under the Lands Administration Office (LAO) of LandsD. From 2016-17 to 2025-26, a total of 903 land transactions involving modification of lease conditions (with premium totalling $241.5 billion) were executed. As at 31 March 2026, 326 applications for modification of lease conditions were under processing. According to LandsD, the lot owners should observe and comply with the lease conditions. If breaches of lease conditions are substantiated, LandsD will take appropriate lease enforcement actions. The Audit Commission (Audit) has recently conducted a review to examine LandsD's work relating to modification of conditions of land leases.

Processing of applications

2. ***Long time taken in completing some application cases for modification of lease conditions.*** Audit noted that long time had been taken in completing some application cases for modification of lease conditions. Of the 903 applications with land transactions executed from 2016-17 to 2025-26, 566 (63%) application cases took more than 1 year and up to 21.9 years (averaging 3.6 years) to complete (i.e. from receipt of application to execution of land documents). Of the 326 application cases under processing as at 31 March 2026, the applications of 213 (65%) cases had been received for more than 1 year and up to 29.1 years (averaging 5.4 years) (para. 2.5). Audit also noted the following:

(a) ***Some events involved long periods of time to settle.*** Audit examined the records of the three application cases with the longest processing time to complete and the three application cases that had been under processing for the longest time as at 31 March 2026 (with processing time ranging from 19 to 29.1 years (averaging 23.7 years) from the dates of receipt of applications). According to LandsD, the actual total processing time should be calculated from the dates of valid applications and exclude the time taken by non-counting events (i.e. those events and periods which cannot be controlled by LandsD (e.g. pending further information or action from the applicant)). Audit noted that: (i) for the six cases, the time taken from the dates of receipt of applications to the dates of valid applications ranged from 8 days to 12.7 years (averaging 3.4 years). After validation, the time taken up to execution of land documents for completed cases ranged from 9.2 to 18.9 years (averaging 14.8 years) and the time elapsed up to 31 March 2026 for cases under processing ranged from 23.9 to 26.8 years (averaging 25.8 years); (ii) for the three completed cases, after validation, the aggregate duration of non-counting events ranged from 8.2 to 18.4 years (averaging 14 years), accounting for about 89% to 97% (averaging 93%) of their respective total processing time after validation, and the aggregate duration of counting events (i.e. those events that should be controllable by LandsD) ranged from 200 to 372 days (averaging 314 days); and (iii) for one of the completed cases, the longest non-counting event lasted for about 14.5 years. For 6 of the 14.5 years, no action had been taken by the applicant and LandsD had not proactively followed up with the applicant regarding the application (paras. 2.3 and 2.6(a)); and

(b) ***Scope for enhancing management information for monitoring applications under processing.*** Audit noted that, while monthly reports for monitoring the progress of on-going applications for modification of lease conditions were generated from the Case Monitoring System (CMS — see para. 5) for discussion at working level and various monitoring reports were compiled and provided to senior management for monitoring purposes, LandsD had not compiled consolidated summaries (e.g. aging analysis to monitor case progress before and after validation of applications, and cases with long duration of non-counting events) for monitoring all applications under processing and early identifying cases where unresolved issues may be warranted for escalation to a higher level for steering to facilitate the case processing (para. 2.6(b)).

3. ***Scope for improvement in monitoring achievements of key milestones.*** LandsD sets four key milestones to monitor the processing of applications for modification of lease conditions. Audit noted that: (a) LandsD had not compiled management information for monitoring the achievement of the key milestone relating to the passing of valuation file to the Valuation Section of LandsD for premium assessment; and (b) there were some non-compliances with the time targets under key milestones. For example, from 2023 to 2026 (up to August), the compliance with the time target under the key milestone relating to appeals against premium assessments ranged from 41% to 56% (paras. 2.10 and 2.11).

4. ***Scope for improvement in handling appeals against premium assessments.*** According to LandsD, for applications for modification of lease conditions, an applicant who disagrees with the land premium amount assessed by LandsD may lodge an appeal against the premium assessment, and there is no limit on the number of appeals that an applicant can lodge for each application. Of the 903 executed land transactions involving modification of lease conditions from 2016-17 to 2025-26, 338 cases were charged with a valuable premium (other than nominal premium). Of these 338 cases, the applicants of 163 (48%) cases lodged appeals against the premium amounts assessed by LandsD for 1 time to 12 times, averaging 1.9 times. Audit noted that: (a) the number of appeals for some cases was on a relatively high side. For example, the applicants of 9 cases lodged appeals against the premium amounts assessed by LandsD for 5 to 12 times (averaging 8 times); and (b) for each of the 9 cases, the time elapsed from issuance of the first binding offer of basic terms to acceptance of the final offer ranged from 5.4 to 10.4 years (averaging 7.4 years). According to LandsD, it had provided enhanced measures for facilitating premium negotiations in March 2023, and the achievements of the key milestone relating to appeals against premium assessments had improved gradually from 2023 to 2026 (up to August). LandsD needs to make continued efforts to monitor and review its performance in handling appeals against premium assessments relating to applications for modification of lease conditions, and keep under review the effectiveness of the enhanced measures for facilitating premium negotiations and take follow-up actions (e.g. refining the existing measures) as appropriate (paras. 2.16 to 2.20).

5. ***Scope for improvement in using CMS.*** CMS is a computer system which provides a means for monitoring the progress of certain types of land applications (including applications for modification of lease conditions) and for recording and retrieving details of such cases, and provides readily available and up-to-date data for preparation of revenue estimates, regular and ad-hoc statistical reports and performance reports to the management. Audit noted that while there were data fields

in CMS for monitoring the achievements of three key milestones relating to the processing of applications for modification of lease conditions, some relevant data had not been input into CMS (paras. 2.31 and 2.32).

Lease enforcement work

6. ***Scope for improvement in conducting desktop investigations and site inspections.*** Audit noted the following issues:

(a) according to LandsD guidelines, upon receipt of complaints or referrals, desktop investigations should be carried out as soon as possible for initial screening. Audit noted that while time target had been introduced for conducting desktop investigations for all new cases since December 2025, no specific time target had been set for conducting desktop investigations for all existing cases received before 1 December 2025. In this connection, there was a case in which DLO took a long time to conduct desktop investigation (after receipt of a complaint of suspected breaches of lease conditions at a land lot in October 2021, as at 31 July 2026 (i.e. a lapse of 4.8 years), relevant desktop investigation was not yet conducted) (paras. 3.7(a) and 3.8(a));

(b) according to LandsD guidelines, after conducting initial desktop investigations for cases of suspected breaches of lease conditions, DLO staff should carry out site inspections to gather evidence for determining any breach of lease conditions. Audit noted that while time targets had been introduced for conducting site inspections for all new cases of potential top and potential high priorities since December 2025, no specific time targets had been set for conducting site inspections for lower priority cases (i.e. medium and low priorities). In this connection, there was a lower priority case in which DLO took a long time to conduct site inspection (after receipt of a complaint of suspected breach of lease conditions at a land lot in April 2017, site inspection was recommended in July 2019. However, as at 31 July 2026 (i.e. a lapse of 7.1 years from July 2019), relevant site inspection was not yet conducted). According to LandsD, the time required for attending to lower priority cases would depend on the number of higher priority cases and the remaining resources available, and it would continue to review and enhance the effectiveness in handling higher priority cases with a view to freeing up more resources for dealing with lower priority cases (paras. 3.7(b), 3.8(b) and 3.9(b));

(c) since September 2022, mobile devices had been deployed for all site inspection duties and it was mandatory for DLO staff to use the devices for all site inspections for lease enforcement work. However, according to LandsD, while mobile devices had been used for site inspections by the DLO staff of all the 4 DLOs selected by Audit for examination, practical limitations (including network connectivity and reception) were occasionally encountered by the DLO staff in using the mobile devices, particularly in areas with unstable field signal reception of network connectivity (para. 3.8(d)); and

(d) according to LandsD guidelines, in the event of encountering door-locked situations (i.e. difficulties in gaining access to the site/premises concerned for inspection), DLO staff should send a formal letter to the registered owners/occupiers concerned within a certain period of time (say two weeks from the date of unsuccessful visit). Audit noted that a formal letter was only issued to the registered owner 1.2 years after encountering the door-locked situation by the DLO staff in a case (paras. 3.7(d) and 3.8(e)).

7. ***Scope for improvement in lease enforcement actions relating to issuance of warning letters.*** According to LandsD guidelines, in general, there are different lease enforcement actions against breaches of lease conditions of private land in accordance with the case priorities (namely top, high, medium and low priorities). Audit noted that, for medium and low priority cases involving non-industrial building premises, while 3 of the 4 selected DLOs followed the LandsD guidelines of issuing a warning letter requesting rectification of the breaches of lease conditions with a 28-day grace period (28-day warning letter) after the breaches of lease conditions had been substantiated, the remaining selected DLO adopted the practice of issuing two warning letters (i.e. a 28-day warning letter followed by a warning letter requesting rectification of the breaches of lease conditions with a 14-day grace period if the breach is not rectified in time), which was at variance with the procedures stipulated in LandsD guidelines. According to LandsD, the DLO concerned followed the outdated practice of issuing two warning letters as promulgated in 2011 (paras. 3.17 to 3.19).

8. ***Scope for improvement in reviewing lease enforcement cases after registration of warning letters in the Land Registry (LR).*** According to the working guide of LandsD, since December 2014, subject to the review and decision (e.g. the period for review of a lease enforcement case with a warning letter registered in LR

(i.e. review cycle for each case)) of the respective District Review Board (for monitoring lease enforcement work), each DLO should conduct inspection to confirm non-compliance and issue a reminder letter to the registered owners, and repeat the procedures until the respective District Review Board decides to step up enforcement action (i.e. re-entry/vesting). Audit noted that: (a) while a five-year review cycle was adopted by 3 of the 4 selected DLOs, there were occasions where the review of lease enforcement cases with warning letters registered in LR had not been completed within the review cycle; (b) of the 60 land lots with modified lease conditions selected from the 4 DLOs, as at 31 July 2026, there were 4 lease enforcement cases of medium or low priorities where the respective breaches of lease conditions had not been purged after the respective warning letters had been registered in LR for 1.5 to 10.5 years (averaging 5.9 years); and (c) no specific target for the length of the review cycle was set for the remaining selected DLO (paras. 3.20 and 3.21).

9. ***Need to timely complete the transition of lease enforcement data.*** According to LandsD, computer system is used to facilitate the lease enforcement work. Since October 2025, the land enforcement (including lease enforcement) data of on-going cases has been transitioned to the Integrated Land Enforcement System (iLES). Audit noted that: (a) of the 2,560 lease enforcement cases recorded in iLES from October 2025 to March 2026, as at 30 June 2026, case priorities of 126 (5%) cases were not recorded. Audit further selected 28 cases from the 4 selected DLOs and examined the data in iLES, and noted that the priorities of 3 (11%) cases were not recorded in iLES and the priorities of 3 (11%) cases were incorrectly categorised in iLES; and (b) according to LandsD, as at 25 September 2026, all DLOs completed the categorisation of case priorities in iLES for lease enforcement cases. The relevant transitioned data in iLES for lease enforcement cases of top and high priorities would undergo a data cleansing exercise, with the target completion by the end of 2026 (paras. 3.27 to 3.29).

Other related issues

10. ***Scope for improvement in issuing meeting materials for District Lands Conference (DLCs).*** DLC is responsible for approving the proposed terms and conditions relating to applications for modification of lease conditions within the overall land policy and administration framework. According to LandsD guidelines, DLC notes should be circulated 1 week before the meetings of DLCs, and DLC decisions should be circulated within 1 to 2 weeks after the meetings of DLCs. Audit

examined the meeting materials issued for 24 meetings held by 4 selected DLCs between April 2025 and March 2026, and noted that: (a) as at 31 August 2026, there was no time target set for issuing the meeting agendas of DLC meetings and the meeting agendas of 23 (96%) meetings were issued to the members on the same day as the circulation of the DLC notes; (b) for 3 (13%) meetings held by 2 DLCs, DLC notes were only circulated to the members 3 to 6 days (averaging 4 days) before the respective meeting dates; and (c) for 5 (21%) meetings held by 2 DLCs, DLC decisions were only circulated to the members 19 to 71 days (averaging 36 days) after the respective meeting dates (paras. 4.2 to 4.4).

11. ***Scope for improvement in issuing meeting materials for Valuation Committee/Conference.*** The Valuation Committee and the Valuation Conference are responsible for consideration of premium assessments for modification of lease conditions. According to LandsD guidelines, valuation decisions should be issued within 2 weeks after the meetings of the Valuation Committee/Conference. Audit noted that, as at 31 August 2026, no similar time targets had been specified in LandsD guidelines for issuing the meeting agendas and the valuation notes to the members of the Valuation Committee/Conference. According to LandsD, in general, under the current practice, the meeting agendas and the valuation notes were circulated to the members 1 week and 3 days respectively before the Valuation Committee/Conference meetings. Audit examined the meeting materials issued for 10 applications for modification of lease conditions with land premium assessments discussed at 9 meetings of the Valuation Committee/Conference held between May 2021 and January 2026, and noted that: (a) the meeting agendas of 8 (89% of 9) meetings were issued to the members 2 to 6 days (averaging 4 days) before the respective meeting dates; and (b) the valuation notes of 7 (70% of 10) applications were only circulated to the members 2 days before the respective meeting dates (paras. 4.2, 4.6 and 4.7).

12. ***Need to review administrative fees charged for applications for modification of lease conditions.*** According to LandsD, administrative fees are payable to LAO (LAO administrative fees) by applicants for applications for modification of lease conditions, and administrative fees are payable to the Legal Advisory and Conveyancing Office (LACO) of LandsD (LACO administrative fees) by applicants for applications involving surrender of land to the Government (i.e. land exchange cases) (paras. 4.11 and 4.12). Audit examined LandsD records for fee reviews conducted on LAO administrative fees and LACO administrative fees in the past 10 financial years (i.e. 2016-17 to 2025-26) and noted the following issues:

(a) ***LAO administrative fees and LACO administrative fees not reviewed on an annual basis.*** LAO administrative fees had not been reviewed for the period from 2016-17 to 2018-19 and 2022-23 (i.e. 4 financial years in total), and LACO administrative fees had not been reviewed for 2025-26 (i.e. not complying with the requirements of reviewing fees on an annual basis stipulated in Financial Circular No. 6/2016 on "Fees and Charges" issued by the Financial Services and the Treasury Bureau (FSTB)) (paras. 4.13 and 4.14(a));

(b) ***Late submission of fee proposals on LAO administrative fees.*** There was late submission of fee proposals on LAO administrative fees by LandsD to FSTB for 2 financial years (i.e. 2023-24 and 2025-26) (i.e. not complying with the requirements of submitting fee proposals no later than 3 months in advance of implementation stipulated in Financial Circular No. 6/2016) (paras. 4.13 and 4.14(b)); and

(c) ***Need to improve cost recovery rate of LAO administrative fees and LACO administrative fees.*** According to Financial Circular No. 6/2016, it is the Government's policy that fees charged by the Government should in general be set at levels adequate to recover the full cost of providing the goods or services. Audit examined the latest approved fee proposal on LAO administrative fees and LACO administrative fees for 2024-25 and noted that: (i) for applications for modification of lease conditions involving technical modifications (i.e. a lease modification of very minor nature), the prevailing LAO administrative fee was a fixed fee, representing a cost recovery rate of about 54% at the 2024-25 price level; (ii) for applications for modification of lease conditions (other than technical modifications), the prevailing LAO administrative fee was charged on the basis of a sliding scale, subject to a specified upper limit. The upper limit represented a cost recovery rate of about 71% at the 2024-25 price level; and (iii) the cost recovery rate of the prevailing LACO administrative fee was about 87% at the 2024-25 price level (paras. 2.2, 4.13 and 4.14(c)).

