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.