

## **Legislative Council Panel on Commerce & Industry**

### **Proposed International Exhibition Centre at Chek Lap Kok**

#### **Introduction**

This paper informs Members of the outcome of the invitation of expressions of interest (EOI) for the proposed new international exhibition centre (IEC) at Chek Lap Kok (CLK) and seeks Members' endorsement to proceed to the Finance Committee for approval for a proposed government investment of \$2 billion.

#### **Background**

2. In November 2001, the Legislative Council Panel on Commerce and Industry supported the proposal to establish a new IEC at CLK. At the subsequent Finance Committee meeting in December 2001, Members raised questions on some aspects of the project. We returned to the Panel in January 2002 to address the specific concerns, and again in April to report on an international road show of meetings conducted with key exhibition centre operators in the first quarter of 2002. It was then agreed that the Government and the Airport Authority (AA) would proceed to the formal EOI stage to seek the market's view on key parameters of the proposed centre.

#### **Report on the EOI Exercise**

3. EOI invitation. The AA, in conjunction with the Government, on 26 July 2002 invited EOI from the private sector for the financing, design, construction, management and operation of an IEC comprising a net usable area of up to 100,000 m<sup>2</sup>.

4. Public announcement. At the launch of the EOI exercise, a press release was issued to 150 media organisations worldwide. Advertisements were placed in the local media and international specialist journals. The AA sent the EOI invitation document to 260 parties. These included potential

members of a private developer/operator consortium, such as local and international financiers, developers, and exhibition centre operators. Subsequently, we also conducted a number of meetings and briefing sessions with consulates, chambers of commerce and individual local and overseas companies.

5. EOI invitation document. The EOI document specified some preliminary development details including the expectation that upon opening, the IEC would have a net usable area of at least 80,000 m<sup>2</sup>. The EOI document also required respondents to complete a general questionnaire to gauge the market's view on the optimum size and cost of the centre so as to ensure that the tender terms of the development would be based on realistic market expectations and information.

## **Response**

6. More than 10 submissions from both local and overseas respondents were received by the EOI closing date of 9 October 2002. An evaluation board, comprising representatives from the Government and the AA, met on 15 October to analyse and evaluate the capability and competency of the respondents and to recommend which short-listed consortia should be invited to the tendering stage. A third party exhibition consultant was also engaged to provide an independent opinion, expert advice and an assessment of the submissions. The board scored the submissions according to the five criteria specified in the EOI invitation. These were organisational structure, development capability, operational capability, marketing capability and preliminary business plan.

7. Feedback from the EOI submissions on key parameters of the IEC is as follows:

- (a) Size. Contrary to the proposed initial size of 80,000 m<sup>2</sup> to 100,000 m<sup>2</sup> as stated in the EOI, all respondents indicated that the centre should start smaller, then expand when justified by demand. All but two indicated that a centre of 50,000 m<sup>2</sup> net usable area on opening was appropriate (the remaining two proposed 56,000 m<sup>2</sup> and 60,000 m<sup>2</sup>).

- (b) Construction costs. Most submissions estimated the cost of construction would be in the range of \$18,000-20,000 per m<sup>2</sup> gross, for a building quality comparable to others in the region including the Shanghai New International Expo, etc. The standard net to gross floor area formula for exhibition centres is 1:2. Applying these figures and allowing for \$250 million for necessary infrastructure, the construction cost of a centre of 60,000 m<sup>2</sup> net usable area would be around \$2.41 billion.
- (c) Equity Contribution. Some of the EOI submissions indicated a willingness to make an equity investment.
- (d) Other issues raised.
  - (i) Confirmation of the Government's funding and the timing for injection of this contribution.
  - (ii) The impact of a possible third phase expansion of the HKCEC and the likely timing of the development.
  - (iii) Autonomy to operate the IEC commercially.

## **Way Forward**

8. After an exhaustive study of the EOI submissions supported by external expert advice, the evaluation board short-listed four consortia for the tender stage and recommended the broad parameters for the IEC project to be taken forward.

9. Taking into account the views received from the market in the EOI submissions, Members' opinions, our previous overseas soundings and consultancy studies, the Government and the AA propose to go to tender on the following basis:

- (a) The IEC must have a minimum net usable area of 60,000 m<sup>2</sup> as the first phase to be available on opening in 2005, but with preference given in the assessment for bids with larger initial phases.

- (b) The business plan must specify an ultimate net usable area of 100,000 m<sup>2</sup>, with milestones stating the expansion phases to the ultimate size, without further injection of government funding beyond the \$2 billion.
- (c) The developer/operator must make a minimum equity contribution equal to 15% of the total construction cost of the first phase of the IEC, to be injected upfront in the initial phase, with preference given to bidders with a larger percentage contribution.
- (d) The tender will be evaluated on the following criteria:
  - (i) Financial capability and commitment to undertake the project, including percentage of equity contribution;
  - (ii) Development capability including design and construction experience;
  - (iii) Robustness and quality of the business plan, including proposed initial size upon opening, phased development, and demonstrated commitment to Hong Kong;
  - (iv) Experience in operating world class exhibition centre;
  - (v) Marketing capability in attracting and developing new exhibition business; and
  - (vi) Proposed rate of preferred return.

10. Subject to Members' views, we plan to return to the Finance Committee on 20 December 2002 to seek approval for the government equity investment in the IEC. In the event the full \$2 billion is not required towards the cost of the first phase, the balance of the investment will be deferred and applied to subsequent phases. Subject to funding approval, we will proceed to the tender stage in the first quarter of 2003.

11. The timetable for the project would then be as follows –

2003	January/February	Issue tender documents.
	April	Closing date for tenders.
	June	Award tender, sign contracts.
	2 <sup>nd</sup> Half	Finalise design, commence construction.
2005	2 <sup>nd</sup> Half	Complete construction of Phase I.

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