Audit recommendations

13. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Lands should:**

Processing of applications

(a) **take measures to facilitate the early completion of application cases for modification of lease conditions as far as practicable, including:**

(i) **providing timely facilitation to applicants where appropriate (para. 2.27(a)(i));**

(ii) **enhancing the measures (including provision of management information) for monitoring all applications under processing and early identifying cases where unresolved issues may be warranted for escalation to a higher level for steering with a view to facilitating the case processing (para. 2.27(a)(ii)); and**

(iii) **reminding LandsD staff to take proactive follow-up actions with applicants for applications involving prolonged non-counting events (para. 2.27(a)(iii));**

(b) **regarding key milestones relating to the processing of applications for modification of lease conditions, enhance the provision of management information to facilitate monitoring the achievements of key milestones, and strengthen measures to ensure compliance with the time targets under key milestones (para. 2.27(b));**

(c) **make continued efforts to monitor and review LandsD's performance in handling appeals against premium assessments relating to applications for modification of lease conditions with a view to identifying any need for further measures in this regard (para. 2.27(d));**

(d) **keep under review the effectiveness of the enhanced measures for facilitating premium negotiations and take follow-up actions as appropriate (para. 2.27(e));**

(e) **make continued efforts in using CMS in monitoring the processing of applications for modification of lease conditions, and take measures to ensure the completeness and accuracy of data in CMS (para. 2.34(b));**

Lease enforcement work

(f) **regarding cases of suspected breaches of lease conditions:**

(i) **take measures to ensure that desktop investigations and site inspections are conducted in accordance with the time targets stipulated in LandsD guidelines (para. 3.14(b)(i));**

(ii) **keep under review the timeliness and effectiveness in conducting site inspections for higher and lower priority cases and take follow-up actions as appropriate with a view to ensuring the timely conduct of the site inspections (para. 3.14(b)(ii));**

(iii) **continue to explore measures to address the practical limitations encountered by LandsD staff in using mobile devices for site inspections (para. 3.14(b)(iv)); and**

(iv) **take measures to ensure the timely issuance of formal letters to the registered owners/occupiers concerned in the event of a door-locked situation during site inspections (para. 3.14(b)(v));**

(g) **take measures to ensure that all the 12 DLOs follow the existing LandsD guidelines in issuing warning letters for substantiated lease breach cases (para. 3.23(a));**

(h) **take measures to ensure that the review of lease enforcement cases with warning letters registered in LR is completed in accordance with the review cycle of each DLO (para. 3.23(b));**

(i) **explore measures to strengthen the monitoring of long outstanding cases with breaches of lease conditions not purged after the registration of warning letters in LR (para. 3.23(c));**

(j) **consider incorporating the requirement of setting a specific target for the length of the review cycle for reviewing lease enforcement cases with warning letters registered in LR by each DLO in the working guide of LandsD (para. 3.23(d));**

(k) **regarding the lease enforcement data transitioned to iLES, take measures to ensure that the data cleansing exercise for cases of top and high priorities is timely completed, and set relevant time targets for completing the data cleansing exercise for lower priority cases (para. 3.30(b));**

(l) **take measures to ensure the completeness and accuracy of case priorities of lease enforcement cases in iLES (para. 3.30(c));**

Other related issues

(m) **take measures to ensure that:**

(i) **the meeting agendas of DLC meetings are issued to members in advance of the circulation of the DLC notes, including setting time target for issuing the meeting agendas to members (para. 4.9(a)(i)); and**

(ii) **DLC notes and DLC decisions are issued to members of DLCs in accordance with the time targets stipulated in LandsD guidelines (para. 4.9(a)(ii));**

(n) **enhance LandsD guidelines to specify the time targets for issuing the meeting agendas of the Valuation Committee/Conference meetings and the valuation notes to members of the Valuation Committee/Conference, and take measures to ensure compliance with the time targets (para. 4.9(b));**

(o) **take measures to ensure that fee reviews on administrative fees charged for applications for modification of lease conditions are conducted in accordance with the requirements stipulated in Financial Circular No. 6/2016, including:**

(i) **conducting fee reviews on administrative fees on an annual basis (para. 4.17(a)(i)); and**

(ii) **submitting fee proposals to FSTB no later than 3 months in advance of implementation (para. 4.17(a)(ii)); and**

(p) **take measures to improve the cost recovery rate of LAO administrative fees and LACO administrative fees charged for applications for modification of lease conditions with a view to achieving full-cost recovery as early as practicable (para. 4.17(b)).**

Response from the Government

14. The Director of Lands agrees with the audit recommendations.

PART 1: INTRODUCTION

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

Background

1.2 In Hong Kong, virtually all land is leased from the Government to individuals, legal persons or organisations for use or development. The Lands Department (LandsD) is the key government department in charge of land matters in Hong Kong. According to LandsD, a land lease is a private contract between the Government (as lessor) and the lot owner (as lessee) that sets out the terms and conditions (e.g. restricting the use and the extent of development of a site by the lot owner), and the lease term of the land. Any variations to a land lease require mutual agreement of the Government and the lot owner.

1.3 In general, a lot owner who wishes to use or develop a lot different from that permitted by the existing lease conditions may make application to LandsD for modification of conditions of land lease. According to LandsD, such application will be considered on its own merits by LandsD at its sole and absolute discretion acting in its capacity as a private landlord. In general, modification of lease conditions, if acceptable and approved by LandsD, will be granted by the following ways:

(a) ***Modification or no objection letter.*** For a lease modification case which does not involve any realignment or readjustment of lot boundaries, or amalgamation of lots, it may be documented by way of a modification or no objection letter, as follows:

    (i) ***Modification letter.*** A modification letter is generally used for modification of lease conditions of a lot held in single ownership. All the conditions previously applicable to the lease, including the lease term and the annual government rent, will remain unchanged, with the exception of the conditions being modified by the modification letter; and

(ii) ***No objection letter.*** A no objection letter is generally used where the development on a lot has fallen into multiple ownership, and a modification is to be made in respect of certain units or parts only and may only last for a specific period of time (e.g. for the lifetime of the existing building).

The related land transaction is generally referred to as land transaction conducted by way of lease modification;

(b) ***Documents for land exchange.*** For a lease modification case conducted by way of land exchange (which involves surrender and regrant of land), the new lease term will usually be 50 years from the date of grant, subject to an annual government rent equivalent to 3% of the rateable value of the land. The related land transaction is generally referred to as land transaction conducted by way of land exchange; or

(c) ***Extension letter.*** For a lease modification case which involves the grant of an area extension only, the modification may be processed by an extension letter. The related land transaction is generally referred to as land transaction conducted by way of lot extension.

According to LandsD, the appropriate type of documentation for modification of lease conditions depends on the circumstances of individual cases.

Processing of applications

1.4 The applications for modification of lease conditions are generally processed by 12 District Lands Offices (DLOs — see para. 1.8(c)) of LandsD, as follows:

(a) ***Submission and validation of application.*** The applicant (i.e. lot owner) is required to submit an application letter (with relevant details and supporting documents) which clearly identifies the lot/property concerned and the variations being sought in respect of any terms and conditions of the existing lease. Upon receiving the application, the respective DLO may request further information from the applicant where necessary for the purpose of validating the application;

(b) ***Payment of initial administrative fee and circulation to relevant government bureaux/departments (B/Ds).*** If all necessary information and documents are received and the application is valid and acceptable for further processing (i.e. the application is validated by the respective DLO), the applicant is generally required to pay the initial administrative fee (Note 1). The application will then be circulated to relevant B/Ds for consultation;

(c) ***Submission to District Lands Conference (DLC).*** LandsD has set up an inter-departmental forum (i.e. DLC — Note 2) for approving the proposed terms and conditions relating to applications for modification of lease conditions within the overall land policy and administration framework. After DLC has made a decision on the application (i.e. approved, rejected or agreed in-principle (Note 3)), the applicant will be advised of the result;

(d) ***Provisional basic terms offer.*** Following the approval of the application by DLC, LandsD will issue a provisional basic terms offer (without the premium amount) for consideration and acceptance by the applicant. The applicant is required to confirm the acceptance of the offer by the date specified in the offer, or else, the application will be deemed to be withdrawn;

(e) ***Premium assessment.*** For the application requiring assessment of land premium, upon the acceptance of the provisional basic terms offer by the applicant, LandsD will proceed with the assessment. Assessment of land premium is centrally processed by the Valuation Section (see para. 1.8(b)) of LandsD. In this connection, the applicant may submit additional information relevant to premium assessment directly to the

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Note 1: *The initial administrative fee may only represent part of the total administrative fee for the land transaction. The balance of administrative fee will be demanded at the binding basic terms offer stage of the land transaction (see para. 1.4(f)).*

Note 2: *DLC comprises the Assistant Director/Regional (i.e. the Chairperson), District Lands Officers, Senior Solicitors and Senior Estate Surveyors of LandsD, and representatives from relevant B/Ds. The applicant may be invited to attend DLC to facilitate consideration of the application.*

Note 3: *According to LandsD guidelines, applications issued with in-principle agreement are usually subject to the resolution of specific major issues and/or statutory procedures.*

Valuation Section for consideration. The Valuation Section will prepare and submit valuation notes of premium assessment to the Valuation Committee or the Valuation Conference for consideration when an offer of binding basic terms is ready for issuance, as follows:

(i) ***Valuation Committee.*** The Valuation Committee (Note 4) is responsible for considering and handling the approval of the first premium assessments of all applications and providing recommendations on the amount of land premium for the approval of the Chairperson of the Committee; and

(ii) ***Valuation Conference.*** The Valuation Conference (Note 5) is responsible for considering and handling the approval of premium assessments of appeal cases (see Note 6 to (f) below) and contentious and problematic cases, and providing recommendations on the amount of land premium for the approval of the Chairperson of the Conference;

(f) ***Binding offer of basic terms.*** After LandsD has decided on the amount of premium payable, a binding offer of basic terms (including the premium amount) will be issued to the applicant for consideration and acceptance (Note 6). Acceptance of the offer (including payment of the deposit premium and balance of administrative fee, if any) will constitute a legally binding contract between the Government and the applicant on the land transaction; and

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Note 4: *The Valuation Committee comprises the Assistant Director/Specialist 1 of LandsD (i.e. the Chairperson), and the Chief Estate Surveyor, Senior Estate Surveyors and Estate Surveyor (i.e. the case officer) of the Valuation Section.*

Note 5: *The Valuation Conference comprises the Deputy Director/Specialist (i.e. the Chairperson) and the Assistant Director/Specialist 1 of LandsD, and the Chief Estate Surveyor, Senior Estate Surveyors and Estate Surveyor (i.e. the case officer) of the Valuation Section.*

Note 6: *The applicant who finds the premium stated in the binding offer of basic terms not acceptable may appeal against the premium. After the premium has been re-assessed, a revised binding offer of basic terms will be issued to the applicant for consideration and acceptance.*

(g) ***Execution of land documents.*** The applicant is required to execute the land documents for the land transaction (including settlement of the balance of the land premium (if any)) within 12 weeks from acceptance of the binding offer of basic terms. LandsD will then arrange for registration of the executed land documents in the Land Registry (LR).

1.5 According to LandsD, the premium chargeable to the lot owner for land transaction involving modification of lease conditions is generally assessed on the basis of the difference between the value of the land under the existing lease conditions (i.e. the "before value") and its value under the modified lease conditions (i.e. the "after value"), except in exceptional circumstances as steered by specific policy directives (e.g. nil, nominal or concessionary premium).

1.6 According to the records in LandsD's Case Monitoring System (CMS — Note 7), from 2016-17 to 2025-26, a total of 903 land transactions involving modification of lease conditions (with premium totalling $241.5 billion) were executed, of which 776 (86%), 114 (13%) and 13 (1%) land transactions were conducted by way of lease modification, land exchange and lot extension respectively (see Table 1). Of these 903 cases:

(a) no premium was charged for 516 (57%) cases (Note 8);

(b) nominal premium (i.e. $1,000) totalling $49,000 was charged for 49 (5%) cases; and

(c) valuable premium (other than nominal premium) totalling $241.5 billion was charged for the remaining 338 (38%) cases.

Note 7: *According to LandsD, CMS is a computer system for recording and monitoring the progress of certain types of land applications, including applications for lease modifications, land exchanges and lot extensions (see para. 2.31).*

Note 8: *According to LandsD, of the 516 cases: (a) 327 cases were technical modifications (see Note 11 to para. 2.2(b)) which did not give rise to any enhancement in value of the lot; and (b) 189 cases did not require payment of premium as steered by specific policy directives or did not involve enhancement in value of the lot arising from lease modification.*

Table 1

Executed land transactions involving modification of lease conditions (2016-17 to 2025-26)

Year	Lease modification		Land exchange		Lot extension		Total	
	No. of cases	Premium received ($ million)	No. of cases	Premium received ($ million)	No. of cases	Premium received ($ million)	No. of cases	Premium received ($ million)
2016-17	103	10,379	7	6,811	–	–	110	17,190
2017-18	78	11,343	19	38,126	–	–	97	49,469
2018-19	80	16,291	15	13,399	1	7	96	29,697
2019-20	47	14,166	5	5,464	1	–	53	19,630
2020-21	94	19,131	9	11,901	2	12	105	31,044
2021-22	80	19,588	16	21,096	1	–	97	40,684
2022-23	92	2,805	11	30,243	1	–	104	33,048
2023-24	80	1,379	16	8,240	4	–	100	9,619
2024-25	62	959	7	3,603	3	–	72	4,562
2025-26	60	1,975	9	4,593	–	–	69	6,568
Total	776	98,016	114	143,476	13	19	903	241,511

Source: LandsD records

Lease enforcement work

1.7 According to LandsD, land leases are private contracts between the Government (as lessor) and the lot owners (as lessees), and the lot owners should observe and comply with the lease conditions. Given the huge number of private land leases and the extensive area and uses involved, LandsD generally acts on complaints, referrals or enquiries about suspected breaches of lease conditions. If breaches of lease conditions are substantiated, LandsD will take appropriate lease enforcement actions (e.g. issuing warning letters, registration of warning letters in LR (commonly known as "imposing an encumbrance") and re-entry of the lot/vesting of the relevant interest).

