LCQ7: Land costs for subsidised sale flat projects

Following is a question by the Hon Andrew Wan and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (May 20):

Question :

At present, the Hong Kong Housing Authority (HA) has to pay the Government, for each subsidised sale flat (SSF) project, 35 per cent of the development cost of the flats sold as the land cost for the Government's provision of site formation and supporting infrastructure, with the development cost being the aggregate of the construction cost and overhead cost. Regarding the land costs for SSF projects, will the Government inform this Council:

(1) since when the Government has charged HA land costs for SSF projects, and of the justifications for setting the land cost at the level of 35 per cent of the development cost;

(2) of the following details of each of the Home Ownership Scheme (HOS) housing courts sold under each sale exercise since the resumption of the sale of HOS flats in 2014 (set out in Table 1):

(i) sale exercise,
(ii) district in which the housing court is located,
(iii) name of the housing court,
(iv) total number of flats in the housing court,
(v) average per-square-foot price of the flats (in saleable floor area),
(vi) (a) total amount and (b) average amount per flat, of the land cost,
(vii) (a) total amount and (b) average amount per square foot of saleable floor area, of the expenditure incurred by the Government on site formation and supporting infrastructure for the domestic element of the housing court, and
(viii) (a) total amount and (b) average amount per square foot of saleable floor area, of the land value at full market value for the domestic element of the housing court;

Table 1

(i)	(ii)	(iii)	(iv)	(v)	(vi)		(vii)		(viii)	
					(a)	(b)	(a)	(b)	(a)	(b)

(3) of the following details of each of the Green Form Subsidized Home Ownership Scheme (GSH) housing courts since the sale of GSH flats in 2016 (set out in Table 2):

(i) district in which the housing court is located,
(ii) name of the housing court,
(iii) total number of flats in the housing court,
(iv) average per-square-foot price of the flats,
(v) (a) total amount and (b) average amount per flat, of the land cost,
(vi) (a) total amount and (b) average amount per square foot of saleable floor area, of the expenditure incurred by the Government on site formation and supporting infrastructure for the domestic element of the housing court, and
(vii) (a) total amount and (b) average amount per square foot of saleable floor area, of the land value at full market value for the domestic element of the housing court; and

Table 2

(i)	(ii)	(iii)	(iv)	(v)		(vi)		(vii)	
				(a)	(b)	(a)	(b)	(a)	(b)

(4) whether it reviewed, in the past three years, the approach for setting the land cost; if so, of the details (including the date and outcome of the review, and whether a report was published); if not, the reasons for that; whether it has plans in the coming three years to adjust downward the level of the land cost (e.g. setting it at 25 per cent of the development cost) so as to lower the prices of HOS and GSH flats?

Reply:

The President,

My reply to the question raised by the Hon Andrew Wan is as follows:

(1) and (4) According to the record of the Hong Kong Housing Authority (HA), HA has, since 1980s, been paying the Government a project development cost of 35 per cent for subsidised sale flats (SSFs) (including Home Ownership Scheme (HOS)) as contribution for the Government's provision of site formation and infrastructure. In addition, the Government provides land to HA for the development of SSFs at a nominal premium of $1,000. In the past three years, the Government and HA have not conducted review on the determination arrangement of the land development cost for SSFs. The Government has already contributed substantial subsidy to the land development of SSFs, and has no plan to initiate a review.

Pricing of SSFs is determined based on the affordability of the applicants, and is not linked to the land development cost. According to the prevailing pricing mechanism for SSFs, the price of the flats for sale is determined based on the affordability test which uses the median monthly household income of non-owner occupier households as benchmark, and the number of affordable flats is at least 75 per cent.

(2) and (3) Information of housing courts sold under each sale exercise of HOS since 2014 and information of housing courts sold under the Green Form Subsidised Home Ownership Scheme (GSH) since 2016 is set out in Annex 1 and Annex 2 respectively.

