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Subject: CONFIDENTIAL: Hunghom Peninsula Conversion Works
File Ref.:

Urgent Return Receipt

I have earlier orally briefed you all on the informal meeting I had with Mr. Stewart Leung of New World (NW) and Thomas Chan of Sun Hung Kai (SHK) in my office on 12 July 2005 at their request regarding the question of lease modification necessitated by the conversion works in Hunghom Peninsula (HP). The following is an account of that meeting which was largely a monologue by Leung.

2. Leung started off by saying that the purpose of the meeting was to explore with me informally and without prejudice a possible way to resolve the debate between the developers of HP and Lands D on whether the works to be carried out in the development require a lease modification and payment of premium. I told him that I would listen to what he had to say without any commitment. Leung then went off into recounting the history of the negotiation on the lease modification enabling the sale of HP flats on the private market by NW. He said that NW's original intention was not to demolish the building but to convert some of the flats because they were far too small and would require reconfiguration. (He said Mr. Corrigall himself went into the toilet of a flat and had difficulty in getting in and out because it was so tiny!) This was why they sought removal of the clause in the lease limiting the number of flats in HP so that they could knock down the walls of some flats and combine two into one. Another works they had in mind was building internal staircases between flats on two different floors to create duplex. Leung claimed these works were very common A&A works and did not require amendments to the MLP. He also said that even if amendments to MLPs were necessary, no charge had been levied in the past.

3. Leung said that when he tried to raise this with SHPL, SHPL thought that the premium for lease modification might not be as hefty as NW might think, but Leung feared that once they accepted the need for lease modification and premium payment in principle, they would have "no control" as to the amount of premium they might have to pay. Time is of the essence, considering inter alia that the rates payable for HP are now two and a half years in arrears (I wasn't quite sure what this meant). If no solution is in sight, NW would be forced to demolish HP. In this regard, Leung reminded me that they had done Government a favour by relenting on their decision at one point to demolish HP (implying we should show flexibility in this new debate).

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4. Having set out the problem and the urgency of a way forward, Leung said that if the lease modification premium demanded by Government for the conversion works is in the range of several million, NW would be amenable to accepting it and avoid further wrangling on the issue and delay on the works. He suggested that NW could propose to build some structures to facilitate access by residents to the podium garden, which would require lease modification but have little enhancement value and therefore justify a relatively low premium. This (in my view presentational arrangement) would address Lands D's position on lease modification and possible public concern.

5. Leung ended by saying that if his idea were not acceptable to Government, then NW would have to pursue the legal route with all the unpleasant consequences it entails for both sides. I said I would give what he said some further thoughts and ended the meeting.

COMMENTS

6. Since the meeting with Leung and Chan, I have not been able to follow up because of the need to deal with WKCD and other media issues that could not wait. On my return from overseas duty, I will study the exchanges between the legal representatives of both sides and the basis of deriving the preliminary indicative premium for the lease modification which we think is required for the conversion works before I revert to NW. In the meantime would DD/S please have a closer look as well on the premium assessment by Valuation Section and discuss on my return.

7. AA/SHPL told me today that SHPL, whom I briefed earlier of the above, that we should deal with the dispute in the usual manner and be prepared to go down the legal route and he will stand by our action. On the premium assesment, he is not in a position to give a view on its fairness or otherwise and will defer to professional judgment.

ENDS

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