

jobs. However, this does not mean that we did not communicate with the Home Affairs Bureau. We also frequently try to solve these problems with them. However, like I said just now, the biggest problem confronting them is financial constraint, compelling them to allocate less resource in this respect. That is why prioritization of projects is necessary. In this respect, we will continue to make an effort. In view of the improved economic situation, I hope the Government can allocate more resources in this area, so that we can present better homework or perform better next year.

**PRESIDENT** (in Cantonese): Third question.

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### **Sale of Home Ownership Scheme Flats**

3. **MR SIN CHUNG-KAI** (in Cantonese): *Madam President, the sale of Home Ownership Scheme (HOS) flats has ceased since 2003, and the authorities have stated that these flats would not be put up for sale as subsidized housing before the end of 2006. The Housing Authority (HA) has more than 16 500 unoccupied HOS flats at present, and in preparing its recent financial forecasts, the HA has assumed the sale of 2 000 HOS flats each year from 2007-08 onwards. In this regard, will the Government inform this Council:*

- (a) *of the estimated respective maintenance fees, management charges, rates/government rent and depreciation costs incurred by the suspension of sale of HOS flats since the commencement of the suspension until all the HOS flats have been sold out;*
- (b) *given the delayed inflow of sale proceeds due to the suspension of the sale of HOS flats, of the HA's loss in investment return as a result of the decision on suspension, calculated on the basis of the HA's average rate of investment return over the past five financial years; and*
- (c) *whether it will consider advancing the sale of the unoccupied HOS flats and setting a higher annual sales figure; if it will, of the timing for the resumption of sale and the number of flats to be sold each year; if not, the reasons for that?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, the authorities concerned decided to cease the production and sale of subsidized public housing in late 2002 to minimize intervention in the property market and to facilitate its free and healthy development. To maintain public confidence in the property market, our housing policy must be clear and consistent so that intending home-buyers are able to make informed decisions on the basis of known facts and actual situation. The property market is developing steadily and there is no special reason to adjust the policy of not offering the surplus HOS flats for sale before the end of 2006. In fact, the community's views on whether the sale of surplus HOS flats should be advanced are rather diverse. Some quarters are concerned that early sale of HOS flats may impact on the stability of the market and create confusion.

In the past months, I have informed the Legislative Council and the Panel on Housing on several occasions that the arrangements and timetable for the sale of surplus HOS flats will be drawn up in the latter part of 2006 in the light of latest market situations. It is premature to go into details at this stage.

Mr SIN's question made reference to the assumption that 2 000 HOS flats will be offered for sale each year from 2007-08 onwards. It should be noted that this is a sheer assumption used by the HA for its financial forecasts and for assessing its overall financial position in future. The HA has not made any decision on the number of flats to be sold or the sale arrangements.

As to the three-part question, my reply is as follows:

- (a) The HA has not made any decision on the timetable and the detailed arrangements for the sale of surplus HOS flats. Therefore, it is not possible to calculate meaningfully the total expenditure incurred by the surplus HOS flats before their sale.

In the past, we have been keeping the Legislative Council informed of the expenditure involved in managing the surplus HOS flats. In replying to the question raised by Mr Albert HO at the Legislative Council in March last year, I provided a detailed breakdown of the

expenditure involved in managing the surplus HOS flats. At the meeting of the Panel on Housing in April this year, we updated Members on the latest expenditure on management fees and government rents. As at the end of March 2005, the maintenance and management costs and government rents incurred by the surplus HOS flats was about \$216 million. Another \$170 million is expected to be incurred from April 2005 to the end of 2006. In addition, it is necessary to carry out simple touching-up works before offering the flats for sale. The estimated costs involved will be around \$9.1 million. The latest estimated expenditure is at Annex. In comparison with the information previously provided to the Legislative Council, the latest figures have taken into account the decrease in the number of surplus flats available for alternative means of disposal from some 10 000 last year to about 3 000 at present, and the management fees incurred by the Kingsford Terrace Private Sector Participation Scheme flats which the HA purchased from the developer last August.