Responsible sections of LandsD

1.8 The following sections under the Lands Administration Office (LAO) of LandsD are the major sections responsible for, among other responsibilities, the work relating to modification of lease conditions:

(a) ***Headquarters Section.*** The Headquarters Section is responsible for the administration of land disposal policy and practices, including those for modification of lease conditions;

(b) ***Valuation Section.*** The Valuation Section is responsible for the assessment of land premium chargeable to lot owners for applications for modification of lease conditions;

(c) ***12 DLOs.*** The 12 DLOs are responsible for the administration of land leases (including the processing of applications for modification of lease conditions (except for some large-scale applications (see (d) below)) and lease enforcement work);

(d) ***Land Supply Section.*** The Land Supply Section is responsible for the processing of applications for modification of lease conditions for large-scale private developments (Note 9); and

(e) ***Special Duties Task Force and Development Control Section.*** The Special Duties Task Force and the Development Control Section's Enforcement and Prosecution Unit are responsible for the formulation of policies and strategies on land enforcement work and monitoring of district lease enforcement work.

According to LandsD, as at 31 March 2026, the above sections under LAO had an establishment of 2,197 staff and a strength of 1,959 staff. In addition, there were 91 staff other than civil servants (such as non-civil service contract staff and

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Note 9: *According to LandsD, the Land Supply Section is responsible for the processing of applications for modification of lease conditions that would generate 500 residential flats or more, or commercial or industrial gross floor area of 10,000 square metres or more.*

post-retirement service contract staff) (Note 10). An extract of LandsD's organisation chart as at 31 March 2026 is at Appendix A.

Audit review

1.9 In May 2026, the Audit Commission (Audit) commenced a review to examine LandsD's work relating to modification of conditions of land leases. The audit review has focused on the following areas:

(a) processing of applications (PART 2);

(b) lease enforcement work (PART 3); and

(c) other related issues (PART 4).

Audit has found room for improvement in the above areas and 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 LandsD during the course of the audit review.

Note 10: *According to LandsD, apart from the work relating to modification of lease conditions, the staff under these sections are also responsible for other duties such as land acquisition, management of government land, management of short term tenancies, and land control and squatter control. The total recurrent expenditure of LAO in 2025-26 was about $2.4 billion. According to LandsD, there were no breakdowns of the expenditure incurred by individual sections under LAO, or for the expenditure incurred solely for carrying out the work relating to modification of lease conditions.*

PART 2: PROCESSING OF APPLICATIONS

2.1 This PART examines LandsD's work in the processing of applications for modification of lease conditions, focusing on:

(a) monitoring of application processing (paras. 2.2 to 2.28); and

(b) other issues related to application processing (paras. 2.29 to 2.35).

Monitoring of application processing

2.2 Upon receipt of applications from lot owners for modification of lease conditions, LandsD will process the applications in accordance with its procedures (see para. 1.4). According to LandsD guidelines and website, performance pledges relating to the processing of applications for modification of lease conditions include the following:

(a) ***Performance Pledge I.*** A letter of reply will be issued within 3 weeks upon receipt of an application;

(b) ***Performance Pledge II.*** Except for applications involving technical modifications (Note 11), a letter of offer of provisional basic terms (without the premium amount), indication of in-principle agreement, or rejection will be issued within 22 weeks upon submission of all necessary information and documents in support of the application (i.e. valid application);

Note 11: *According to LandsD, a technical modification is a lease modification of very minor nature that sometimes requires a legal formality for overcoming a technicality that aligns with the current policy and practice and necessitates only the inclusion of highly standardised terms and conditions. Such technical modification does not require departmental circulation or local consultation, and does not give rise to any enhancement in value of the lot.*

(c) ***Performance Pledge III.*** For applications involving technical modifications, a letter of offer for acceptance will be issued within 10 weeks upon submission of all necessary information and documents in support of the application (Note 12); and

(d) ***Performance Pledge IV.*** Legal documents for execution will be issued within 12 weeks from the receipt of a binding acceptance of the final basic terms and premium offer.

2.3 According to LandsD, in assessing the achievements of performance pledges, the actual processing time should not count those events and periods which cannot be controlled by LandsD (i.e. the non-counting events), for example:

(a) pending further information or action from the applicant, such as application for planning permission for the proposed development scheme and preparation of necessary technical assessments;

(b) pending advice and feedback from other B/Ds;

(c) change of development scheme by the applicant;

(d) pending resolution of technical, legal or other issues;

(e) proving legal title for the private lots involved in the application; and

(f) premium negotiation.

According to LandsD, the actual achievements of Performance Pledges I to IV from 2021-22 to 2025-26 were all 100%.

Note 12: *According to LandsD, since 2022-23, the time target under Performance Pledge III has been revised from within 12 weeks to within 10 weeks.*

Long time taken in completing some application cases for modification of lease conditions

2.4 According to CMS records, from 2016-17 to 2025-26, LandsD received a total of 1,378 applications from lot owners for modification of lease conditions, of which 674 (49%) applications were approved and had their land documents executed, and 298 (22%) applications were under processing as at 31 March 2026 (Note 13). Taking into account relevant applications received by LandsD before 1 April 2016, a total of 903 land transactions involving modification of lease conditions were executed from 2016-17 to 2025-26 (see para. 1.6) and 326 applications for modification of lease conditions were under processing as at 31 March 2026.

2.5 Audit noted that long time had been taken in completing some application cases for modification of lease conditions, as follows:

(a) for some executed land transactions involving modification of lease conditions, the related application cases took a long time to complete (i.e. from receipt of application to execution of land documents). According to CMS records, of the 903 applications with land transactions executed from 2016-17 to 2025-26, 566 (63%) application cases took more than 1 year and up to 21.9 years (averaging 3.6 years) to complete (see Table 2); and

Note 13: *Of the remaining 406 (1,378 less 674 less 298) applications: (a) 80 applications were rejected (e.g. lack of policy support and fundamental objections from B/Ds); and (b) 326 applications were withdrawn by the applicants (e.g. change of ownership and applicant not accepting the premium amount stated in the binding offer of basic terms without lodging any appeal before the specified deadline).*

Table 2

Time taken to complete lease modification application cases (2016-17 to 2025-26)

Time taken from receipt of application to execution of land documents	No. of application cases		
1 year or less	337	(37%)	
More than 1 year and up to 2 years	209	(23%)	
More than 2 years and up to 5 years	247	(27%)	
More than 5 years and up to 10 years	88	(9%)	566 (63%)
More than 10 years and up to 15 years	16	(2%)	
More than 15 years and up to 20 years	4	(1%)	
More than 20 years to 21.9 years	2	(1%)	
Total	903	(100%)	

Source: *LandsD records*

(b) some application cases for modification of lease conditions had been under processing for a long period of time. According to CMS records, of the 326 application cases under processing as at 31 March 2026, the applications of 213 (65%) cases had been received for more than 1 year and up to 29.1 years (averaging 5.4 years) (see Table 3).

Table 3

Aging analysis of lease modification application cases under processing (31 March 2026)

Time elapsed from receipt of application to 31 March 2026	No. of application cases		
1 year or less	113	(35%)	
More than 1 year and up to 2 years	52	(16%)	
More than 2 years and up to 5 years	80	(25%)	
More than 5 years and up to 10 years	53	(16%)	213 (65%)
More than 10 years and up to 15 years	18	(5%)	
More than 15 years and up to 20 years	6	(2%)	
More than 20 years to 29.1 years	4	(1%)	
Total	326	(100%)	

Source: *LandsD records*

2.6 Regarding the completion of application cases for modification of lease conditions, Audit noted the following:

(a) ***Some events involved long periods of time to settle.*** According to LandsD, for applications for modification of lease conditions, case officers are required to record key application particulars (including the nature and duration of non-counting events (see para. 2.3)) in CMS for monitoring purposes. Audit examined the records of the three application cases with the longest processing time to complete and the three application cases that had been under processing for the longest time as at 31 March 2026. For these six application cases, the time taken up to execution of land documents (for completed cases)/time elapsed up to 31 March 2026 (for cases under processing) ranged from 19 to 29.1 years (averaging 23.7 years) from the dates of receipt of applications. According to LandsD, the actual total processing time should be calculated from the dates of valid applications (i.e. upon receipt of all necessary information and documents to support the

feasibility of the proposals) (Note 14) and exclude the time taken by non-counting events (i.e. those events that could not be controlled by LandsD (see para. 2.3)). Audit noted that:

(i) for the six cases, the time taken from the dates of receipt of applications to the dates of valid applications ranged from 8 days to 12.7 years (averaging 3.4 years). After validation, the time taken up to execution of land documents (for completed cases)/time elapsed up to 31 March 2026 (for cases under processing) ranged from 9.2 to 26.8 years (averaging 20.3 years);

(ii) for the three completed cases, after validation, the time taken up to execution of land documents ranged from 9.2 to 18.9 years (averaging 14.8 years). According to CMS records, the aggregate duration of non-counting events for the three cases ranged from 8.2 to 18.4 years (averaging 14 years), accounting for about 89% to 97% (averaging 93%) of their respective total processing time after validation. In other words, the aggregate duration of other events (i.e. counting events that should be controllable by LandsD) for the three cases ranged from 200 to 372 days (averaging 314 days);

(iii) for the three cases under processing, after validation, the time elapsed up to 31 March 2026 ranged from 23.9 to 26.8 years (averaging 25.8 years). According to CMS records, the aggregate duration of non-counting events for the three cases ranged from 22.1 to 24.2 years (averaging 23 years), accounting for about 85% to 92% (averaging 89%) of their respective processing time from the dates of valid applications to 31 March 2026. According to LandsD, non-counting events which were still on-going as at 31 March 2026 had yet to be taken into account in calculating the

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Note 14: *According to LandsD, the time taken for validation of applications should not be counted towards the actual total processing time by LandsD, as the time required for validating applications depends to a large extent on the swiftness of the applicants in providing requisite proof on their status/legal capacity in making the applications as well as key information/documents to substantiate the technical feasibility of their applications with a view to fulfilling preliminary checking on the implementability of their proposals (e.g. compliance with the statutory town plans).*

aggregate duration of non-counting events. In other words, the aggregate duration of the remaining events (including counting events that should be controllable by LandsD and non-counting events which were still on-going as at 31 March 2026) for the three cases ranged from 1.8 to 3.9 years (averaging 2.8 years); and

(iv) for one of the completed cases with a processing time of 18.9 years after validation, the aggregate duration of non-counting events was about 18.4 years (or 97% of the total processing time). According to CMS records, the longest non-counting event lasted for about 14.5 years, which was related to a request by the applicant for a change in the type of documentation used for modification of lease conditions (i.e. from modification letter to extension letter). However, Audit noted that, for 6 of the 14.5 years, no action had been taken by the applicant and LandsD had not proactively followed up with the applicant regarding the application; and

(b) ***Scope for enhancing management information for monitoring applications under processing.*** Audit noted that, while monthly reports for monitoring the progress of on-going applications for modification of lease conditions were generated from CMS for discussion at DLO/Land Supply Section level (see para. 2.14(a)) and various monitoring reports (e.g. quarterly summary of key performance indicators and analysis of processing time for completed applications) were compiled and provided to senior management for monitoring purposes, LandsD had not compiled consolidated summaries (e.g. aging analysis to monitor case progress before and after validation of applications, and cases with long duration of non-counting events) for monitoring all applications under processing and early identifying cases where unresolved issues may be warranted for escalation to a higher level for steering to facilitate the case processing.

2.7 In this connection, Audit noted that the Development Bureau (DEVB) promulgated the following two general circulars in 2024 and 2026 respectively, which are relating to land development-related applications (including applications for modification of lease conditions):

(a) ***DEVB General Circular No. 1/2024 on "Adopting a Facilitating and Collaborative Mindset".*** This circular was promulgated in July 2024 to request B/Ds to adopt a facilitating and collaborative mindset in processing land development-related applications. According to the circular:

(i) without undermining the public policy objectives underlying the development control, officers in B/Ds should adopt the mindset of a "facilitator" in processing development proposals and B/Ds should streamline the control and workflow as far as possible. This does not only expedite the development process for the greater community benefit, but also helps reduce development cost and time as well as create a more business-friendly environment; and

(ii) at the daily operation level, B/Ds should render appropriate and timely assistance to applicants in understanding the requirements, and how such requirements may be fulfilled. The ultimate objective is to facilitate applicants to comprehend and comply with the requirements so that the development could be brought to early fruition; and

(b) ***DEVB General Circular No. 1/2026 on "Expediting Development Approvals for Large-Scale Private Developments".*** This circular was promulgated in January 2026 to set out new measures that aims to expedite approval processes for large-scale private development projects (Note 15) through concerted efforts from government departments. According to the circular:

(i) large-scale private developments entail many processes from inception to implementation during which approvals from government departments are required at different stages. Timely

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Note 15: *According to DEVB General Circular No. 1/2026, applicable private development projects include: (a) residential developments with 500 flats or more; (b) commercial developments with gross floor area of 100,000 square metres or more; (c) all industry-related developments, such as those related to innovation and technology, education, medical and healthcare, tourism, logistics, green energy, as well as arts, culture and creative industries; and (d) other projects with strategic significance or with policy support requiring fast-track processing.*

approvals can allow developments to materialise faster and cheaper, bringing early benefits to the wider community; and

(ii) for big-ticket lease modification and land exchange applications, if B/Ds' comments are not received and/or there are major conflicting views among B/Ds or problematic issues, an officer at D1 Grade of LandsD will review the case and, subject to the endorsement of an officer at D2 Grade, escalate it to DEVB, with a view to resolving outstanding issues before the application is considered at DLC.

2.8 In October 2026, DEVB and LandsD informed Audit that:

(a) ***DEVB.*** Land lease was a private contract between the Government as the landlord and the lot owner. Its nature, particularly those concluded through lease modification, was very different from public contracts such as those arising from the Government's procurement of supplies and services through open tender that were subject to standardised procurement rules with strict deadlines and limited room for negotiation during the process to ensure fairness. Lease modification on the other hand involved negotiation between the Government and the lot owner on both the lease terms to be modified and premium payable. A longer time to reach agreement did not necessarily suggest lack of efficiency. Whether the negotiation would eventually lead to execution would require the mutual agreement of both parties based on their own considerations and LandsD had a duty to protect government revenue; and

(b) ***LandsD.*** In processing applications for modification of lease conditions, the facilitation provided to applicants should not in any event undermine LandsD's capacity as the agent of the Government in land administration.

2.9 In view of the fact that long time had been taken in completing some application cases for modification of lease conditions, Audit considers that LandsD needs to take measures to facilitate the early completion of application cases for modification of lease conditions as far as practicable, including:

(a) providing timely facilitation to applicants where appropriate;

(b) enhancing the measures (including provision of management information (e.g. aging analysis to monitor case progress before and after validation of applications, and cases with long duration of non-counting events)) for monitoring all applications under processing and early identifying cases where unresolved issues may be warranted for escalation to a higher level for steering with a view to facilitating the case processing; and

(c) reminding its staff to take proactive follow-up actions with applicants for applications involving prolonged non-counting events.

