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25 January 2005

Clerk
Public Accounts Committee
Legislative Council
8 Jackson Road
Central
Hong Kong
(Attn: Ms Miranda Hon)
[Fax: 2537 1204]

Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 43)**

Chapter 6: Grant of land at Discovery Bay and Yi Long Wan

I write further to para. 2 of my letter of 24 January 2005 regarding the request of the PAC for information on the estimated amounts of premium involved in each of the changes made in the MLPs prior to 7 June 1994 based on the market conditions at the time when the changes were made (your letter of 2 December 2004 refers).

On the basis of file records, the original premium of \$61.5 million charged for the Discovery Bay development land exchange was based on an estimated sale price of \$300/ft² which was applied to the total GFA for all the

uses permitted (i.e. without distinguishing between commercial, residential and hotel). This valuation was supported by the analysis of the two public land auctions in Mui Wo conducted in 1973. These land auctions produced a ground floor shop value at about \$300/ft² and upper floor residential flat value at about \$200/ft² which we believe were adopted as the benchmark for valuing Discovery Bay at that time. Moreover, the unit land cost (commonly known as accommodation value (AV)) derived from the estimated sale price also compared favourably with that of two land exchanges in Mui Wo and Cheung Chau for hotel development in the early 1970s.

The application of \$300/ft² to the total GFA permitted under the approved MLP meant that the enhancement, if any, in subsequent changes to the MLP had already been captured in the approval of the first MLP by adopting the highest use value among the mix in calculating the land premium to be paid by the developer upfront for the grant. This had obviated the need for further premium assessment when changes in the development mix were subsequently made to the MLP as long as the total permitted GFA was not exceeded. That being the case, we do not consider it appropriate to compute the premium for each of the changes made to the MLP prior to 7 June 1994.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Lau', written in a cursive style.

(Patrick Lau)

Director of Lands

c.c. Secretary for Housing, Planning and Lands
Secretary for Financial Services and the Treasury
(Attn: Mr Manfred WONG)
Director of Audit