We are not able to provide the Government's expenditure on land development for the above projects since the boundaries of the government site formation works are usually not confined to the public housing sites alone. Expenditure of government site formation works is also affected by various factors, including site location, site condition, geology and proposed site formation levels, etc. In fact, consideration would also be given for the concerned works to provide public roads in the vicinity and supporting facilities on a district basis. The Government's infrastructure provisions might also be upgraded when appropriate to meet the overall expected development of the districts, the projected planning parameters, the estimated population and traffic growth in the district, etc.

LCQ8: Promoting competition in fuel market

Following is a question by the Hon Chan Hoi-yan and a written reply by the Secretary for the Environment, Mr Wong Kam-sing, in the Legislative Council today (May 20):

Question:

The Chairperson of the Competition Commission (The Commission) attended on the 27th of last month, before her departure from office at the end of last month, a meeting of the Panel on Economic Development of this Council. At that meeting, she used the term "market failure" to describe Hong Kong's fuel market, and suggested that the Government should formulate policies to make the fuel market operate in a fairer manner, and confer on the Commission greater powers to gather evidence to facilitate its investigation into whether oil companies had engaged in collusive price-fixing. On promoting competition in the fuel market, will the Government inform this Council:

(1) whether the Government requested, in the past two years, all domestic piped liquefied petroleum gas (LPG) suppliers to publish price information; if so, whether the various suppliers published such information; if so, of the means through which such information was published and the details of such information;

(2) given that in the light of the Commission's recommendations, the authorities revised in August 2017 the arrangements for renewing contracts

for the supply of centralised LPG to public housing estates, by dropping the past practice that contracts with existing LPG suppliers would be renewed if their performance was satisfactory and adopting a new practice that new contracts must be awarded through tendering, of the details of the tendering exercises which were/will be conducted in the past two years and within this year, including the names of the public housing estates involved, the numbers of suppliers submitting bids, whether the successful bidders were existing suppliers, and the validity periods of such contracts; and

(3) given that the Commission has no power to demand oil companies to provide information and documents during the stage of conducting market studies, whether the Government will consider amending the Competition Ordinance (Cap. 619) to confer such powers on the Commission; if so, of the details; if not, the reasons for that?

Reply:

President,

The consolidated reply of the Environment Bureau, the Transport and Housing Bureau and the Commerce and Economic Development Bureau to the question raised by the Hon Chan Hoi-yan is as follows:

(1) At present, two out of the three domestic piped liquefied petroleum gas (LPG) suppliers (i.e. DSG Energy Limited and Sinopec (Hong Kong) Gas Company Limited) have already published the updated domestic piped LPG prices on their websites. The website addresses are as follows:

DSG: www.dsg-energy.com/latest-offers-and-news

Sinopec: www.sinopechongkong.com/XGGSCSMS/home.html

As for the other supplier (i.e. ExxonMobil Hong Kong Limited), it explained that it supplies domestic piped LPG and cylinder LPG through operators and distributors, instead of supplying to domestic users directly. As a wholesaler, based on company policy, it is unable to publish price information about its domestic piped LPG products.

The retail prices of domestic piped LPG in the past two years are set out in the table below:

	DSG	**Sinopec**
Effective date	**(HK$/cubic metre)**	**(HK$/cubic metre)**
End of Apr 2018	34.80	34.80
End of Jul 2018	37.68	37.68
End of Oct 2018	39.61	39.61
End of Jan 2019	33.35	33.35
End of Apr 2019	37.86	37.86

End of Jul 2019	34.38	34.38
End of Oct 2019	36.77	36.77
End of Jan 2020	38.94	38.94
End of Apr 2020	34.02	34.02

(2) At present, there are 15 public rental housing (PRH) estates (Note 1) under the Hong Kong Housing Authority (HA) that are installed with centralised LPG supply. With reference to the experience in private housing developments as well as the information gathered from LPG suppliers and the Electrical and Mechanical Services Department, and taking into account public views and the Competition Commission's recommendations, the Commercial Properties Committee (CPC) of the HA decided in August 2017 that tenders should be invited for awarding new contracts for the supply of centralised LPG to PRH estates upon expiry of the existing contracts. The CPC also decided to bundle, on a trial basis, the contracts for the supply of LPG to Wah Fu (II) Estate and Nga Ning Court for tendering. The concerned tender was issued in February 2018 and awarded in August of the same year. The details are as follows:

Name of PRH Estate	No. of Tenderers	Whether the successful tenderer is the incumbent supplier	Term of LPG Supply Contract
Wah Fu (II) Estate	2	No	10 years commencing from April 2019
Nga Ning Court	2	Yes	10 years commencing from April 2019

Note 1: Butterfly Estate, Choi Yuen Estate, Kam Peng Estate, Kwong Fuk Estate, Lung Tin Estate, Ngan Wan Estate, Oi Man Estate, On Ting Estate, Sam Shing Estate, Shui Pin Wai Estate, Tai Yuen Estate, Wah Fu (II) Estate, Wu King Estate, Yau Oi Estate and Nga Ning Court.

According to the opinion survey conducted by the HA subsequently, residents were generally well satisfied with the handover process between the then incumbent supplier and the new supplier, the stability of LPG supply during the handover period, as well as the services and various benefits (including the provision of free annual inspection of gas appliances and the waiving of minimum charge) provided by the new supplier. Taking into account the experience gained from Wah Fu (II) Estate and Nga Ning Court and the views from various parties, the CPC decided in November 2019 that tenders should continue to be invited for the award of new contracts for the supply of centralised LPG to other PRH estates upon expiry of the existing ones. The CPC also decided that the tenders should continue to mandate suppliers to carry out Quantitative Risk Assessments and necessary improvement works and/or mitigation measures, and provide benefits to domestic users such as free inspection of gas appliances and waiving of monthly fee for the maintenance service plan, etc. In order to enhance the safety and energy saving performance of the LPG system, the CPC also approved refinements to tender assessment criteria by adding new criteria for the relevant aspects.

The HA will take into consideration the expiry dates of centralised LPG supply contracts and the geographical location of individual PRH estates, as well as economies of scale, etc. and, where appropriate, continue to invite tenders with bundling arrangements for the LPG supply contracts for other PRH estates.

(3) There had been extensive public consultation and thorough discussions at the Legislative Council (LegCo) prior to the enactment of the Competition Ordinance (Cap. 619) (the Ordinance). The provisions of the Ordinance were drawn up by the Government having balanced different considerations and were passed by LegCo.

According to the Ordinance, although the Competition Commission (the Commission) has no power to obtain specified information or documents for conducting market studies, it may conduct an investigation if it has reasonable cause to suspect that a contravention of a competition rule has taken place, and require any person to produce specified information or documents, or to attend before the Commission, etc., in accordance with the Ordinance. The Commerce and Economic Development Bureau will continue its close liaison with the Commission on the implementation of the Ordinance.

LCQ10: Redevelopment of factory estates of Hong Kong Housing Authority

Following is a question by the Hon Jimmy Ng and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (May 20):

Question:

The Hong Kong Housing Authority is currently studying the feasibility of redeveloping its six factory estates for public housing (particularly public rental housing (PRH)) use. At present, there are about 3 300 tenants in these factory estates and the occupancy rates of the units therein are as high as 98 per cent. In this connection, will the Government inform this Council:

(1) of the latest progress and anticipated completion date of the aforesaid study; whether it has drawn up a redevelopment timetable for the various factory estates; of the respective estimated numbers of PRH units that may be provided upon redevelopment of the various factory estates; the current number of vacant units in the factory estates which are no longer put up for

leasing because such factory estates may be redeveloped;

(2) as the Government has indicated that the current study only focuses on the feasibility of redeveloping the factory estates for PRH use, whether this implies that the study does not include a review of (i) the demand of the light industries for units in the factory estates, and (ii) the impacts of the redevelopment of the factory estates on the development of the light industries and the rent levels of private industrial building units in Hong Kong; if so, of the reasons for that; whether it will consider including these topics in the scope of the study;

(3) whether it has received, since October last year, concerns expressed and enquiries made by the tenants of the units in the factory estates about the redevelopment of such factory estates; if so, of the relevant numbers and details; and

(4) of the amount of ex-gratia allowance that may be granted to the tenants of the units in the factory estates who have been affected by the redevelopment plan and the calculation method for the allowance; whether it will arrange for the relocation of those tenants who wish to continue with their operation to other units in the factory estates?