As to whether the unsold flats will depreciate or diminish in value, it depends on the selling prices of the flats in future. Since property prices fluctuate from time to time, it is impossible to make any estimates.

- (b) Given that many factors and assumptions are involved in estimating investment returns, for example, selling prices of the flats, the numbers of flats offered for sale, investment strategy, prevailing market situation at the time of sale, and so on, it is inappropriate to make unfounded estimates about potential loss of investment return due to cessation of sale of HOS flats.
- (c) As stated above, in order to maintain the clarity and consistency of our housing policy, surplus HOS flats will not be put up for sale before the end of 2006. The number of flats to be sold each year after sale resumption will be decided by the HA in the latter part of 2006 after thorough deliberation in light of prevailing market situations.

## Annex

## Estimated Expenditure for Managing Surplus HOS Flats

Type of Flats	No. of Flats	Disposal Arrangement	Cost Incurred (in \$ Million) <sup>(1)</sup>		Expected Costs (in \$ Million)		
			From date of completion/buy-back to end of March 2005		From April 2005 to December 2006		
			Management Fee	Government Rent	Management Fee	Government Rent	Touching-up Costs <sup>(3)</sup>
Returned flats <sup>(2)</sup>	5 392	For sale to Green Form applicants after the end of 2006	46.9	18.7	50.9	20.3	N/A
Unsold flats in sold/partially sold HOS courts	6 082		80.9	32.4	54.9	21.9	5.0
Kingsford Terrace	2 010	For sale as HOS flats in 2007	1.8	2.3	5.5	7.0	1.6
Flats in unsold HOS developments	3 040	To be decided	31.1	2.2	8.6	1.3	2.5
Total No. of Surplus Flats	16 524	Total Expenditure	160.7	55.6	119.9	50.5	9.1
			216.3		179.5		

<sup>(1)</sup> The cost figures are calculated on the basis of the average expenditure for various types of flats according to their time of completion or buy-back.

<sup>(2)</sup> As at 28 February 2005.

<sup>(3)</sup> New flats in sold or partially sold HOS courts and Kingsford Terrace, which the HA bought back in August last year, will require simple touching-up works such as surface and occasional minor repairs before their sale in future. As to the 3 040 flats in unsold HOS developments, if there is no other appropriate alternative way of disposal and the flats are to be sold as HOS flats after the end of 2006, touching-up works will also be necessary. On the other hand, the 5 000-odd returned flats would require more substantial refurbishment due to previous occupation. Given that this cost item is necessary irrespective of timing of sale, it is not included above as a withholding cost.

**MR SIN CHUNG-KAI** (in Cantonese): *Madam President, in the main reply, the Secretary pointed out that the assumption that 2 000 HOS flats would be offered for sale each year did not reflect the HA had already decided on the number of flats to be sold or the relevant arrangement. If the assumption on offering 2 000*

*flats for sale as set out in the Budget is incorrect, may I ask the Secretary if, in his mind, the actual number of flats to be put on sale at the time will exceed 2 000? If so, will the number of flats to be put on sale at the time be so great as to affect the private market? If not, does it mean that all surplus HOS flats can be disposed off in a period longer than eight years? May I ask the Secretary, if the assumption of putting 2 000 flats on sale is incorrect and unable to reflect the actual situation, then how the actual situation can be reflected?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese):

Madam President, I have indeed mentioned this twice or thrice in the main reply. We have to take into account the prevailing circumstances or market situation at the time, housing supply and a host of factors before a decision can be made. Mr SIN also asked earlier about the impact the number of HOS flats to be put on sale may have on the property market. If too many flats are put on sale, will it deal a blow to the property market? And if only a small number of flats are put on sale, will the property market also be affected? Of course, these are factors we have to consider at the time, and we will deliberate this issue with the HA at that time.