Scope for improvement in monitoring achievements of key milestones

2.10 In addition to the performance pledges (see para. 2.2), LandsD also sets key milestones to monitor the processing of applications for modification of lease conditions. According to LandsD guidelines, these key milestones include:

(a) ***Key Milestone I.*** Applications for modification of lease conditions will be submitted to DLC for consideration within 13 weeks upon submission of all necessary information and documents;

(b) ***Key Milestone II.*** Valuation file with background notes will be passed to the Valuation Section for premium assessment within 1 week upon acceptance of provisional basic terms offer (Note 16);

(c) ***Key Milestone III.*** Decision by the Valuation Committee/Conference will be issued by the Valuation Section within 7 weeks upon receipt of valuation file with background notes (Note 17); and

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Note 16: *According to LandsD, for land transactions requiring assessment of land premium, premium assessments have been centralised for processing by the Valuation Section since September 2018, and Key Milestone II has been effective from 12 September 2018.*

Note 17: *According to LandsD, since 12 September 2018, the time target under Key Milestone III has been set to within 7 weeks.*

(d) ***Key Milestone IV.*** For appeals against premium assessments, the premium appeals will be submitted to the Valuation Conference for consideration within 4 months upon receipt of appeal submission.

2.11 Audit noted that there was scope for improvement in monitoring the achievements of key milestones, as follows:

(a) ***Scope for enhancing management information for monitoring the achievements of key milestones.*** While management information for monitoring the achievement of Key Milestone I was input into CMS and was regularly compiled and submitted to LandsD senior management for monitoring purposes, such management information for Key Milestones III and IV was not input into CMS and was only maintained in manually-prepared spreadsheets administered by the Valuation Section (i.e. the responsible section for these two key milestones). Furthermore, LandsD had not compiled management information for monitoring the achievement of Key Milestone II; and

(b) ***Need to strengthen measures to ensure compliance with the time targets under key milestones.*** Audit noted that there were some non-compliances with the time targets under key milestones, as follows:

(i) ***Key Milestone I.*** According to LandsD, from 2021-22 to 2025-26, the compliance with the time target under Key Milestone I ranged from 98% to 100%;

(ii) ***Key Milestone II.*** According to CMS records, from 2021-22 to 2025-26, 126 applications required premium assessments by the Valuation Section. Of the 126 applications, 87 (69%) had the dates of acceptance of provisional basic terms offer and the dates of passing valuation file to the Valuation Section recorded in CMS (see para. 2.32(a) for related Audit findings). The valuation files for 34 (39%) of the 87 applications were passed to the Valuation Section more than 1 week from the dates of acceptance of provisional basic terms offer, ranging from 8 days to 1.7 years (averaging 92 days), not complying with the time target (i.e. within 1 week) under Key Milestone II (see para. 2.10(b));

(iii) ***Key Milestone III.*** According to LandsD, from 2022-23 (Note 18) to 2025-26, the compliance with the time target under Key Milestone III ranged from 98% to 100%; and

(iv) ***Key Milestone IV.*** According to LandsD, from 2023 (Note 19) to 2026 (up to August), the compliance with the time target under Key Milestone IV ranged from 41% to 56%.

2.12 In October 2026, LandsD informed Audit that:

(a) in assessing the achievements of Key Milestones II to IV, the actual processing time should exclude non-counting events (e.g. time incurred by the applicant for proving legal title for the private lots involved in the application and resolving land title issues) which could not be controlled by LandsD; and

(b) regarding Key Milestones III and IV, after the expansion of centralisation of premium assessments for land transactions in the Valuation Section since September 2018 with a view to shortening the processing time for premium assessments, it had in March 2023 provided various enhanced measures for facilitating premium negotiations through early engagement of applicants, more transparent communication and fast-track handling of premium appeals. These measures included allowing early submission of valuation information by applicants, holding pre-appeal meetings to exchange views on a non-committal and without prejudice basis, and inviting applicants to attend the Valuation Conference where they might, on request, be notified of the assessed premium and make an improved offer for LandsD's further consideration before the revised binding basic terms offer was issued. A fast-track mechanism also allowed second and third appeals to be handled via counter-offers within a shorter timeframe. Upon promulgating these measures through LAO Practice Note No. 2/2023, LandsD's achievements of Key Milestones III and IV had improved gradually.

Note 18: *According to LandsD, it has compiled management information for monitoring the achievement of Key Milestone III since 2022-23.*

Note 19: *According to LandsD, it has compiled management information for monitoring the achievement of Key Milestone IV since January 2023.*

2.13 In Audit's view, regarding key milestones relating to the processing of applications for modification of lease conditions, LandsD needs to:

(a) enhance the provision of management information (including centralising the compilation of management information) to facilitate monitoring the achievements of key milestones; and

(b) strengthen measures (including keeping regular reviews of the enhanced measures for facilitating premium negotiations) to ensure compliance with the time targets under key milestones.

Need to maintain documentation on discussions of case monitoring meetings

2.14 According to LandsD, regular case monitoring meetings are held by DLOs, the Land Supply Section and the Valuation Section to review the progress of applications for modification of lease conditions, as follows:

(a) ***DLOs and Land Supply Section.*** DLOs and the Land Supply Section each holds monthly case monitoring meetings (Note 20) to review the progress of on-going applications for modification of lease conditions and discuss any special issues or difficulties encountered in their processing. To facilitate discussions, monthly monitoring reports (listing all applications for modification of lease conditions under processing and their latest progress) are generated from CMS and presented at the meetings; and

Note 20: *According to LandsD, the DLO case monitoring meetings are chaired by the District Lands Officer of respective DLO, and the Land Supply Section case monitoring meetings are chaired by the Chief Estate Surveyor of the Land Supply Section.*

(b) ***Valuation Section.*** The Valuation Section holds monthly case monitoring meetings (Note 21) to review case progress, including the progress of premium assessments for applications for modification of lease conditions. To facilitate discussions, monitoring reports (listing all premium assessments for applications for modification of lease conditions under processing and their latest progress) are manually prepared and presented at the meetings.

However, Audit noted that, as at 31 August 2026, all the 12 DLOs, the Land Supply Section and the Valuation Section had not maintained documentation on discussions of monthly case monitoring meetings (e.g. the nature and details of special issues or difficulties encountered, the follow-up actions required, and the directions given at the meetings for cases under processing).

2.15 In Audit's view, LandsD needs to maintain documentation on discussions of case monitoring meetings (including the nature and details of special issues or difficulties encountered, the follow-up actions required, and the directions given at the meetings for cases under processing) held by DLOs, the Land Supply Section and the Valuation Section with a view to facilitating the monitoring of processing of applications for modification of lease conditions.

Scope for improvement in handling appeals against premium assessments

2.16 According to LandsD, for applications for modification of lease conditions:

Note 21: *According to LandsD: (a) the case monitoring meetings held in even-numbered months are chaired by the Chief Estate Surveyor of the Valuation Section, and those held in odd-numbered months are chaired by the Deputy Director/Specialist of LandsD; (b) the meetings chaired by the Chief Estate Surveyor of the Valuation Section focus on the detailed progress review of individual cases and serve as a platform for the case officers to seek initial steers from the section head at an early stage to process the applications efficiently; and (c) the meetings chaired by the Deputy Director/Specialist of LandsD are a higher-level management forum focusing on matters requiring wider or more strategic consideration, including contentious cases and issues other than lease modification and land exchange cases.*

(a) an applicant who disagrees with the land premium amount assessed by LandsD may lodge an appeal against the premium assessment. For appeal against the assessed premium amount, the applicant is required to submit a counter-offer of premium together with supporting documentation to justify the counter-offer for the appeal; and

(b) there is no limit on the number of appeals that an applicant can lodge against the land premium amount assessed by LandsD for each application.

2.17 According to CMS records, of the 903 executed land transactions involving modification of lease conditions from 2016-17 to 2025-26, 338 cases were charged with a valuable premium (other than nominal premium). Of these 338 cases, while the applicants of 175 (52%) cases accepted the premium amounts in the first binding basic terms offers (i.e. did not lodge appeals against the premium amounts), the applicants of 163 (48%) cases lodged appeals against the premium amounts assessed by LandsD for 1 time to 12 times, averaging 1.9 times. Table 4 shows the number of appeals against premium assessments for these 338 cases.

Table 4

Number of appeals against premium assessments
(2016-17 to 2025-26)

No. of appeals	No. of cases with appeals against premium assessments		
Nil	175	(52%)	
1	95	(28%)	
2	38	(11%)	
3	16	(5%)	
4	5	(1%)	163 (48%)
5 to 7	6	(2%)	
8 to 12	9 (3%) — 3	(1%)	
Total	338	(100%)	

Source: LandsD records

2.18 For the appeals against the premium amounts assessed by LandsD, Audit noted the following:

(a) ***High number of appeals and long appeal duration for some applications for modification of lease conditions.*** According to LandsD, there is no limit on the number of appeals that an applicant can lodge against the land premium amount assessed by LandsD for each application (see para. 2.16(b)). As shown in Table 4 in paragraph 2.17, the number of appeals for some cases was on a relatively high side. For example, the applicants of 9 cases lodged appeals against the premium amounts assessed by LandsD for 5 to 12 times (averaging 8 times). Audit noted that for each of the 9 cases, the time elapsed from issuance of the first binding offer of basic terms to acceptance of the final offer ranged from 5.4 to 10.4 years (averaging 7.4 years); and

(b) ***Number of appeals not taken into account in charging administrative fees for applications for modification of lease conditions.*** According to LandsD guidelines, the administrative fee charged for an application for modification of lease conditions is generally calculated based on the value of the lot concerned after completion of modification of lease conditions (subject to an upper limit of $392,100 as at 31 March 2026). Audit noted that the basis of charging administrative fee had not taken into account the number of appeals lodged by the applicant for the same application and the related resources involved in handling the application (see para. 4.14(d) for related Audit findings).

2.19 In September and October 2026, LandsD informed Audit that:

(a) it had promulgated LAO Practice Note No. 2/2023 in March 2023 to provide enhanced measures for facilitating premium negotiations (see para. 2.12(b)). With the implementation of these measures, the achievements of Key Milestone IV (i.e. the submission of premium appeal to the Valuation Conference for consideration within 4 months upon receipt of appeal submission) had improved gradually from 2023 to 2026 (up to August); and

(b) while it would make continued efforts in formulating measures for facilitating premium negotiations with the applicants, the swift conclusion of premium negotiations would ultimately depend on the commercial

considerations of the applicants in pursuing the development proposals having regard to their perception of the prevailing market conditions, future market outlook as well as their own financial considerations. In many instances, a degree of flexibility around the 4-month time target might be necessary to allow relevant information relating to the premium assessments to be duly considered, while also better accommodate the applicants' strategic planning of their investment portfolio and corresponding financial arrangements.

2.20 In Audit's view, LandsD needs to:

(a) make continued efforts to monitor and review its performance in handling appeals against premium assessments relating to applications for modification of lease conditions with a view to identifying any need for further measures in this regard; and

(b) keep under review the effectiveness of the enhanced measures for facilitating premium negotiations and take follow-up actions (e.g. refining the existing measures) as appropriate, and keep exploring new measures to achieve an ultimate outcome which is beneficial to both the Government and applicants.

Scope for improvement in application processing for some cases

2.21 ***Need to enhance guidelines for granting extension of time for payment of balance of land premium and completion of land transaction.*** According to LandsD guidelines, subject to payment of interest:

(a) the Chief Estate Surveyor may approve extension of time for payment of the balance of land premium and completion of land transaction up to 84 calendar days from the date of acceptance of the binding offer of basic terms (i.e. the contract date of land transaction);

(b) the Assistant Director may approve further extensions up to another 84 calendar days (i.e. up to 168 calendar days from the date of acceptance of the binding offer of basic terms); and

(c) further extensions of time beyond the aforesaid period would require consideration by the Land Administration Meeting (LAM — Note 22).

2.22 Regarding an application for modification of lease conditions (Application A), Audit noted that:

(a) after considering the reasons provided by the applicant of Application A, the Chief Estate Surveyor and the Assistant Director, under their respective approving authorities, had granted extensions of time up to 168 calendar days from the date of acceptance of the binding offer of basic terms for payment of the balance of land premium (with interest charged for the extended periods) and completion of land transaction; and

(b) after considering the reasons provided by the applicant of Application A, the Deputy Director had approved further three extensions of time up to another 125 calendar days (i.e. total extensions of time of 293 (168 plus 125) calendar days from the date of acceptance of the binding offer of basic terms) (with interest charged for the extended periods) without submitting the case to LAM for consideration and approval. In the event, the applicant of Application A settled the balance of land premium (including the interest) and completed the land transaction within the third extension of time granted by the Deputy Director.

2.23 Between August and October 2026, LandsD informed Audit that:

(a) the Deputy Director, as the Chairperson of LAM, had sole discretion to determine, based on the merits of each case, the necessity to call for LAM to consider specific issues affecting individual land transaction; and

(b) as Application A was a straight forward case and no legal input on the time extension requests was required, the three extensions of time mentioned in paragraph 2.22(b) were considered and granted by the Deputy Director (in

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Note 22: *According to LandsD, LAM is responsible for considering specific issues affecting individual land transaction and making decisions on the specific issues. LAM comprises the Deputy Director (i.e. the Chairperson), Assistant Directors and Senior Estate Surveyor grade officers of LandsD.*

the capacity of the Chairperson of LAM) instead of submitting the case to LAM for consideration and approval.

2.24 In Audit's view, LandsD needs to clearly specify in its guidelines the circumstances under which an application for extension of time for payment of the balance of land premium and completion of land transaction is only required to be submitted to the Deputy Director, who acts as the Chairperson of LAM, to decide on whether there is a necessity to call for LAM to consider the application.

2.25 ***Scope for improvement in the arrangement for execution of modification letter.*** Audit noted that there was scope for improvement in the arrangement for execution of modification letter regarding an application for modification of lease conditions (Application B). Between August and October 2026, LandsD informed Audit that:

(a) in relation to Application B, fresh engrossment of a modification letter was arranged for execution after the originally engrossed modification letter had been executed by the applicant and the DLO. Through land searches conducted by LandsD with LR (in accordance with LandsD's standard processes on the arrangement for execution), LandsD discovered that there was a change in the existing mortgage to which the land was subject. The change was brought about by the applicant having released the original existing mortgage and created a new building mortgage, which were all done during the time gap after the applicant's execution of the modification letter but before DLO's execution of the same. As the content of the modification letter had to be revised to reflect the changes in the particulars of the existing mortgage, a freshly engrossed modification letter was sent to the applicant and the mortgagee for execution;

(b) as provided in its guidelines on the procedures for preparation, engrossment, execution and registration of land documents (with certain excepted types of land documents), two rounds of land searches of the land were required to be conducted after receiving the land document executed by the applicant, one before DLO's execution of the land document (the date of which would be stated as the date of the land document) and the other one before the land document was lodged with LR for registration. Land search was the only available and proper means to ascertain whether the land was subject to any mortgage; and

(c) the standard requirements stated in its guidelines had been followed in relation to the arrangement for execution of the modification letter in Application B.

