

Managing Director's Statement

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Better living environment for Mrs Chu (left) and Ms Hung living in number 1 & 3 of Shim Luen Street, To Kwa Wan which have been rehabilitated under the OBB.

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Mr Quinn LAW Yee-kwan

Rebalancing Work Portfolio in Eventful Year

2009/10 was another eventful year in which we took up a number of unexpected, challenging and rewarding assignments.

During the year, we continued with our 31 on-going redevelopment projects and launched three new redevelopment projects, including the one at Ma Tau Wai Road/Chun Tin Street, which we were able to launch at short notice within a month of the tragic collapse of a tenement building at 45J Ma Tau Wai Road on 29 January 2010 to alleviate the worries of the people affected.

Development projects usually involve substantial amounts of capital and human resources, are of long durations and often have high public profiles. Nevertheless, the other "3Rs", namely, Rehabilitation, pReservation and Revitalisation, are also important components of the renewal of Hong Kong's urban areas. During the year, URA has, therefore, increased the resources dedicated to each of these 3Rs. We are now implementing a more balanced portfolio of urban renewal tasks, in keeping with the greater prominence

and attention being given to these 3Rs aspects of urban renewal by the community that we serve.

Recognizing the importance of building rehabilitation coupled with the Government's aim to create jobs at that time, we collaborated in the first half of the year with the Government and the Hong Kong Housing Society to launch the Operation Building Bright (OBB) initiative, which we are implementing in our areas to create employment and help buildings with statutory repair and maintenance orders to meet their rehabilitation needs. We are now helping many times more buildings annually under OBB than under our normal rehabilitation schemes and hence we have recruited and deployed extra manpower in order to play our part. This is an effective means of rehabilitating more dilapidated but structurally sound buildings and improving the living conditions of the residents in them.

On the preservation front, following approval of our Development Scheme Plans for preserving two clusters of 10 shophouse buildings each at Shanghai Street and Prince Edward Road West, acquisition of these buildings

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began in March 2010. These buildings have historical, social and cultural significance as well as architectural merit and will be revitalised for adaptive use by the general public in a manner compatible with the local characters of their respective neighborhoods.

In addition to a new area-based plan for revitalisation of five themed streets in Mong Kok, we also took on the responsibility, in October 2009, for revitalising the Central Market building to turn it into a "Central Oasis" for use by the general public. Some interim revitalisation works have already been completed in advance of the results of the structural survey, the public consultation on the future uses of the building and a study of character defining elements of the building, which are all now under way.

During the year, we continued to provide support to the Urban Renewal Strategy (URS) Review, both in sharing URA's experience with, and supplying data and information as well as our views to the Steering Committee chaired by the Secretary for Development. Adopting an evidence-based approach, we also initiated and facilitated the conduct of various consultancy studies and surveys for the review within the time allowed. In line with the broad directions set out in the booklet issued by the Steering Committee of the URS Review this May, we have also been developing implementation details or conducting studies on various directional issues.

Continuous Community Engagement

We continued to engage community stakeholders proactively with a view to tapping their views and incorporating those that are valid and practical into our project plans, and securing the continued support of such stakeholders during the implementation stage. Seven District Councils and seven District Advisory Committees

were regularly briefed on the progress of URA projects in the action areas in their respective Districts.

Our Urban Renewal Exploration Centre was opened in August 2009 as an additional vehicle to educate the public, in particular the younger generation, about the complex issues relating to urban regeneration. The Centre has been well received by schools and community groups as an innovative platform for organising educational activities to explore ways and means of tackling urban decay in an informed setting. Education kits are also provided to the teachers, who bring their students to the Centre. Since its opening, some 7,000 persons have visited the Centre.