**MR ALBERT HO** (in Cantonese): *Madam President, on the one hand, the HA, for lack of financial resources, has abandoned a number of recreational and leisure facilities projects in public housing estates, affecting people's livelihood; but on the other, in suspending the sale of HOS flats, the authorities are foregoing billions of dollars in public revenue. This is most ridiculous. Madam President, my supplementary question is: Given that the property market is now developing steadily, as the Secretary said, and intense speculation seems to have arisen recently, is it not the right time to review an obsolete or inappropriate policy? Should the Government not conduct a review and then decide whether some completed flats stocked up should be put on sale in the market in an orderly manner? May I ask the Secretary, upon the successful election of the new Chief Executive, if these obsolete, inappropriate, or even ridiculous policies will be reviewed?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese):

Madam President, I think it may be going too far to describe the prevailing

situation as "ridiculous". But Members certainly do have their own views. I have made it very clear in the main reply that our housing policy should give people an impression of consistency, and any changes or revision must be justified by good reasons. As I said, over the years, and on different occasions, I had repeatedly raised this issue with Members of the Legislative Council and persons concerned outside this Chamber. Every time, careful consideration was given to the issue and to date, as I said earlier, we still see no reason to reverse the decision. In this connection, I will bear in mind the views expressed by Members just now. In case of drastic changes, which possibility cannot be ruled out, we will review this. However, I do not see such a need for the time being.

**MR ALBERT HO** (in Cantonese): *Madam President, I asked the Secretary, after the new Chief Executive was elected, whether these policies which might already be obsolete, or which I considered as obsolete, would be reviewed.*

**PRESIDENT** (in Cantonese): Secretary, do you have anything to add?

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, the new Chief Executive will certainly has his own views. If I am still a member of his cabinet then, I will reflect the situation to him, but this of course has to depend on the personal view of the Chief Executive. As the saying goes, despite variations in the method used, the ultimate aim remains unchanged. But having said that, all these questions are guided by principles, and personal preference should not be applied in dealing with them. According to the logic I have mentioned earlier, I do not think the chances of introducing changes are great.

**MR LEE WING-TAT** (in Cantonese): *Madam President, according to an index, during the first five months of this year, the general property price index has increased by about 15% to 20%, and greater in the prices of luxury flats. In Secretary Michael SUEN's reply to the question, it was pointed out that a decision could only be made when there were material changes in the information available. May I ask the Secretary, apart from fluctuation in property prices,*

*what factors will make the Secretary think that this decision which I considered obsolete warrants a review? The Secretary mentioned consensus earlier. Actually, when the decision of suspending the sale of HOS flat was made by the Government a couple of years ago, no consensus of society had been sought but the arrangement had still been pressed ahead all the same. In that case, what factors may render the Secretary make the decision to conduct a review? What are the factors that the Secretary still needs to consider?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, property prices have gone up by 15%, and this is a fact. But we have to see carefully what the basis of comparison is. The 15% increase is certainly a comparison drawn on the property price level at the lowest point during the SARS pandemic. Relatively speaking, if current property prices of units priced at the middle to lower end are compared with pre-1997 property prices, the disparity is still significant. As for luxury flats, owing to specific reasons, the increase in prices of luxury flats is much greater, but luxury flats only account for a very small percentage. In this respect, we will mainly consider the demand and supply of flats and also their prices. Members may have heard all this many times and are quite familiar with it. We will deal with the issue with great caution.

**MR CHAN KAM-LAM** (in Cantonese): *Madam President, in terms of policy, maintaining stability of the property market is certainly a very important consideration. I would like to know, as the Secretary plans to review the present policy in the latter part of 2006, what the Secretary will consider doing if the situation in the latter part of 2006 is even better than the present situation. Will the policy be relaxed in some measure to allow such work to be carried out in 2006? The Secretary said that the sale of HOS flat was suspended in the past, but this is not the actual case, for the HA has bought back a lot of surrendered flats. If the situation in 2006 is better, will the Secretary consider putting those bought-back flats on sale at that time?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, actually, I do not have much information to add. The main point is where the focus is placed. I can only add that the situations mentioned

earlier are well within our expectation. We are not likely to change our policy because of these situations. In fact, it is only about a year away from the middle of 2006. The end of 2006 will soon approach. After 2006, and from 2007 onwards, we will be subject to no restriction as to how we should deal with those HOS flats under certain market situations.