2.26 In Audit's view, when processing a case of modification of lease conditions, LandsD needs to consider reminding the applicant to notify LandsD immediately if there is any update or change in any legal interest or information about the land.

Audit recommendations

2.27 **Audit has *recommended* that the Director of Lands should:**

(a) **take measures to facilitate the early completion of application cases for modification of lease conditions as far as practicable, including:**

(i) **providing timely facilitation to applicants where appropriate;**

(ii) **enhancing the measures (including provision of management information (e.g. aging analysis to monitor case progress before and after validation of applications, and cases with long duration of non-counting events)) for monitoring all applications under processing and early identifying cases where unresolved issues may be warranted for escalation to a higher level for steering with a view to facilitating the case processing; and**

(iii) **reminding LandsD staff to take proactive follow-up actions with applicants for applications involving prolonged non-counting events;**

(b) **regarding key milestones relating to the processing of applications for modification of lease conditions:**

(i) **enhance the provision of management information (including centralising the compilation of management information) to facilitate monitoring the achievements of key milestones; and**

(ii) **strengthen measures (including keeping regular reviews of the enhanced measures for facilitating premium negotiations) to ensure compliance with the time targets under key milestones;**

(c) **maintain documentation on discussions of case monitoring meetings held by DLOs, the Land Supply Section and the Valuation Section with a view to facilitating the monitoring of processing of applications for modification of lease conditions;**

(d) **make continued efforts to monitor and review LandsD's performance in handling appeals against premium assessments relating to applications for modification of lease conditions with a view to identifying any need for further measures in this regard;**

(e) **keep under review the effectiveness of the enhanced measures for facilitating premium negotiations and take follow-up actions (e.g. refining the existing measures) as appropriate, and keep exploring new measures to achieve an ultimate outcome which is beneficial to both the Government and applicants;**

(f) **clearly specify in LandsD guidelines the circumstances under which an application for extension of time for payment of the balance of land premium and completion of land transaction is only required to be submitted to the Deputy Director, who acts as the Chairperson of LAM, to decide on whether there is a necessity to call for LAM to consider the application; and**

(g) **consider reminding the applicant to notify LandsD immediately if there is any update or change in any legal interest or information about the land when processing a case of modification of lease conditions.**

Response from the Government

2.28 The Director of Lands agrees with the audit recommendations. He has said that LandsD will:

(a) continue to explore appropriate measures to facilitate the early completion of cases for modification of lease conditions without undermining its capacity as the agent of the Government in land administration;

(b) keep under review the effectiveness of the enhanced measures promulgated in 2023 for facilitating premium negotiations with the applicants, and make continued efforts in formulating further measures for facilitating premium negotiations where appropriate; and

(c) continue to keep under review the existing mechanism of conducting updated land searches, and consider strengthening the work process by reminding the applicant to notify LandsD immediately if there is any update or change in any legal interest or information about the land when processing a case of modification of lease conditions.

Other issues related to application processing

Scope for improvement in disclosures of performance pledges

2.29 According to LandsD guidelines, there are four performance pledges (i.e. Performance Pledges I to IV) relating to the processing of applications for modification of lease conditions (see para. 2.2). These performance pledges are published on LandsD's website, and Performance Pledges I, II and IV are also included in LandsD's Controlling Officer's Reports (CORs) as targets under the key performance measures. Audit noted that there was scope for improvement in disclosures of performance pledges, as follows:

(a) ***Need to explain the basis of calculating the achievements of performance pledges.*** LandsD had excluded the processing time attributed to non-counting events (see para. 2.3) when calculating the achievements of Performance Pledges I to IV. However, as at 31 August 2026, such calculation basis was not explained on LandsD's website and in LandsD's CORs; and

(b) ***Inconsistency in description of Performance Pledge II among guidelines, website and COR of LandsD.*** The time pledge of 22 weeks under Performance Pledge II mentioned in LandsD's CORs was described as counting from "receipt of an application", which differed from "submission of all necessary information and documents" as specified in LandsD guidelines and published on LandsD's website. In October 2026, LandsD informed Audit that the inconsistency in description was not material given that the time between "receipt of an application" and "submission of all necessary information and documents" was dominated by non-counting events, which would not be counted towards the performance pledge in its CORs in any event.

2.30 In Audit's view, regarding performance pledges relating to the processing of applications for modification of lease conditions, LandsD needs to:

(a) explain the basis of calculating the achievements of performance pledges on its website and in its CORs; and

(b) maintain consistency in the description of performance pledges among guidelines, website and CORs of LandsD.

Scope for improvement in using CMS

2.31 According to LandsD, CMS is a computer system which provides:

(a) a means for monitoring the progress of certain types of land applications (including applications for lease modifications, land exchanges and lot extensions), building covenants and also building plan submissions, and for recording and retrieving details of such cases; and

(b) readily available and up-to-date data for preparation of revenue estimates, regular and ad-hoc statistical reports and performance reports to the management.

For applications for modification of lease conditions, case officers are required to record application details and key milestones in CMS for monitoring purposes.

2.32 Audit noted that while there were data fields in CMS for monitoring the achievements of Key Milestones II to IV relating to the processing of applications for modification of lease conditions (see para. 2.10), some relevant data had not been input into CMS, as follows:

(a) ***Key Milestone II.*** For 39 (31%) of the 126 applications for modification of lease conditions requiring premium assessments by the Valuation Section from 2021-22 to 2025-26 (see para. 2.11(b)(ii)), the dates of acceptance of provisional basic terms offer and/or the dates of passing valuation file to the Valuation Section were not input into CMS for monitoring the achievement of Key Milestone II; and

(b) ***Key Milestones III and IV.*** While data fields were available in CMS for recording the key dates relevant to monitoring the achievements of Key Milestones III and IV, the relevant data had not been input into CMS.

2.33 In Audit's view, LandsD needs to make continued efforts in using CMS in monitoring the processing of applications for modification of lease conditions (e.g. monitoring the achievements of key milestones), and take measures to ensure the completeness and accuracy of data in CMS.

Audit recommendations

2.34 **Audit has *recommended* that the Director of Lands should:**

(a) **regarding performance pledges relating to the processing of applications for modification of lease conditions:**

(i) **explain the basis of calculating the achievements of performance pledges on LandsD's website and in LandsD's CORs; and**

(ii) **maintain consistency in the description of performance pledges among guidelines, website and CORs of LandsD; and**

(b) **make continued efforts in using CMS in monitoring the processing of applications for modification of lease conditions (e.g. monitoring the achievements of key milestones), and take measures to ensure the completeness and accuracy of data in CMS.**

Response from the Government

2.35 The Director of Lands agrees with the audit recommendations. He has said that LandsD will take follow-up actions with regard to the audit recommendations accordingly.

PART 3: LEASE ENFORCEMENT WORK

3.1 This PART examines LandsD's work in lease enforcement on land lots where some of the original land leases have been modified, focusing on:

(a) identification of breaches of lease conditions (paras. 3.4 to 3.15);

(b) enforcement actions against breaches of lease conditions (paras. 3.16 to 3.24); and

(c) other issues related to lease enforcement (paras. 3.25 to 3.31).

3.2 According to LandsD, land leases are private contracts between the Government and the lot owners, stipulating the obligations and duties of the lot owners and containing relevant terms and conditions (e.g. lease terms and permitted uses). The lot owners should observe and comply with the lease conditions. LAO is responsible for, among other land administration, lease enforcement on lease breach cases.

3.3 According to LandsD, it maintains information of its lease enforcement work on land lot basis without specific identification of whether the land lots have their original land leases modified. This is because compliance of land lease requires the entire property and its use to strictly adhere to all conditions across the entire lot, including all previous un-modified conditions which remain fully in force alongside the new changes in the modification document. Whether the lease conditions have been modified is generally not a factor to determine enforcement strategy nor enforcement priority. Hence, there is no readily available information regarding lease enforcement work for land lots that have their original land leases modified (including compliance monitoring work, enforcement actions and follow-up actions taken). Audit selected 60 land lots with modified lease conditions from 4 DLOs (namely DLO/Hong Kong West and South (DLO/HKW&S), DLO/Kowloon East (DLO/KE), DLO/Kowloon West (DLO/KW) and DLO/Tsuen Wan and Kwai Tsing (DLO/TW&KT)) to examine LandsD's work in this regard.

Identification of breaches of lease conditions

Scope for improvement in detection of breaches of lease conditions

3.4 According to LandsD, it generally acts on complaints from members of the public, referrals or enquiries from other B/Ds, public bodies (e.g. District Councils and Rural Committees), or as a result of media reports about suspected breaches of lease conditions. Given the huge number of private land leases and the extensive area and uses involved, it is not practicable nor cost-effective or efficient for LandsD to patrol every piece of private land (including multi-storey buildings that are commonly under multiple ownership) regularly for the purpose of lease enforcement.

3.5 Audit noted a case that a breach of lease conditions was only detected by LandsD after a prolonged period. For the case, while a business establishment had been operating at a land lot permitted for private residential purposes (i.e. a breach of lease conditions) since May 1988, it was only detected by the DLO in July 2024 (i.e. a lapse of 36.2 years) upon receiving a referral of planning application in relation to a lease modification application (Note 23). In the event, subsequent enforcement actions (including issuance of warning letters in September 2024 and November 2024, followed by lodging the warning letter for registration in LR in December 2024) had been taken by the DLO. Based on the site visit conducted by Audit on 14 September 2026, the business establishment was still in operation at the lot concerned.

3.6 According to LandsD, it has already been making use of unmanned aerial vehicles and other technologies for detecting suspected lease breaches. In Audit's view, LandsD needs to continue to explore alternative measures to detect breaches of lease conditions at an earlier stage.

Note 23: *According to LandsD: (a) in March 2021, the lot owners submitted a lease modification application to LandsD for relaxing restrictions on the maximum gross floor area and number of storeys of the lot concerned. In May 2024, LandsD issued the binding basic terms offer, which was accepted by the lot owners in August 2024; and (b) generally speaking, there is no in-principle objection from the land administration perspective for a lease modification application to proceed notwithstanding the detection of a lease breach, irrespective of whether the proposed modification is related to the lease breach.*

Scope for improvement in conducting desktop investigations and site inspections

3.7 According to LandsD guidelines:

(a) upon receipt of complaints or referrals, desktop investigations (Note 24) should be carried out as soon as possible for initial screening. Since December 2025, desktop investigations should be conducted for all new cases received on or after 1 December 2025 within 30 days from the date of receipt;

(b) after conducting initial desktop investigations for cases of suspected breaches of lease conditions, DLO staff should carry out site inspections to gather evidence for determining any breach of lease conditions. Since December 2025, site inspections for potential top priority and potential high priority cases should be conducted within 14 days and 2 months respectively after desktop investigations (applicable to all new cases received on or after 1 December 2025);

(c) site inspection reports with field records (e.g. plans and photos) should be submitted after site inspections for reporting any breach of lease conditions; and

(d) in the event of encountering door-locked situations (i.e. difficulties in gaining access to the site/premises concerned for inspection), DLO staff should leave a standard send-for card/message sheet at the site/premises concerned and send a formal letter (Note 25) to the registered owners/occupiers concerned within a certain period of time (say two weeks

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Note 24: *According to LandsD, desktop investigations include checking of lease conditions, land status and land use zoning.*

Note 25: *The formal letter should include: (a) purpose of visit; (b) date and time of the next visit; (c) names of the officers who will conduct the next visit; (d) name of the responsible officer and his/her telephone number; (e) a statement advising the owners/occupiers to contact the responsible officer as soon as possible if the proposed date and time of the next visit is inconvenient to him/her/them; and (f) consequences of ignoring the request for a visit and breaching lease conditions.*

from the date of unsuccessful visit) to ensure that they are informed of the potential consequences of breaching lease conditions (Note 26).

3.8 Audit noted that:

(a) while time target had been introduced for conducting desktop investigations for all new cases since December 2025 (see para. 3.7(a)), no specific time target had been set for conducting desktop investigations for all existing cases received before 1 December 2025. In this connection, there was a case in which DLO took a long time to conduct desktop investigation. For the case, while a complaint of suspected breaches of lease conditions at a land lot was received by the DLO in October 2021, as at 31 July 2026 (i.e. a lapse of 4.8 years), relevant desktop investigation was not yet conducted and the reasons for the delay in conducting desktop investigation were not documented in the relevant case file;

(b) while time targets had been introduced for conducting site inspections for all new cases of potential top and potential high priorities (Note 27) since December 2025 (see para. 3.7(b)), no specific time targets had been set for conducting site inspections for lower priority cases (i.e. medium and low priorities). In this connection, there was a lower priority case in which DLO took a long time to conduct site inspection. For the case, upon receipt of a complaint of suspected breach of lease conditions at a land lot by the DLO in April 2017, site inspection was recommended in July 2019. However, as at 31 July 2026 (i.e. a lapse of 7.1 years from July 2019), relevant site inspection was not yet conducted and the reasons for the delay in conducting site inspection were not documented in the relevant case file;

Note 26: *According to LandsD, for cases received on or after 1 December 2025, DLO should: (a) schedule a re-inspection within three months counting from the date of the initial inspection; and (b) actively gather circumstantial evidence (e.g. desktop research) to assess any potential breaches of lease conditions of the site/premises concerned during the three-month period after the initial inspection. In case there is positive circumstantial evidence in support of the substantiation of breach despite the door-locked situation, lease enforcement actions should be continued.*

Note 27: *According to the records in the Integrated Land Enforcement System (see para. 3.27), from April 2016 to March 2026, there were no lease enforcement cases of top or high priorities related to land lots/premises with modification of lease conditions for the 4 DLOs selected by Audit for examination.*

(c) according to LandsD, there were time targets for initiating lease enforcement actions according to the case priorities (see para. 3.17) and the time period allowed for submitting the site inspection reports had already been integrated into the time targets. However, Audit noted that no specific time target had been set for the submission of the site inspection reports, particularly for cases in which no lease breach was substantiated after site inspections (i.e. not warranting any lease enforcement actions). In this connection, there were 2 cases in which the DLO staff from 2 DLOs took some time to submit the inspection reports after site inspections. For the 2 cases, the inspection reports were submitted 44 and 26 days after the respective site inspections conducted by the DLO staff in October 2019 and December 2017 respectively;

(d) since September 2022, mobile devices had been deployed for all site inspection duties and it was mandatory for DLO staff to use the devices for all site inspections for lease enforcement work. However, according to LandsD, while mobile devices had been used by the DLO staff of all the 4 selected DLOs for site inspections (Note 28), practical limitations (including network connectivity and reception) were occasionally encountered by the DLO staff in using the mobile devices, particularly in areas with unstable field signal reception of network connectivity (e.g. dense urban or multi-storey building environment); and

(e) formal letter was not timely issued after encountering door-locked situations by the DLO staff in a case. For the case, upon receipt of a complaint of suspected breach of lease conditions at a land lot by the DLO in May 2023, 2 site inspections were unsuccessfully conducted by the DLO staff in June 2023 and May 2024 with door-locked situations encountered. While send-for cards/message sheets had been left at the premises concerned, a formal letter was only issued to the registered owner in September 2024 (i.e. a lapse of 1.2 years after the first inspection). In the event, site inspection was successfully conducted by the DLO staff in late September 2024.

