

By Fax

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3 July 2001

The Hon Kenneth Ting Woo-shou, JP
Chairman
Panel on Commerce and Industry
Legislative Council
8 Jackson Road
Central
Hong Kong

Dear Chairman,

Funding arrangements for Science Park Phase 2

I refer to our meeting with the Panel on Commerce and Industry on 26 June and the letter from the Clerk to the Panel on 27 June. I provide below information concerning the amount of investment to be made by the tenants of the Science Park and the construction cost of Phase 2 as requested.

Investment of the approved tenants

It is not possible to provide a realistic forecast of the level of investment to be brought by tenants of the Science Park at this stage, or to quantify such investment and its associated activities in terms of economic benefits and contribution to GDP in Hong Kong. However, the 10 current approved tenants do provide some indications in this regard.

Using their first three years of operation as a reference, the total operating expenditure of the 10 approved tenants will be about \$1.9 billion per annum. This will cover mainly research and development (R&D) and related activities, including the employment of about 2,000 staff (of which about 55% in

R&D) and cost of related equipment.

Construction Cost of Phase 2

The preferred arrangement has always been the entrustment of the building development to the Board of Directors of the Science Park. The objective is to enable the Science Park to manage and control at the outset the design, development and construction of the buildings and facilities, which it is going to own, maintain and market. Such an approach can also provide the flexibility for the Science Park during the course of building development to meet market demand. However, this arrangement was not possible three years ago when the Provisional Hong Kong Science Park Co. Ltd. was newly set up without the experience and expertise for such a major undertaking.

As the Commissioner, Mr Francis Ho, explained at the meeting on 26 June, any cost differences between Phase 1 and Phase 2 must have regard to three factors.

First, it will be inappropriate to make any direct comparison between the costs in question, which are carried out within different timeframes at money-of-the-day (MOD) terms.

Second, the different funding arrangements will necessitate different accounting arrangements as regards costs. In the case of Phase 1, which is being pursued through the Public Works Programme, some of the costs would not be reflected in the project vote since the related work, notably project management, is being carried out by Architectural Services Department using its own resources. We expect, however, that given the specialist expertise and requirements involved in the design of Phase 2 (see paragraph below), even if Architectural Services Department is to be responsible for its development, it will need more resources anyway, notably in terms of outside consultants.

Third, we intend to provide enhanced building design features and building services in Phase 2 to meet the increasingly demanding needs of potential tenants in the relevant technology sectors. Biotechnology is a case in point. Hence, we need to make higher provisions as a consequence.

To address Members' concern, we have attempted a comparison of the total construction costs (i.e. costs of building, internal roads, landscaping and other infrastructural facilities included) at constant price between Phase 1 and Phase 2. After discounting the factor of inflation and the cost of consultancy, the average cost of Phase 2 will be about \$29,000 per square metre, compared to \$28,000 for Phase 1. A major reason for the slightly higher cost estimates in Phase 2 is due to the need for enhanced building design and services. I stress, however, that the final costs will depend on the actual tender price.

Yours sincerely,

(Mrs Sarah Kwok)
Commissioner for Innovation and Technology (Ag)

c.c. Mrs Florence Lam
Clerk to Panel