**MISS TAM HEUNG-MAN** (in Cantonese): *Madam President, in respect of the Secretary's reply given earlier, I am concerned about the vacant flats. At present, there are about 16 000 vacant flats. If only 2 000 flats are expected to be sold each year, the large number of vacant flats can hardly be digested within a short time. May I ask the authorities whether they have considered letting these vacant flats at higher rents to applicants on the public housing flats waiting list, so that these vacant flats can be put to short-term uses?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, Members should know that it is set out clearly in the covenant of HOS flats that HOS flats cannot be used for other purposes. Though we do want to adopt Miss TAM's suggestion to reduce the vacancy rate of HOS flats or to allow us to earn rental income, we are not allowed to do so under the covenant of HOS flats.

**MR FREDERICK FUNG** (in Cantonese): *Madam President, in part (b) of the main reply, the Secretary pointed out that potential loss on HOS flats could hardly be estimated as many assumptions and investment strategies were involved. However, we can see from several points that the present practice of the Government has caused the HA to incur losses. Firstly, bought-back flats will not be put on sale, so adding the originally unsold flats, the number of vacant flats will continue to accumulate. Secondly, vacant flats will also incur loss to the HA, for instance, the HA will have to pay the management and maintenance fees of such flats. If those flats are left vacant for four to five years, they may require substantial refurbishment before they can be put on sale again.....*

**PRESIDENT** (in Cantonese): Mr FUNG, please state your question as soon as possible.

**MR FREDERICK FUNG** (in Cantonese): *Then, thirdly, the cost of depreciation. All these costs mean losses. Will the Government try to compensate the HA for the losses?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, the answer is that the Government will not compensate the HA for the losses.

Regarding the several points raised by Mr FUNG just now, I think I have to respond to them in brief. Mr FUNG mentioned that the HA would suffer loss because HOS flat are no longer put on sale. He seemed to imply that surplus HOS flats will not be put on sale in future and will cause losses. As I have said many times, these flats are the assets of the HA and will eventually be put on sale. The selling prices of these HOS flats have yet to be determined, but they may be sold at better prices in future. Many people have mentioned the loss caused by the depreciation of these flats. Actually, we all understand that these flats are fixed assets of ours. If these old assets are put on sale again in future, it is expected that a sum has to be spent on refurbishment. The most important point is that these assets are ours; we will not lose them and the future selling prices of these assets will not be reduced because of depreciation. This will not be the case. We have to manage these flats and refurbish them before they are put on sale is mainly because we have to maintain the value of our assets. In this respect, I do not think that the assumed cost of depreciation of these flats should be included. As for the question of depreciation, if it is calculated according to the straight-line method, some people have estimated that the cost of depreciation may reach \$3.5 billion in 40 years, which is an enormous amount. But the cost of depreciation should not be included indeed.

**PRESIDENT** (in Cantonese): Mr FUNG, I know you are eager to speak. *(Laughter)* But I hope you will only put a relevant question.

**MR FREDERICK FUNG** (in Cantonese): *Madam President, I would like the Secretary to elucidate, as he said in the main reply that depreciation of flats could be excluded and ignored, but we note from the HA that depreciation is actually always.....*

**PRESIDENT** (in Cantonese): Mr FUNG, please do not engage in a debate in the Chamber, will you? Please state the part of your supplementary question that has not been answered.

**MR FREDERICK FUNG** (in Cantonese): *I want the Secretary to elucidate part of his remarks. That is why, from the point of view of the Government, depreciation should not be included.*

**PRESIDENT** (in Cantonese): Mr FUNG, I am sorry, please be seated first. I can appreciate your point. But, regrettably, during question time, elucidation of this kind is not allowed. I may anyway see whether the Secretary has anything to add. Secretary, do you have anything to add?

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, my answer is just the same. These flats are assets of ours which will eventually be put on sale. As for the selling prices of these flats, as I said earlier, they may not necessarily be lower. Therefore, I think the depreciation of flats should not be a point for discussion.

