

## **Allegations Against the Chairman of the Land Development Corporation**

### **BACKGROUND**

On 23 March 2001, a local Chinese language newspaper carried a report on allegations made anonymously against the Chairman of the Land Development Corporation<sup>(1)</sup> (LDC). The report was carried by some other newspapers the following day.

2. In line with established practice, the Planning and Lands Bureau (PLB) asked the LDC for a report on the matter. In response to PLB's request, the LDC appointed a non-official Member of its Managing Board to conduct an investigation into the allegations. The Member was supported by the LDC management in his work.

3. The LDC was a corporation set up by law to carry out urban renewal. The purposes and powers of the LDC were set out in the Land Development Corporation Ordinance<sup>(2)</sup> (the Ordinance). The Managing Board of the LDC was the governing body of the corporation and had the authority to exercise the powers and duties conferred and imposed by the Ordinance. Under section 3 of the Ordinance, the Managing Board should consist of a non-executive Chairman, a Chief Executive, not less than five non-official members and not more than three official members. The Managing Board was responsible for determining overall policies of the LDC. The management of the LDC was headed by the Chief Executive who was responsible for the day-to-day operation of the corporation.

(1) The Urban Renewal Authority (URA) was established on 1 May 2001 and the LDC was dissolved on the same day.

(2) Now repealed.

4. The LDC was financially autonomous. The Ordinance required it to conduct its business according to prudent commercial principles. It had an established system for the award of contracts for the procurement of goods and services.

## **ALLEGATIONS**

5. The main allegations and LDC's findings are summarized below:-

(a) **Allegation 1**

The contracts for Vision In Business, Kan & Lau Design and C K Lo & S Lam Ltd were awarded without going through proper procedures of the LDC and the approval process of the LDC Managing Board.

**Findings**

The three contracts were let as part of the preparatory work for the establishment of the URA and proper procedures were followed in all three cases.

In the case of the contract with Vision In Business, the LDC Managing Board agreed to a tender waiver.

In the case of the contracts with Kan & Lau Design and C K Lo & S Lam Ltd, no tendering was required. In accordance with LDC policy, the two contracts were approved by the then Acting Chief Executive of the LDC.

(b) **Allegation 2**

The LDC awarded three contracts totalling \$460,000 to Equity Financial Press Limited. This involved a conflict of interest on the part of the Chairman of the LDC.

**Findings**

The LDC awarded contracts to Equity Financial Press Limited for the design and printing of its annual reports for three years, ie, 1996/97, 1997/98 and 1999/2000. The Chairman of the LDC has been a non-executive Director of Equity Financial Press Limited for many years. He did declare this to the LDC.

The contracts were let by the LDC management in the usual manner after tendering. The Chairman of the LDC was not involved in any way in the process.

(c) **Allegation 3**

The Chairman of LDC decided to draw on a high-interest loan from Henderson Land Development Company Limited instead of taking out short-term loans from banks at lower interest rates.

**Findings**

The LDC was entitled by contract to draw down a longer-term loan from Henderson Land Development Company Limited at a fixed interest rate to finance the Tsuen Wan Town Centre project. The loan was

for the duration of the project. For strategic financial reasons, the LDC Managing Board considered that it would be prudent to fund part of the project with longer-term funding provided by Henderson Land Development Company Limited at a fixed interest rate.

(d) **Allegation 4**

The 20% share in the Hanoi Road project owned by the LDC was sold to the New World Development Company Limited at a low price.

**Findings**

The Chairman of the LDC, together with two members of the Managing Board, were authorized by the Managing Board to negotiate an agreement with the New World Development Company Limited concerning advance payment. The Managing Board subsequently agreed to accept the terms of the offer from the New World Development Company Limited.

(e) **Allegation 5**

The Finance Director of LDC was forced to resign because he did not want to conspire with the Chairman of the LDC.

**Findings**

The Finance Director resigned on his own accord.

**THE ADMINISTRATION'S VIEW**

6. Having studied the report submitted by the LDC, the

Administration is of the view that the allegations are not substantiated.

## **ACCOUNTABILITY**

7. The Government appreciates the importance of enhancing the public accountability and transparency of the URA. There are clear provisions in the Urban Renewal Authority Ordinance on the declaration of interests of directors of the URA Board.

8. As undertaken by the Secretary for Planning and Lands during the Second Reading debate of the Urban Renewal Authority Bill in June 2000, the Administration has recommended the following measures to the URA in order to increase its public accountability and transparency:-

- (a) the URA should consider issuing guidelines on the declaration of interest and a list of “dos” and “don’ts” for its directors;
- (b) a register of declared interests and a record of directors’ attendance at URA Board meetings should be uploaded onto the Internet;
- (c) the URA Board should open its meetings to the public as far as practicable; and
- (d) the URA should set up an independent audit team and should consider making the annual report prepared by this audit team available to the Legislative Council for information.