Note 28: *According to LandsD, the DLO staff can use the mobile devices and the web application for site inspections, including taking photographs, geotagging and inserting eye-photo labels on maps, uploading site inspection data, handling task re-assignments, work communications and utilisation of customised report printing features.*

3.9 In September and October 2026, LandsD informed Audit that:

(a) regarding desktop investigations for all existing cases received before 1 December 2025 (see para. 3.8(a)), as at 25 September 2026, desktop investigations had been conducted and priority categorisation had been completed by all DLOs for all existing cases upon transition of lease enforcement data to the Integrated Land Enforcement System (iLES — see para. 3.27);

(b) regarding site inspections for lower priority cases (see para. 3.8(b)), given the broad scope of land enforcement work and due to resources constraints, LandsD adopted a risk-based approach to prioritise lease enforcement cases. Under the approach, the time required for attending to lower priority cases would depend on the number of higher priority cases and the remaining resources available. As a result, it would be difficult for LandsD to set the time targets for conducting site inspections for lower priority cases. Nevertheless, LandsD would continue to review and enhance the effectiveness in handling higher priority cases with a view to freeing up more resources for dealing with lower priority cases. Besides, there was an existing monitoring mechanism for DLOs to upgrade priorities of cases for initiating site inspections and necessary lease enforcement actions, where appropriate;

(c) regarding the practical limitations encountered by the DLO staff in using mobile devices for site inspections (see para. 3.8(d)), LandsD had tried to address the limitations and other operational feedback from its staff by installing guest Wi-Fi across various office premises and empowering DLOs to exercise discretion in selecting network service providers based on local knowledge and their respective district environments; and

(d) regarding the issuance of formal letters after encountering door-locked situations (see para. 3.8(e)), functions had been newly incorporated in iLES in July 2026 for DLO staff to record the cases of unsuccessful visits and for the provision of situation reports for monitoring purposes.

3.10 In Audit's view, regarding cases of suspected breaches of lease conditions, LandsD needs to:

(a) take measures to ensure that desktop investigations and site inspections are conducted in accordance with the time targets stipulated in its guidelines;

(b) keep under review the timeliness and effectiveness in conducting site inspections for higher and lower priority cases and take follow-up actions as appropriate with a view to ensuring the timely conduct of the site inspections;

(c) consider setting time targets for submitting site inspection reports;

(d) continue to explore measures to address the practical limitations encountered by its staff in using mobile devices for site inspections and follow up the operational feedback from its staff as appropriate; and

(e) take measures to ensure the timely issuance of formal letters to the registered owners/occupiers concerned in the event of a door-locked situation during site inspections.

Scope for improvement in substantiation of breaches of lease conditions relating to parking and loading/unloading facilities

3.11 According to LandsD, with effect from January 2021, the Transport Department would be the authority to check compliance with the provision of parking and loading/unloading facilities under leases (i.e. the Transport Department is responsible for the investigation work and advising LandsD for any suspected breach of lease conditions) arising from complaints or enquiries referred by LandsD. LandsD would rely on the advice of the Transport Department and prepare a reply to the complainants or enquirers as appropriate. For complaints or enquiries related to parking and loading/unloading facilities where assistance of the Transport Department is required:

(a) LandsD should provide a full set of land documents governing the lot concerned with the car park layout plan to the Transport Department; and

(b) if there are any breaches identified by the Transport Department, LandsD would carry out appropriate lease enforcement actions in accordance with the established mechanisms and priorities for lease enforcement on the advice of the Transport Department on any substantiated breach.

3.12 Audit noted a case that DLO did not refer to the Transport Department as required. For the case, upon receipt of a complaint of suspected breach of lease conditions relating to misuse of parking space at a land lot by the DLO in April 2023, the DLO considered it necessary to refer the case to the Transport Department for substantiation of the breach of lease conditions in May 2023. However, as at 31 July 2026 (i.e. a lapse of 3.3 years from April 2023), the DLO staff had not provided the relevant land documents and information to the Transport Department as required for case referral. As far as could be ascertained, there was no documentation showing that other follow-up actions had been taken by the DLO. In October 2026, LandsD informed Audit that the DLO had referred the case to the Transport Department in September 2026, along with the relevant land documents required for the follow-up actions.

3.13 In Audit's view, LandsD needs to take measures to ensure that cases of suspected breaches of lease conditions relating to parking and loading/unloading facilities are timely referred to the Transport Department for advice on any substantiated breaches as appropriate.

Audit recommendations

3.14 **Audit has *recommended* that the Director of Lands should:**

(a) **continue to explore alternative measures to detect breaches of lease conditions at an earlier stage;**

(b) **regarding cases of suspected breaches of lease conditions:**

(i) **take measures to ensure that desktop investigations and site inspections are conducted in accordance with the time targets stipulated in LandsD guidelines;**

(ii) **keep under review the timeliness and effectiveness in conducting site inspections for higher and lower priority cases and take follow-up actions as appropriate with a view to ensuring the timely conduct of the site inspections;**

(iii) **consider setting time targets for submitting site inspection reports;**

(iv) **continue to explore measures to address the practical limitations encountered by LandsD staff in using mobile devices for site inspections and follow up the operational feedback from LandsD staff as appropriate; and**

(v) **take measures to ensure the timely issuance of formal letters to the registered owners/occupiers concerned in the event of a door-locked situation during site inspections; and**

(c) **take measures to ensure that cases of suspected breaches of lease conditions relating to parking and loading/unloading facilities are timely referred to the Transport Department for advice on any substantiated breaches as appropriate.**

Response from the Government

3.15 The Director of Lands agrees with the audit recommendations. He has said that LandsD:

(a) will continue to explore alternative measures, including through the utilisation of new technologies, to detect breaches of lease conditions at an earlier stage;

(b) will continue to review and enhance the effectiveness in handling higher priority cases of suspected breaches of lease conditions with a view to freeing up more resources for dealing with lower priority cases; and

(c) has already reminded its staff in October 2026 to refer cases of suspected breaches of lease conditions relating to parking and loading/unloading facilities to the Transport Department for advice in a timely manner.

Enforcement actions against breaches of lease conditions

3.16 According to LandsD, if a breach of lease conditions is detected and substantiated, in general, it will take appropriate lease enforcement actions according to the prevailing policies, procedures and priorities, including:

(a) issuing a warning letter to the lot owner concerned requesting rectification of the lease breach within a specified time. If the lot owner does not rectify the breach by the deadline, LandsD may register the warning letter in LR (i.e. "imposing an encumbrance"); and

(b) proceeding with re-entry of the lot or vesting of the relevant interest to the Government if the seriousness of the breach warrants further actions (e.g. the breach poses a serious threat to public safety). Once the instrument of re-entry is registered in LR, the land becomes government land.

Scope for improvement in lease enforcement actions relating to issuance of warning letters

3.17 According to LandsD, it has drawn up guidelines to prioritise cases under a risk-based approach having regard to the severity of breaches in terms of public safety and environmental hygiene nuisance. According to LandsD guidelines, in general, there are different lease enforcement actions against breaches of lease conditions of private land in accordance with the case priorities, as follows:

(a) ***Top priority cases.*** After a lease breach is substantiated, lease enforcement actions should be initiated as soon as possible. For top priority cases, a warning letter requesting rectification of the breaches of lease conditions with a 14-day grace period (hereinafter referred to as 14-day warning letter) should be issued. Re-entry or vesting would be proceeded if the breaches are not rectified in time. Since December 2025, LandsD has further set a

time target for issuing final warning letter leading to re-entry/vesting action (see Note 27 to para. 3.8(b));

(b) ***High priority cases.*** A warning letter requesting rectification of the breaches of lease conditions should be issued. Failing which, the warning letter would be sent to LR for registration. Since December 2025, LandsD has further set time targets for issuing warning letters leading to registration in LR depending on the nature and severity of the breaches of lease conditions (see Note 27 to para. 3.8(b)); and

(c) ***Medium and low priority cases.*** A warning letter requesting rectification of the breaches of lease conditions with a 28-day grace period (hereinafter referred to as 28-day warning letter) should be issued within a specified timeframe from the date of substantiation of the breaches of lease conditions. Registration of the 28-day warning letter in LR would be proceeded within a specified timeframe from the date of site inspection after expiry of the grace period if the breaches are not rectified in time.

3.18 Audit noted that, for medium and low priority cases involving non-industrial building premises, while 3 DLOs (i.e. DLO/KE, DLO/KW and DLO/TW&KT) followed the LandsD guidelines of issuing a 28-day warning letter after the breaches of lease conditions had been substantiated, DLO/HKW&S adopted the practice of issuing two warning letters (i.e. a 28-day warning letter followed by a 14-day warning letter if the breach is not rectified in time), which was at variance with the procedures stipulated in LandsD guidelines (see para. 3.17(c)).

3.19 In September and October 2026, LandsD informed Audit that, to encourage self-rectification of lease breach, DLO/HKW&S followed the outdated practice of issuing two warning letters as promulgated in 2011 to allow an extra 14-day period for breach rectification. Nevertheless, DLO/HKW&S had reviewed its practice lately and would follow the existing guidelines of issuing a 28-day warning letter for substantiated lease breach cases since October 2026. In Audit's view, LandsD needs to take measures to ensure that all the 12 DLOs follow its existing guidelines in issuing warning letters for substantiated lease breach cases.

Scope for improvement in reviewing lease enforcement cases after registration of warning letters in LR

3.20 According to the working guide of LandsD, for non-compliant cases considered not warranting re-entry/vesting actions, lease enforcement actions normally halt at the registration of warning letters in LR. A mere registration of warning letters in LR had little deterrence for property owners to purge the breaches (particularly for owners who were not going to sell the properties). In order to avoid acquiescence in respect of persistent breaches of lease conditions, since December 2014, subject to the review and decision (e.g. the period for review of a lease enforcement case with a warning letter registered in LR (i.e. review cycle for each case)) of the respective District Review Board (Note 29), each DLO should:

(a) conduct inspection to confirm non-compliance and issue a reminder letter to the registered owners; and

(b) repeat the above procedures until the respective District Review Board decides to step up enforcement action (i.e. re-entry/vesting).

3.21 Audit noted that:

(a) while a five-year review cycle (e.g. cases with warning letters registered in LR or with reminder letters issued in 2020 would be reviewed in 2025) was adopted by 3 DLOs (i.e. DLO/HKW&S, DLO/KE and DLO/KW), there were occasions where the review of lease enforcement cases with warning letters registered in LR had not been completed within the review cycle. In particular, as at 31 December 2025, it was reported in the minutes of District Review Board meetings that:

Note 29: *According to LandsD guidelines, various District Review Boards should be established in each DLO, including a District Review Board for monitoring lease enforcement work which is chaired by the respective District Lands Officer. The terms of reference of such District Review Board are, among others: (a) monitoring the progress and setting the priorities of lease enforcement work; (b) selecting target premises for lease enforcement actions; and (c) resolving problems arising from lease enforcement actions.*

(i) the review of a case under DLO/KE (with warning letter registered in LR in 2020) had not been completed within its first review cycle; and

(ii) the review of 2 cases under DLO/KW (with reminder letters issued in 2020) had not been completed within their second review cycles;

(b) according to LandsD records, of the 60 land lots with modified lease conditions selected from the 4 DLOs (see para. 3.3), as at 31 July 2026, there were 4 lease enforcement cases of medium or low priorities (comprising 3 cases under DLO/KW and 1 case under DLO/HKW&S) where the respective breaches of lease conditions had not been purged after the respective warning letters had been registered in LR for 1.5 to 10.5 years (averaging 5.9 years) and the respective cases had been reviewed regularly by DLOs in accordance with the relevant requirements (see para. 3.20). In particular, for the 2 cases under DLO/KW where the warning letters had been registered in LR for more than 5 years (i.e. 10.5 and 7.5 years), the DLO staff had issued a reminder letter for each case in April 2021 and June 2024 respectively; and

(c) no specific target for the length of the review cycle was set for DLO/TW&KT. In practice, the DLO staff of DLO/TW&KT reviewed the lease enforcement cases with warning letters registered in LR in chronological order of their respective year of registration subject to the resources availability of the DLO. As at 31 July 2026, DLO/TW&KT had only completed the review of all the registered cases up to 2017 (i.e. 9 years ago) and was in the process of reviewing the registered cases in 2018 (i.e. 8 years ago). According to LandsD, DLO/TW&KT set the target number of registered cases for completion of review in each quarter. However, Audit noted that the DLO did not set the period for repeating the review procedures for each lease enforcement case with a warning letter registered in LR.

3.22 In Audit's view, LandsD needs to:

(a) take measures to ensure that the review of lease enforcement cases with warning letters registered in LR is completed in accordance with the review cycle of each DLO;

(b) explore measures to strengthen the monitoring of long outstanding cases with breaches of lease conditions not purged after the registration of warning letters in LR; and

(c) consider incorporating the requirement of setting a specific target for the length of the review cycle for reviewing lease enforcement cases with warning letters registered in LR by each DLO in the working guide of LandsD.

Audit recommendations

3.23 **Audit has *recommended* that the Director of Lands should:**

(a) **take measures to ensure that all the 12 DLOs follow the existing LandsD guidelines in issuing warning letters for substantiated lease breach cases;**

(b) **take measures to ensure that the review of lease enforcement cases with warning letters registered in LR is completed in accordance with the review cycle of each DLO;**

(c) **explore measures to strengthen the monitoring of long outstanding cases with breaches of lease conditions not purged after the registration of warning letters in LR; and**

(d) **consider incorporating the requirement of setting a specific target for the length of the review cycle for reviewing lease enforcement cases with warning letters registered in LR by each DLO in the working guide of LandsD.**

Response from the Government

3.24 The Director of Lands agrees with the audit recommendations. He has said that LandsD will explore measures to strengthen the monitoring of long outstanding cases with breaches of lease conditions not purged after the registration of warning letters in LR, including formulating a target for the length of the review cycle for reviewing lease enforcement cases by each DLO.

Other issues related to lease enforcement

Need to ensure that LAO Instructions are updated in a timely manner

3.25 According to LandsD, in addition to LAO Instructions, it has promulgated new measures, guidelines and procedures in the form of circulars for lease enforcement, including LAO Technical Circulars, the Land Enforcement Circulars and other working guides in the form of memos or emails. Audit noted that, as at 31 July 2026:

(a) the working guides issued by LandsD in the form of memos or emails were not timely incorporated into LAO Instructions, as follows:

  (i) according to the prevailing working guide on review of lease enforcement strategies of multi-storey developments issued in February 2020, it was stated that relevant parts of LAO Instructions would be updated in due course. However, as at 31 July 2026 (i.e. a lapse of 6.5 years after the working guide was issued), the relevant parts of LAO Instructions had not been updated; and

  (ii) according to the prevailing working guide on review of lease enforcement cases with warning letters registered in LR issued in December 2014 (see para. 3.20), it was stated that the guidelines would be reviewed from time to time before being incorporated into LAO Instructions as appropriate. However, as at 31 July 2026 (i.e. a lapse of 11.6 years after the working guide was issued), such guidelines still had not been incorporated into LAO Instructions; and

(b) some of the content of LAO Instructions was not up-to-date, as follows:

  (i) according to LAO Instructions, the lease enforcement team in each DLO should draw up a patrol programme, taking into account the identified problem areas and frequency of inspection. According to LandsD, in practice, it was not practicable to patrol every piece of private land regularly (see para. 3.4). However, as at 31 July 2026, the practice was not updated in LAO Instructions accordingly; and

(ii) the delegated authority involved in approving the re-entry/vesting actions had been retitled with effect from July 2017. However, as at 31 July 2026 (i.e. a lapse of 9.1 years), LAO Instructions had not been updated accordingly.