Reply:

President,

My reply to the question raised by the Hon Jimmy Ng is as follows:

(1) and (2) In response to the suggestion in "The Chief Executive's 2019 Policy Address", the Hong Kong Housing Authority (HA) is exploring the feasibility of redeveloping individual factory estates under suitable conditions and arrangements for public housing use, particularly to increase the supply of public rental housing. The HA anticipates that the study will be completed progressively in late 2020. The HA will announce the results of the study and flat production in due course.

As all six factory estates are situated in industrial or industrial-office areas, we must carry out relevant technical assessments to ascertain whether these sites are suitable for residential use. Rezoning under the Town Planning Ordinance is also required to change the use of these sites for public housing development. The factory estates under the HA provide about 8 200 units with a total internal floor area of about 202 000 square metres. The current occupancy rate is about 98 per cent with about 3 300 tenants.

In view of the tight supply in housing land, the Government has been actively identifying suitable sites for public housing development in different parts of the territory. We will consider all suitable sites, regardless of their size, for public housing development so as to make the best use of the scarce land resource and optimise site potential. In the process, the principles of cost-effectiveness and sustainability will be adopted. Based on the above consideration of "efficient and optimal use of land", the HA's study will focus on the feasibility of the various redevelopment options. It will not include a review of the demand of light industries for units in the factory estates, as well as the impact of the redevelopment of the factory estates on the development of light industries and the rent levels of private industrial building units. Currently, we have no plan to change the scope of the study.

(3) Since October last year, the HA has received about 40 enquiries from tenants of the factory estates concerning the redevelopment, including the clearance schedule and arrangements for tenants affected by clearance, such as granting of removal and ex-gratia allowance and re-allocation of vacant units in other factory estates, etc.

(4) When the HA cleared its factory estates in the past, an advance notice of 18 months would normally be given to the affected tenants to facilitate their early planning for vacating the premises. Rent increase would also be normally frozen until clearance, and an ex-gratia allowance would be paid to the concerned tenants to assist them to relocate or terminate their businesses. If the HA finally decides to clear its existing factory estates, it will make reference to the previous practices mentioned above and the then circumstances in making appropriate arrangements.

LCQ12: Justifications for offering special subsidies to exchange participants and SFC licensees

Following is a question by the Hon Charles Mok and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 20):

Question:

The Government presented a paper to the Finance Committee (FC) of this Council in the middle of last month to seek funding approval for the implementation of the second round of relief measures. The relief measures include the offering of special subsidies to exchange participants of the Stock Exchange of Hong Kong (SEHK) and Hong Kong Futures Exchange and to Securities and Futures Commission (SFC) licensees: exchange participants belonging to Categories B and C (Categories B and C brokerages) will each be disbursed $50,000, and each SFC licensee will be disbursed $2,000. The justification for the proposal set out in the paper is as follows: "[d]ue to the COVID-19 outbreak, the business opportunities and hence income of small and medium-sized intermediaries and licensed individuals of SFC (i.e. brokerage firms and their responsible officers/representatives) have been adversely affected. Small and medium-sized intermediaries serving primarily retail clients are particularly hard-hit by the [current] adverse business environment. The reduced face-to-face contact and the recent market volatility have impeded the businesses of these small and medium-sized intermediaries, notwithstanding the recent surge in market turnover." Recently, some members of the industry have queried that the aforesaid justification is factually incorrect, and hence the aforesaid paper has allegedly misled FC. In this connection, will the Government inform this Council:

(1) as SEHK's information has indicated that the average daily turnover of the Hong Kong stock market increased to almost $112.7 billion in the first quarter of this year, representing a quarter-on-quarter increase of 54.5 per cent, and the turnovers involving Categories B and C brokerages increased by 58.4 per cent and 48.1 per cent respectively, whether the Government knows if the incomes and profits of such brokerages increased correspondingly in the said period, and of the basis on which it stated that their businesses had been "seriously affected by the pandemic";

(2) as the Government claimed that "the reduced face-to-face contact" had impeded the businesses of Categories B and C brokerages, but the outcome of a survey conducted in June last year by the Investor and Financial Education Council showed that among the retail investors being surveyed, 65 per cent, 16 per cent and 1 per cent of them most often traded stocks through online platforms, calling brokers and being physically present at the brokerage firms respectively, whether the Government can illustrate, with statistical data, the actual extent to which the businesses of Categories B and C brokerages were affected by "the reduced face-to-face contact" with their clients; and

(3) of the ranks of the government officers involved in the write-up of the aforesaid FC paper, and the highest rank of the officers who endorsed the paper; whether there were other officers who verified if the aforesaid justification was factually correct and supported by statistical data; if so, of the post titles and number of the verifying officers?

Reply:

President,

The securities sector has long been reflecting to the Government the difficulties of its business operations. Brokerage commission rate has been declining in recent years while operating cost is on the rise. In 2019, the overall total income and net profit of participants of the Stock Exchange of Hong Kong Limited (SEHK Participants) both recorded a decline. Net securities commission income (i.e. income which is directly affected by turnover) represented about 20 per cent to 30 per cent of the total income of SEHK Participants, while other income arising from interests, personalised sales, financing, management and proprietary trading accounted for about 70 per cent to 80 per cent of their total income. Historical data showed that even when the daily turnover of the stock market in Hong Kong increased, it would not necessarily lead to proportionate increase in the total income and net profit of SEHK Participants. For example, when the average daily turnover of stock market in Hong Kong in 2018 recorded a 22 per cent year-on-year increase, the net securities commission income and the total income of Category C brokerage firms only recorded a 2.5 per cent and 0.5 per cent year-on-year increase respectively; and their net profit even recorded a drop by 32.3 per cent. In 2017 and 2019 when the average daily turnover of the stock market in Hong Kong during the respective year were broadly the same, the net profit of Category C brokerage firms recorded a cumulative drop of 64 per cent from 2017 to 2019. The above examples underline the fact that, from the perspective of the business environment of brokerage firms, the average daily turnover of stock market in Hong Kong is just one of the many factors affecting their income and net profit and that the impact on different categories of brokerage firms would differ. My response to the three parts of the question is as follows.

(1) and (2) As we have stated clearly in the Legislative Council Finance Committee paper on the second round of Anti-epidemic Fund, we recognised that there was a surge in turnover of the stock market in Hong Kong in early 2020. However, due to the COVID-19 outbreak, coupled with market volatility, the businesses of small and medium-sized intermediaries serving primarily retail clients have been adversely affected. As far as commission income is concerned, the market share of Category B and Category C brokers respectively decreased from 33.92 per cent and 7.73 per cent in December 2019 to 32.57 per cent and 6.29 per cent in March this year. Furthermore, since commission income, which is directly relevant to turnover, only accounts for about 20 per cent to 30 per cent of the total income of the brokerage firms, the overall business environment of small and medium-sized brokerage firms (i.e. including their other businesses such as interests, sales, services and financing) and their total income and profit were hit by the epidemic notwithstanding the recent surge in turnover of stock market in Hong Kong. In addition, since securities brokers faced relatively more challenges in having face-to-face contact with their clients amidst the epidemic, their business opportunities (including attracting new clients, conducting client on-boarding, providing personalised sales activities to existing clients, etc.) were also affected. In light of this, the Government will provide cash subsidy to Category B and Category C exchange participants and Securities and Futures Commission Licensees under the second round of the Anti-epidemic Fund in order to help reduce the financial burden of the small and medium-sized securities firms and brokers. The relevant proposal is formulated by the Financial Services and the Treasury Bureau having considered the feedback received from the sector.