Tailoring Project Implementation to Suit Changes in Circumstances and Aspirations

Implementation of urban renewal projects is always a challenging endeavour in every city, including Hong Kong, not least because of the diverse range of stakeholders and interests involved. We listen to our stakeholders' views and from time to time, adjust our project implementation approaches and actions as or when necessary to match prevailing socio-economic circumstances and community aspirations. The Wing Lee Street/Staunton Street Project is a case in point, where URA has, in response to the Government's plan for conserving and revitalising the nearby Police Married Quarters site in Hollywood Road and current mainstream community sentiments, proactively made various adjustments to its original plans in order to preserve all of the tenement buildings in Wing Lee Street under private ownership.

In the Peel Street/Graham Street Project, we are striving to maintain the vitality of the nearby historical street market which is part of the local character of the project area. Relocation arrangements have been offered to

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ground floor shop operators and wet goods trades in acquired properties to enable them to carry on their businesses and maintain local vibrancy during the phased redevelopment of this project.

Similarly, a phased development approach has been adopted to minimize the impact on Kwun Tong Town Centre (KTTC) as a business activity hub during its decade-long redevelopment.

Enhancing Standards

In May 2009, URA implemented a formal and comprehensive policy to promote environmentally sustainable urban renewal. Under this policy, URA is committed to fostering a quality living environment through incorporation of enhanced environmentally sustainable quality control requirements into our joint venture development contracts, setting an example for the real estate industry to follow. During the year, URA received Hong Kong Building Environmental Assessment Method Platinum Awards for two more redevelopment projects, bringing to five the total number won by URA to date. We have also obtained provisional Platinum Awards for two more projects.

More recently, in May 2010, URA announced a package of additional control measures to promote openness, fairness and transparency of the sales of firsthand units in URA's joint venture developments, in order to address widespread public concerns about the sales arrangements for firsthand residential units in Hong Kong.

Modest Growth in Organisation Size

To cope with the increasing volumes and intricacies of its 4Rs work, URA has increased its headcount by about 10% to close to 400 during the year. Since our aim is

to maintain a lean and fit structure, we have continued to rely on out-sourcing and deployment of contract staff and external consultants to meet certain workloads, especially those of non-recurrent or time-limited nature.

URA's first ever intake of university graduates was recruited in mid 2009, with the second batch of university graduates joining us recently. We believe some of them can be groomed to advance their career within this organisation.

Substantial Support from the Government

We are indeed indebted to the Government for having rendered continuous and essential support to URA to facilitate implementation of its urban renewal programme. Such financial and other assistance takes various forms, including capital injection, tax exemption, waivers of land premium of redevelopment sites, inclusion of additional land in redevelopment projects and making available direct funding for infrastructural facilities in and around redevelopment areas. Up to 31 March 2010, a total of 14 land grants have been made to URA at nominal premium for its redevelopments. In the case of the KTTC redevelopment, URA was granted a site at Yuet Wah Street, previously utilized as bus terminus, without paying any premium, to enable a more comprehensive approach to regenerating the Town Centre. The Government has also agreed to secure funding for the construction of the future pedestrian links between the new Town Centre and the surrounding area.

Fluctuating Financial Results

2009/10 has seen URA recording a net operating surplus of HK\$6.9 billion, which differs greatly from the net operating deficit of HK\$4.5 billion recorded for

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the previous fiscal year. This exceptional year-on-year improvement in overall results was mainly attributable to the record total upfront payments derived from three projects tendered in 2009/10, namely, the Lee Tung Street project, the Yuet Wah Street development in the KTTC and the Lai Chi Kok Road/Kweilin Street project. The favourable market conditions prevailing until the end of March 2010 have also resulted in write-backs of certain provisions for loss for various projects made in the previous year. The accumulated surplus since URA's establishment amounted to HK\$6.7 billion as at 31 March 2010. However, this would have been reduced to \$2.2 billion but for the waiver of \$4.5 billion in land premium forgone by the Government in making land grants to URA at nominal premium for the 14 project sites granted to date.

While URA makes surpluses in some years, it makes deficits in others and, in any case, ploughs back all revenues into further urban renewal work, including preservation, rehabilitation and revitalisation, none of which are revenue generating.