3.26 In Audit's view, LandsD needs to take measures to ensure that LAO Instructions are updated in a timely manner with a view to reflecting the latest policies, procedures and guidelines relating to lease enforcement.

Need to timely complete the transition of lease enforcement data

3.27 According to LandsD, computer system is used to facilitate the lease enforcement work. In September 2025, LandsD launched iLES (Note 30) with a view to replacing the Lease Enforcement Information System (LEIS — Note 31). Since October 2025, the land enforcement (including lease enforcement) data of on-going cases has been transitioned to iLES. Lease enforcement cases have been transitioned from both LEIS and the subject case files to iLES progressively, with the target completion of data transition by the end of September 2026.

3.28 Audit noted that:

(a) as at 30 June 2026, 4 (33%) of the 12 DLOs had not completed the categorisation of case priorities in iLES for on-going lease enforcement cases received before October 2025. In the event, some management information (e.g. number of cases under each case priority) was not readily available for generation from iLES to facilitate monitoring of lease enforcement work; and

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Note 30: *According to LandsD, iLES is a web-based application system facilitating the daily operations of LandsD in handling land enforcement cases, including lease enforcement. It aims at facilitating frontline staff's efficient discharge of lease enforcement duties and serves as a centralised land enforcement data system platform to manage case progress for effective monitoring by the management.*

Note 31: *According to LandsD, LEIS (developed in around 2000) was a system designed only as a localised platform for each office to keep the basic information and operation events of its own lease enforcement cases.*

(b) of the 2,560 lease enforcement cases recorded in iLES from October 2025 to March 2026, as at 30 June 2026, case priorities of 126 (5%) cases were not recorded. Audit further selected 28 cases from the 4 selected DLOs and examined the data in iLES, and noted that:

(i) the priorities of 3 (11%) cases (comprising 2 cases from DLO/TW&KT and 1 case from DLO/KW) were not recorded in iLES;

(ii) 2 (7%) cases (from DLO/KW and DLO/TW&KT) of medium priority were incorrectly categorised as high priority in iLES; and

(iii) 1 (4%) case from DLO/KW of low priority was incorrectly categorised as medium priority in iLES.

3.29 In October 2026, LandsD informed Audit that, as at 25 September 2026, all DLOs completed the categorisation of case priorities in iLES for lease enforcement cases. To facilitate better case monitoring within the iLES system environment, the relevant transitioned data in iLES for lease enforcement cases of top and high priorities would undergo a data cleansing exercise, with the target completion by the end of 2026. In Audit's view, LandsD needs to:

(a) regarding the lease enforcement data transitioned to iLES, take measures to ensure that the data cleansing exercise for cases of top and high priorities is timely completed, and set relevant time targets for completing the data cleansing exercise for lower priority cases; and

(b) take measures to ensure the completeness and accuracy of case priorities of lease enforcement cases in iLES.

Audit recommendations

3.30 **Audit has *recommended* that the Director of Lands should:**

(a) **take measures to ensure that LAO Instructions are updated in a timely manner with a view to reflecting the latest policies, procedures and guidelines relating to lease enforcement;**

(b) **regarding the lease enforcement data transitioned to iLES, take measures to ensure that the data cleansing exercise for cases of top and high priorities is timely completed, and set relevant time targets for completing the data cleansing exercise for lower priority cases; and**

(c) **take measures to ensure the completeness and accuracy of case priorities of lease enforcement cases in iLES.**

Response from the Government

3.31 The Director of Lands agrees with the audit recommendations. He has said that LandsD has taken necessary follow-up actions to update LAO Instructions and to ensure the timely completion of the data cleansing exercise and the completeness and accuracy of case priorities of lease enforcement cases in iLES.

PART 4: OTHER RELATED ISSUES

4.1 This PART examines other issues related to modification of lease conditions, focusing on:

(a) governance issues (paras. 4.2 to 4.10); and

(b) other administrative issues (paras. 4.11 to 4.19).

Governance issues

4.2 According to LandsD:

(a) ***DLC.*** DLC is responsible for approving the proposed terms and conditions relating to applications for modification of lease conditions within the overall land policy and administration framework. It comprises the Assistant Director/Regional (i.e. the Chairperson), District Lands Officers, Senior Solicitors and Senior Estate Surveyors of LandsD (Note 32), and representatives from relevant B/Ds; and

(b) ***Valuation Committee/Conference.*** The Valuation Committee and the Valuation Conference are responsible for consideration of premium assessments for modification of lease conditions (see Note 32 to (a) above), as follows:

(i) ***Valuation Committee.*** Before September 2021, the Valuation Committee was responsible for consideration of premium assessments of amounts up to $150 million and providing recommendations on the amount of land premium for the approval of the Chairperson of the Committee. Since September 2021, the Valuation Committee is responsible for considering and handling the approval of the first premium assessments of all applications and providing recommendations on the amount of land premium for the

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Note 32: *According to LandsD, the procedures in making declaration of interests are specified in LandsD guidelines and have been followed by LandsD officers.*

approval of the Chairperson. It comprises the Assistant Director/Specialist 1 of LandsD (i.e. the Chairperson), and the Chief Estate Surveyor, Senior Estate Surveyors and Estate Surveyor (i.e. the case officer) of the Valuation Section; and

(ii) ***Valuation Conference.*** Before September 2021, the Valuation Conference was responsible for consideration of premium assessments of amounts over $150 million and land premium appeal cases (regardless of the premium amount), and providing recommendations on the amount of land premium for the approval of the Chairperson of the Conference. Since September 2021, the Valuation Conference is responsible for considering and handling the approval of premium assessments of appeal cases and contentious and problematic cases, and providing recommendations on the amount of land premium for the approval of the Chairperson. It comprises the Deputy Director/Specialist (i.e. the Chairperson) and the Assistant Director/Specialist 1 of LandsD, and the Chief Estate Surveyor, Senior Estate Surveyors and Estate Surveyor (i.e. the case officer) of the Valuation Section.

Scope for improvement in issuing meeting materials for DLCs

4.3 According to LandsD guidelines:

(a) DLC notes (e.g. case details relating to the applications for modification of lease conditions) should be circulated 1 week before the meetings of DLCs; and

(b) DLC decisions (i.e. discussion results relating to the applications for modification of lease conditions) should be circulated within 1 to 2 weeks after the meetings of DLCs.

Other related issues

4.4 Audit selected 24 meetings held by 4 selected DLCs (Note 33) between April 2025 and March 2026, and examined the meeting materials issued for these meetings. Audit noted that:

(a) as at 31 August 2026, there was no time target set for issuing the meeting agendas of DLC meetings. While the meeting agenda of 1 meeting was issued to the members 4 days before the circulation of the DLC notes, the meeting agendas of the remaining 23 (96%) meetings were issued to the members on the same day as the circulation of the DLC notes. In September 2026, LandsD informed Audit that it would impress upon its staff the need to issue the meeting agendas of DLC meetings in advance of the circulation of the DLC notes;

(b) for 3 (13%) meetings held by 2 DLCs, DLC notes were only circulated to the members 3 to 6 days (averaging 4 days) (i.e. less than 1 week) before the respective meeting dates; and

(c) for 5 (21%) meetings held by 2 DLCs, DLC decisions were only circulated to the members 19 to 71 days (averaging 36 days) (i.e. more than 2 weeks) after the respective meeting dates.

4.5 In Audit's view, LandsD needs to take measures to ensure that:

(a) the meeting agendas of DLC meetings are issued to members in advance of the circulation of the DLC notes, including setting time target for issuing the meeting agendas to members; and

(b) DLC notes and DLC decisions are issued to members of DLCs in accordance with the time targets stipulated in its guidelines.

Note 33: *LandsD has set up 10 DLCs. Audit selected 4 DLCs, namely DLC/Kowloon, DLC/Hong Kong, DLC/Tsuen Wan and Kwai Tsing and DLC/Yuen Long, to review their meeting records.*

Scope for improvement in issuing meeting materials for Valuation Committee/Conference

4.6 According to LandsD guidelines, valuation decisions (i.e. land premium assessment results relating to the applications for modification of lease conditions) should be issued within 2 weeks after the meetings of the Valuation Committee/Conference. However, Audit noted that, as at 31 August 2026, no similar time targets had been specified in LandsD guidelines for issuing the meeting agendas of the Valuation Committee/Conference meetings and the valuation notes (i.e. land premium assessments relating to the applications for modification of lease conditions) to the members of the Valuation Committee/Conference. According to LandsD, all meeting agendas of the Valuation Committee/Conference meetings would be sent to the members of the Valuation Committee/Conference in advance of the meetings.

4.7 In September 2026, LandsD informed Audit that, in general, under the current practice, the meeting agendas and the valuation notes were circulated to the members 1 week and 3 days respectively before the Valuation Committee/Conference meetings. Audit selected 10 applications for modification of lease conditions with land premium assessments discussed at 9 meetings of the Valuation Committee/Conference held between May 2021 and January 2026, and examined the meeting materials issued for these meetings. Audit noted that:

(a) the meeting agendas of 8 (89% of 9) meetings of the Valuation Committee/Conference (in which 9 (90% of 10) applications were discussed) were issued to the members of the Valuation Committee/Conference 2 to 6 days (averaging 4 days) (i.e. less than 1 week) before the respective meeting dates;

(b) the valuation notes of 7 (70% of 10) applications were only circulated to the members of the Valuation Committee/Conference 2 days (i.e. less than 3 days) before the respective meeting dates; and

(c) the meeting agendas of 7 (78% of 9) meetings of the Valuation Committee/Conference (in which 8 (80% of 10) applications were discussed) were issued to the members of the Valuation Committee/Conference 1 to 4 days (averaging 2 days) before the circulation of the valuation notes. While the meeting agendas of 2 (22% of 9) meetings of the Valuation Committee/Conference (in which 2 (20% of 10) applications were discussed) were issued to the members in

advance of the circulation of the valuation notes, the meeting agendas were issued to the members on the same day as the circulation of the valuation notes.

4.8 In Audit's view, LandsD needs to:

(a) enhance its guidelines to specify the time targets for issuing the meeting agendas of the Valuation Committee/Conference meetings and the valuation notes to members of the Valuation Committee/Conference, and take measures to ensure compliance with the time targets; and

(b) continue to take measures to ensure that the meeting agendas of the Valuation Committee/Conference meetings are issued to members in advance of the circulation of the valuation notes of the applications for modification of lease conditions.

Audit recommendations

4.9 **Audit has *recommended* that the Director of Lands should:**

(a) **take measures to ensure that:**

(i) **the meeting agendas of DLC meetings are issued to members in advance of the circulation of the DLC notes, including setting time target for issuing the meeting agendas to members; and**

(ii) **DLC notes and DLC decisions are issued to members of DLCs in accordance with the time targets stipulated in LandsD guidelines;**

(b) **enhance LandsD guidelines to specify the time targets for issuing the meeting agendas of the Valuation Committee/Conference meetings and the valuation notes to members of the Valuation Committee/Conference, and take measures to ensure compliance with the time targets; and**

(c) **continue to take measures to ensure that the meeting agendas of the Valuation Committee/Conference meetings are issued to members in advance of the circulation of the valuation notes of the applications for modification of lease conditions.**

Response from the Government

4.10 The Director of Lands agrees with the audit recommendations. He has said that LandsD has already taken steps to ensure that the meeting materials for various meetings will be issued in a timely manner.

Other administrative issues

Need to review administrative fees charged for applications for modification of lease conditions

4.11 According to LandsD, administrative fees charged for applications for modification of lease conditions are as follows:

(a) for applications for modification of lease conditions (other than technical modifications (see Note 11 to para. 2.2(b))), applicants are required to pay administrative fees to LAO (hereinafter referred to as LAO administrative fees — Note 34) in two instalments (Note 35), as follows:

(i) the initial LAO administrative fee is payable upon the validation of applications (see para. 1.4(b)); and

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Note 34: *According to LandsD: (a) from 2016-17 to 2025-26, the total amount of LAO administrative fees charged for applications for modification of lease conditions (including lease modifications, land exchanges and lot extensions) and private treaty grants was $303.8 million; and (b) there was no breakdown of LAO administrative fees charged solely for applications for modification of lease conditions.*

Note 35: *For applications involving technical modifications, the related LAO administrative fees are payable upon the validation of applications.*

(ii) the remaining balance of LAO administrative fee is payable upon the acceptance of the binding offer of basic terms by the applicants (see para. 1.4(f)); and

(b) for applications involving surrender of land to the Government (i.e. land exchange cases), in addition to LAO administrative fee, applicants are required to pay administrative fees to the Legal Advisory and Conveyancing Office (LACO — Note 36) of LandsD (hereinafter referred to as LACO administrative fees) for services rendered by LACO (e.g. checking of title deeds) (Note 37). LACO administrative fee is payable upon the validation of applications.

4.12 ***Basis of charging administrative fees.*** According to LandsD, the basis of charging LAO administrative fees and LACO administrative fees for applications for modification of lease conditions are as follows:

(a) ***LAO administrative fees.*** LAO administrative fees are payable by applicants for all applications for modification of lease conditions (except where alternative arrangement exists, such as nil administrative fee as steered by specific policy directives) and were last revised in December 2024. As at 31 March 2026:

(i) for applications for modification of lease conditions (other than technical modifications), LAO administrative fee is charged on the basis of a sliding scale at a fixed minimum fee of $68,650 plus $25,100 per $1 million of the "after value" of the lot concerned after completion of modification of lease conditions, subject to an upper limit of $392,100; and

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Note 36: *LACO, among other duties, is responsible for: (a) providing legal advice on land administration, lease conditions and conveyancing matters; (b) title checking for surrendered land for land exchange cases; (c) preparation of deeds of surrender for land exchange cases; and (d) execution of land documents relating to modification of lease conditions.*

Note 37: *According to LandsD, from 2016-17 to 2025-26, the total amount of LACO administrative fees charged for applications for land exchange was $18.8 million.*

(ii) for applications involving technical modifications, LAO administrative fee is fixed at $37,500; and

(b) ***LACO administrative fees.*** LACO administrative fees are payable by applicants for applications involving surrender of land to the Government and were last revised in February 2025. As at 31 March 2026, for applications involving surrender of land (except for cases in exchange for a new grant of land for New Territories Small House (Note 38)) of 1 to 100 land lots, LACO administrative fee is fixed at $34,450, and for applications involving surrender of land of over 100 land lots, LACO administrative fee will be charged on an individual case basis to recover the cost of rendering of services.