(3) As mentioned above, the Government has clearly pointed out in the relevant Legislative Council Finance Committee paper that there was a recent surge in market turnover. As a matter of fact, the total turnover and net profit of exchange participants are not only affected by market turnover and there is a declining trend in the total income and net profit of small and medium-sized brokerage firms amidst the epidemic. As such, we do not agree that the justifications provided by the Government are at variance with the facts. The abovementioned Finance Committee paper was prepared by officers of

the Financial Services Branch of the Financial Services and the Treasury Bureau and was verified and endorsed by directorate officers of the Branch.

LCQ18: Two-tiered profits tax rates regime

Following is a question by the Hon Jeffrey Lam and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 20):

Question:

The Government proposed amendments to the Inland Revenue Ordinance (Cap. 112) at the end of 2017 to implement a two-tiered profits tax rates regime (the two-tiered regime), so that the profits tax rates applicable to the first $2 million of assessable profits for corporations and unincorporated businesses could be reduced by 50 per cent. The Government's proposed legislative amendments aimed to reduce the tax burden on enterprises (especially small and medium enterprises and startups), foster a favourable business environment, drive economic growth, create job opportunities and enhance Hong Kong's competitiveness. The Government projected at that time that the tax revenue would be reduced by about $5.8 billion per year as a result of the implementation of the two-tiered regime. The two-tiered regime has come into operation and is applicable to any year of assessment commencing on or after April 1, 2018. In this connection, will the Government inform this Council:

(1) of the amount of profits tax revenue forgone resulting from the implementation of the two-tiered regime and the percentage of such amount in the total tax revenue, in each of the past two financial years;

(2) whether it has assessed the effectiveness and the relevant data of the two-tiered regime, including a comparison of (i) the amounts of profits tax payable by companies of different sizes, (ii) the numbers of local and non-local enterprises and (iii) the scales of enterprises' investments in Hong Kong, before and after the implementation of the two-tiered regime; and

(3) whether, since the implementation of the two-tiered regime, the Government has gained an understanding of the views and suggestions of various stakeholders in respect of the regime; whether it will conduct a review of the two-tiered regime in the light of the social changes, the successive implementation of a number of tax measures, as well as the recommendations and requirements put forth by the Organisation for Economic Co-operation and Development in respect of global taxation matters, in recent years?

Reply:

President,

My reply to the various parts of the question is as follows:

The Government amended the Inland Revenue Ordinance (Cap. 112) in early 2018 to implement the two-tiered profits tax rates regime (the two-tiered regime), under which the profits tax rates for the first $2 million assessable profits of corporations and unincorporated businesses are lowered to 8.25 per cent and 7.5 per cent respectively while the remaining profits will continue to be subject to the respective rates of 16.5 per cent and 15 per cent. The two-tiered regime has been implemented from the year of assessment (YA) 2018/19.

The impact of the two-tiered regime on government revenue was first reflected in the financial year of 2019-20. According to the information of the Inland Revenue Department, the profits tax revenue for YA 2018/19 was about $156 billion. Amongst some 146 000 profits tax payers, around 89 000 had their tax assessed at the two-tiered tax rates, accounting for about 61 per cent of the total. The Government's profits tax revenue forgone arising from the two-tiered regime in the financial year of 2019-20 amounted to about $6 billion, or around 4 per cent of the total profits tax revenue. This is comparable to our earlier estimation of the profits tax revenue forgone arising from the implementation of the two-tiered regime.

Before the implementation of the two-tiered regime, we briefed professional bodies and chambers of commerce on the new initiative. The business sector generally welcomed the initiative and considered that it could help reduce the tax burden on enterprises and foster a favourable business environment. As the two-tiered regime has just been implemented for two years and the profits tax assessment for YA 2019/20 is still underway, we will continue to closely monitor its implementation and currently have no plan to review it.