**MR HOWARD YOUNG** (in Cantonese): *Madam President, after the financial turmoil, members of the middle class have been dogged by the problem of negative equity assets and were in dire straits. A couple of years ago, when the Liberal Party staged the first march for "protecting the people's assets and reviving the economy", it also advocated that the sale of HOS flat be suspended. We hope that the Government will not waver in its policy. However, I am also concerned about the capability of the market in absorbing these HOS flats. Many people have suggested that those HOS flats be used as hostels. Has this plan been banned completely and no further discussion can be held?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, the Government has done a lot in this respect, but no progress has been made so far. We consider that the plan has already died in the womb, and no one has ever mentioned it again. The plan does not seem to be feasible. As to whether HOS flats will be put up for sale in an orderly manner in future, I also want to explain this. We have two ways to promote the sales of HOS flats.

One way is to sell them to holders of green forms, who are the existing residents of public housing estates, the main sales target. And the other is to sell them in the open market. Therefore, the customer bases are different. In fact, on second thought, if the Government sells the flats to sitting tenants of public housing estates, it will facilitate these residents to improve their living standard and expedite their pace of moving up the ladder.

**PRESIDENT** (in Cantonese): We have spent more than 21 minutes on this question. Last supplementary question.

**DR KWOK KA-KI** (in Cantonese): *Madam President, I very much appreciate that the Secretary has to undertake a lot of responsibilities, including the upholding of high land premiums and property prices. However, according to the Secretary's reply to a supplementary question raised earlier, will the Government consider expanding the sale of HOS flats to more than 2 000 flats a year only when the price level of flats at the middle-to-lower end has reached the crazy levels in 1997? May I ask the Secretary to clarify whether we have to wait until property prices have risen to the 1997 level?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, I have to thank Dr KWOK for raising this question. I absolutely did not mean that when I gave that answer. I would like to take this opportunity to clarify that I have not said so. As Mr LEE Wing-tat mentioned the increase in property price was 15%, I said at that time that it was the fact, but the figure only represented the increase since the SARS pandemic.

**DR KWOK KA-KI** (in Cantonese): *Madam President, the Secretary has not answered my supplementary question. Does the Secretary mean that it is not necessary to wait until property prices have risen to the crazy level before 1997 that more HOS flats can be put on sale?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese): Madam President, I have made myself very clear just now. I do not mean that and the answer is in the negative.

**PRESIDENT** (in Cantonese): Fourth question. This oral question is raised by Mr LEUNG Kwok-hung originally, but before the meeting commenced, Mr LEUNG informed me in writing that he had other commitment and could not return on time to attend the meeting, so he had asked Dr Fernando CHEUNG to ask this oral question in his place. Dr Fernando CHEUNG.

**DR FERNANDO CHEUNG** (in Cantonese): *Madam President, since Mr LEUNG Kwok-hung is now staging a protest against the coterie election to be held for the Chief Executive post, I ask in his place .....*

**PRESIDENT** (in Cantonese): Dr Fernando CHEUNG, please state your oral question.

#### **Contractors of Outsourced Cleansing Services**

4. **DR FERNANDO CHEUNG** (in Cantonese): *Madam President, it has been reported that some contractors of the Government's outsourced cleansing services (the contractors) submitted false leave certificates of their employees and documents with forged signatures to obtain their service fees by fraud. Moreover, the Cleaning Workers' Union and the Cleaning Service Industry Workers Union had each lodged complaints with the Housing Department (HD) against four contractors who did not pay their employees according to the committed wages stipulated in the service contracts, and these complaints were already substantiated. On the other hand, while the contracts of the Government's outsourced cleansing services expressly provide that the contractors shall not breach the Employment Ordinance, there are still cases concerning the above wage problem and employees of certain contractors being forced to work without taking leave on rest days over a long period of five to six years. However, the government departments with the regulatory responsibility in this regard knew nothing about these irregularities and only dealt with such cases after receiving complaints from the workers' unions. In this connection, will the Government inform this Council:*

- (a) *whether, as victims of the above fraudulent acts, the government departments concerned will take the initiative to report to the police for investigation into the criminal liability of the contractors*