4.13 According to Financial Circular No. 6/2016 on "Fees and Charges" issued by the Financial Services and the Treasury Bureau (FSTB):

(a) it is the Government's policy that fees charged by the Government should in general be set at levels adequate to recover the full cost of providing the goods or services;

(b) fees should generally be reviewed and, where necessary, revised on an annual basis. Controlling Officers should submit duly prepared and vetted costing statements to FSTB on an annual basis to reflect the latest cost recovery position. To minimise delays and to prevent revenue loss, Controlling Officers must:

(i) ensure that fee reviews are conducted sufficiently early so as to avoid delays in implementing necessary revisions; and

(ii) submit their fee proposals sufficiently early to FSTB, in any event no later than 3 months in advance of implementation, to facilitate timely processing;

Note 38: *According to LandsD, for cases involving surrender of land in exchange for a new grant of land for New Territories Small House, LACO administrative fee is fixed at $12,100.*

(c) Controlling Officers should aim at achieving full-cost recovery as early as practicable. If fee increase for recovering the full cost at one go is not feasible, a phased approach can be adopted; and

(d) in preparing their fee proposals, Controlling Officers should ensure that the fee structure and levels are conducive to achieving the target (such as full-cost recovery). They should also take into account fairness and user-friendliness.

4.14 Audit examined LandsD records for fee reviews conducted on LAO administrative fees and LACO administrative fees in the past 10 financial years (i.e. 2016-17 to 2025-26) and noted the following issues:

(a) ***LAO administrative fees and LACO administrative fees not reviewed on an annual basis.*** Of the 10 financial years, Audit noted that LAO administrative fees had been reviewed for 3 financial years (i.e. 2023-24 to 2025-26). For the remaining 7 financial years (i.e. 2016-17 to 2022-23):

(i) ***2016-17 to 2018-19 and 2022-23.*** LAO administrative fees had not been reviewed for the period from 2016-17 to 2018-19 and 2022-23 (i.e. 4 financial years in total), not complying with the requirements stipulated in Financial Circular No. 6/2016 (see para. 4.13(b)); and

(ii) ***2019-20 to 2021-22.*** LAO administrative fees had not been reviewed for the period from 2019-20 to 2021-22 (i.e. 3 financial years in total) as the Government had implemented a fee review moratorium on fees and charges from August 2019 to December 2021.

In this connection, Audit also noted that, of the 10 financial years, LACO administrative fees had not been reviewed for the period from 2019-20 to 2021-22 due to the fee review moratorium (see (ii) above). Besides, LACO administrative fees had not been reviewed for 2025-26, not complying with the requirements stipulated in Financial Circular No. 6/2016 (see para. 4.13(b));

(b) ***Late submission of fee proposals on LAO administrative fees.*** For the 3 financial years (i.e. 2023-24 to 2025-26) with LAO administrative fees reviewed, Audit noted that there was late submission of fee proposals on LAO administrative fees by LandsD to FSTB for 2 financial years (i.e. 2023-24 and 2025-26) (i.e. not complying with the requirements of submitting fee proposals no later than 3 months in advance of implementation stipulated in Financial Circular No. 6/2016 (see para. 4.13(b)(ii))), as follows:

(i) ***2023-24.*** LandsD submitted the fee proposal for 2023-24 to FSTB on 30 January 2024, which was only about 2 months in advance of the proposed implementation date of 31 March 2024. FSTB raised enquiries about the submission in late February 2024 and LandsD provided response in early March 2024. In the event, FSTB advised in late April 2024 that the 2023-24 financial year had passed rendering the lapse of the validity of fee proposal which was prepared at the 2023-24 price level, and invited LandsD to submit another fee proposal (in which the costing statements for fees should be projected up to the price level of the year when the fee revision was expected to be implemented); and

(ii) ***2025-26.*** LandsD submitted the fee proposal for 2025-26 to FSTB on 23 March 2026, which was only about 1 week in advance of the proposed implementation date of 31 March 2026. In the event, FSTB advised LandsD on 1 April 2026 that the 2025-26 financial year had passed rendering the lapse of the validity of fee proposal which was prepared at the 2025-26 price level, and invited LandsD to submit another fee proposal (Note 39);

(c) ***Need to improve cost recovery rate of LAO administrative fees and LACO administrative fees.*** Audit examined the latest approved fee proposal on LAO administrative fees for 2024-25 (submitted by LandsD in July 2024 and approved by FSTB in November 2024 with implementation effective from December 2024) and noted that:

Note 39: *According to LandsD, as at 30 September 2026, it was conducting a fee review at the 2026-27 price level.*

(i) for applications for modification of lease conditions involving technical modifications, the prevailing LAO administrative fee was fixed at $37,500 (with an increase of about 15% from the previous fee revision in 2014-15), representing a cost recovery rate of about 54% at the 2024-25 price level, which was less than full-cost recovery; and

(ii) for applications for modification of lease conditions (other than technical modifications), the prevailing LAO administrative fee was charged on the basis of a sliding scale at a fixed minimum fee of $68,650 plus $25,100 per $1 million of the "after value" of the lot concerned, subject to an upper limit of $392,100 (with an increase of about 20% for each element from the previous fee revision in 2014-15). According to LandsD, the "after value" of the lot concerned after completion of modification of lease conditions had generally been adopted as a proxy for the complexity of a case and hence, greater efforts had to be spent for its processing where a higher fee on the basis of the sliding scale (subject to the upper limit) was charged. The upper limit of $392,100 (Note 40) represented a cost recovery rate of about 71% at the 2024-25 price level, which was less than full-cost recovery.

In this connection, Audit also noted that LACO administrative fees achieved full-cost recovery in 2018-19 but the cost recovery rate dropped to 77% in 2022-23 due to the fee review moratorium implemented from August 2019 to December 2021 (see (a)(ii) above). While LandsD conducted fee reviews and implemented fee revisions for the period from 2022-23 to 2024-25 in accordance with the requirements stipulated in Financial Circular No. 6/2016, the cost recovery rate was about 87% at the 2024-25 price level, which was less than full-cost recovery; and

Note 40: *According to LandsD, LAO administrative fees for about 85% of cases for modification of lease conditions processed in 2024-25 were charged at the upper limit.*

(d) ***Scope for reviewing the scope of LAO administrative fees.*** Audit noted that:

(i) the current basis of charging LAO administrative fees for applications for modification of lease conditions was generally based on a sliding scale tying to the "after value" of the lot concerned after completion of modification of lease conditions (see para. 4.12(a)(i)); and

(ii) some applications for modification of lease conditions involved prolonged processing time (see paras. 2.4 to 2.6) and a high number of appeals against premium assessments (see para. 2.18). While additional resources from LandsD were required to handle these applications, the related LAO administrative fees were charged on the same basis as all other applications.

4.15 In Audit's view, LandsD needs to:

(a) take measures to ensure that fee reviews on administrative fees charged for applications for modification of lease conditions are conducted in accordance with the requirements stipulated in Financial Circular No. 6/2016, including:

(i) conducting fee reviews on administrative fees on an annual basis; and

(ii) submitting fee proposals to FSTB no later than 3 months in advance of implementation;

(b) take measures to improve the cost recovery rate of LAO administrative fees and LACO administrative fees charged for applications for modification of lease conditions with a view to achieving full-cost recovery as early as practicable; and

(c) critically review the scope of LAO administrative fees, taking into account factors including the number of appeals and the resources spent on applications with long processing times.

Need to timely update LandsD guidelines

4.16 Audit noted that some practices and procedures relating to premium assessments in LandsD guidelines were not up-to-date, as follows:

(a) since September 2021, the Valuation Committee is responsible for considering and handling the approval of the first premium assessments of all applications for modification of lease conditions, and the Valuation Conference is responsible for considering and handling the approval of premium assessments of appeal cases and contentious and problematic cases (see para. 4.2(b)). While the internal circular of the Valuation Section had been updated in September 2021 to reflect the current practices, other related LandsD guidelines had not been updated (i.e. still showing the previous practices before September 2021) as at 31 August 2026; and

(b) according to LandsD guidelines as at 31 August 2026, valuation submissions to the Valuation Committee and the Valuation Conference should first be directed to the Chief Estate Surveyor of the Valuation Section for auditing. However, according to LandsD, such procedure was discontinued in September 2018 due to the centralisation of premium assessments for land transactions in the Valuation Section.

In Audit's view, LandsD needs to take measures to ensure that its guidelines relating to premium assessments are updated in a timely manner.

Audit recommendations

4.17 **Audit has *recommended* that the Director of Lands should:**

(a) **take measures to ensure that fee reviews on administrative fees charged for applications for modification of lease conditions are conducted in accordance with the requirements stipulated in Financial Circular No. 6/2016, including:**

(i) **conducting fee reviews on administrative fees on an annual basis; and**

(ii) **submitting fee proposals to FSTB no later than 3 months in advance of implementation;**

(b) **take measures to improve the cost recovery rate of LAO administrative fees and LACO administrative fees charged for applications for modification of lease conditions with a view to achieving full-cost recovery as early as practicable;**

(c) **critically review the scope of LAO administrative fees, taking into account factors including the number of appeals and the resources spent on applications with long processing times; and**

(d) **take measures to ensure that LandsD guidelines relating to premium assessments are updated in a timely manner.**

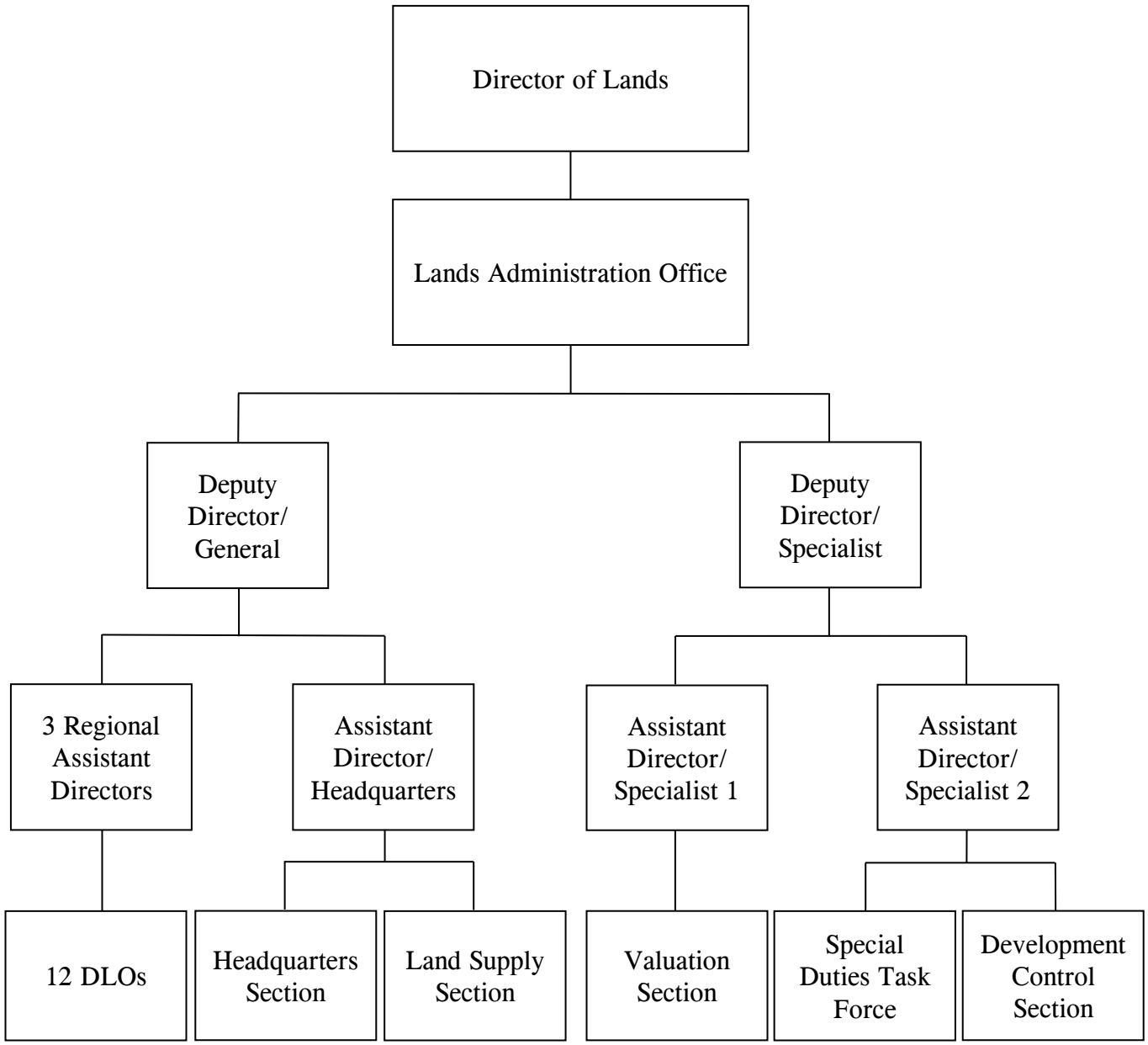
Response from the Government

4.18 The Director of Lands agrees with the audit recommendations. He has said that LandsD will continue to ensure that fee reviews on administrative fees charged for applications for modification of lease conditions are conducted in accordance with the requirements stipulated in Financial Circular No. 6/2016. In particular, LandsD will continue to take into account the principles of fairness and user-friendliness when keeping the scope and level of administrative fees under regular review.

4.19 The Secretary for Development has said that while land can generate revenue, more importantly, it is a tool to further policy objectives such as promoting industry development in the Northern Metropolis or driving the economy up the value chain. Any suggestion of capping the number of appeals or increasing the costs to applicants in case of multiple appeals during premium negotiation should be carefully assessed as this may be counter-productive to the Government's overall policy of promoting economic and land development, and attracting investment.

Appendix A
(para. 1.8 refers)

Lands Department:
Organisation chart (extract)
(31 March 2026)



Source: *LandsD records*

Remarks: *According to LandsD, there has been an organisational change since 21 August 2026, and the Assistant Director/Headquarters (including the Headquarters Section and the Land Supply Section) has been placed under the supervision of the Deputy Director/Specialist.*

Appendix B

Acronyms and abbreviations

Audit	Audit Commission
B/Ds	Government bureaux/departments
CMS	Case Monitoring System
COR	Controlling Officer's Report
DEVB	Development Bureau
DLC	District Lands Conference
DLO	District Lands Office
DLO/HKW&S	District Lands Office/Hong Kong West and South
DLO/KE	District Lands Office/Kowloon East
DLO/KW	District Lands Office/Kowloon West
DLO/TW&KT	District Lands Office/Tsuen Wan and Kwai Tsing
FSTB	Financial Services and the Treasury Bureau
iLES	Integrated Land Enforcement System
LACO	Legal Advisory and Conveyancing Office
LAM	Land Administration Meeting
LandsD	Lands Department
LAO	Lands Administration Office
LEIS	Lease Enforcement Information System
LR	Land Registry