Increasing Property Risk Exposure and Management

Our extensive redevelopment programme comprises the yet-to-be-completed projects taken over from the LDC coupled with those projects announced by the URA. The URA is now holding a substantial property portfolio at various stages of development, and still underway. Our modus operandi means that we are always exposed to the Hong Kong property market as both a purchaser and a seller. In recent years, we have been buying more than selling. The time taken for planning, acquisition, resumption, site clearing, demolition and tendering can be affected by a number of factors that are not totally under URA's control. Prolongation of development schedules increases the exposure of URA to market risk.

Owing to the preference for acquiring properties through negotiation if possible, the time required for completion of the acquisition, resumption and clearance processes of redevelopment projects has been increasing, with those of recent ones averaging at about 36 months.

To manage the cashflow implications arising from the mismatch between our buying and selling positions, we have put in place suitable financing arrangements to ensure that URA will have sufficient funding available to meet the needs of its extensive work programme.

Next Corporate and Business Plan

We will shortly embark on the preparatory process for drawing up the tenth Corporate Plan (CP) and the 2011/12 Business Plan (BP) of URA. While the URA Ordinance requires submission of the tenth CP and the 2011/12 BP, upon approval by the Board, to the Financial Secretary by the end of this calendar year, the new URS is only expected to be finalized for promulgation by that time.

We will endeavour to respond positively to the requirements of the new URS, embrace all necessary changes, include suitable initiatives/projects into the tenth CP and 2011/12 BP and make any required subsequent adjustments in future Plans following any further studies.

Evolution of Organisation

Over the years, the URA has evolved into an organisation with not only social and financial, but also environmental and educational objectives.

URA is a statutory body, established and provided with initial capital injections by the Government, for the public purpose of carrying out the social mission of renewing the urban areas of Hong Kong to alleviate

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Secretary for Development Mrs Carrie Lam, URA Chairman Mr Barry Cheung, and URA Managing Director Mr Quinn Law announce the commencement of Ma Tau Wai Road project.

urban decay and improve housing conditions. Our niche is to focus on dilapidated urban areas which both require renewal and are not, for whatever reasons, able to be renewed in a timely and satisfactory manner by the private sector. Both the Government and many other stakeholders with diversified interests oversee our plans and works. We endeavour to look after their respective interests in a balanced and pragmatic manner within the resources and mandate available to us.

In carrying out this social mission, URA is also required to practice good self financing discipline, although our aim is not to maximize profits. Thus, our policies have been designed to pay amounts higher than the statutory levels of compensation to the occupiers of properties directly affected by our projects. We also commence financially non-viable but worthwhile urban renewal projects.

We strive to implement our projects in an environmentally sustainable manner, to set a good example in building planning, design, quality, construction and sales and to educate the public, including our younger generation about urban regeneration.

As a forward-looking and dynamic organisation with various bottom-line responsibilities, URA has evolved into a body which coordinates stakeholders' interests. In

doing so, we always strive to change for the better, living up to present-day standards and community aspirations. We will continue to adapt in the coming years in order to meet the urban renewal challenges that lie ahead in the most appropriate ways.

Vote of Thanks to Board, Committees and Staff Members

Urban renewal is multi-faceted, involves stakeholders throughout the community and requires a wide range of expertise. I am, therefore, grateful for the guidance provided by our Chairman and the Members of our Board, Committees and District Advisory Committees.

I take pride in having been underpinned by a dedicated, multi-skilled team of staff in URA covering a wide range of disciplines, expertise and experience. Notwithstanding the exceedingly high demands on the staff force due to ever-rising workloads and stress and understandable worries about the future of URA caused by the on-going URS Review, we have managed to keep up staff morale and satisfaction by means of effective communication and motivation measures, thereby keeping the overall turnover at a relatively low level. Indeed, the successes achieved in the past year were due largely to the professionalism, "can-do" spirits and hard work of our staff. I, therefore, wish to thank all staff for their collective achievements and a job very well done in the past year.

Quinn LAW Yee-kwan
Managing Director

31 July 2010