

**Extract of the minutes of meeting of the
LegCo Panel on Commerce and Industry held on 12 November 2001**

x x x x x

V Proposal of establishing a new exhibition centre at Chek Lap Kok
(LC Paper No. CB(1)239/01-02(03) - Information paper provided by the
Administration)

27. The proposal of establishing a new International Exhibition Centre (IEC) at Chek Lap Kok (CLK) was detailed in the information paper provided by the Administration (LC Paper No. CB(1) 239/01-02(03)).

28. Dr LUI Ming-wah expressed concern about the competitiveness of the proposed IEC given its relative small scale as compared with other exhibition centres in the world. From the perspective of cost-effectiveness, he suggested that the new IEC should either be managed by a non-profit making organization, or the Administration should introduce mechanisms or measures to avoid its management from charging high-level fees. Director-General of Investment Promotion (DGIP) remarked that a new IEC of about 50 000 sq m area would be sufficient to meet the forecast demand for exhibition space in 2005. He stressed that the Hong Kong Airport Authority (AA) had already reserved land required for further development of the new IEC in the first 10 years of its operation. If the actual demand was greater than expected, IEC could be expanded to 80 000 sq m. In the event that the exhibition space still fell short of the actual demand, the Administration could consider further expanding the facility by means of reclamation. DGIP advised that instead of targeting at clients who organized high-end exhibitions, the new IEC would cater for large scale exhibition activities, such as those of heavy construction materials. The construction cost for the new IEC would be lower than that of the Hong Kong Convention and Exhibition Centre (HKCEC). It was believed that the level of charges for exhibition activities would not be on the high side. He emphasized that the participation of a private developer/operator consortium could effectively bring in relevant professional management experience to facilitate the business development of the new IEC.

29. Mr MA Fung-kwok asked whether the Administration had assessed the level of charges of the new IEC and compared it with that of the HKCEC. DGIP advised that based on the consultants' estimates, the charges of the new IEC were expected to be 20% lower than those of HKCEC. He pointed out that high-end exhibitions would not be held in the new IEC since its facilities were not as sophisticated as those of the HKCEC. However, for some large scale exhibitions,

the new IEC could make up for the inadequacies of the HKCEC in terms of exhibition space and floor load capacity. Nevertheless, for those exhibition activities which could be held in either venue, it was believed that the new IEC would bring about positive business competition to the HKCEC. On Mr MA's enquiry about why the charges of the new IEC could be 20% lower than those of the HKCEC, DGIP said that the level of charges would be ultimately determined by market demand.

30. Responding to Mr HUI Cheung-ching's enquiry, DGIP advised that the estimated construction cost of \$4 billion for the new IEC was on the conservative side. The project was expected to attract exhibitions of different types of businesses and provide impetus to the development of hotels in the vicinity. With the reciprocal effect generated by the Hong Kong Disneyland, which would also be completed in 2005, the new IEC could attract exhibition participants to bring along their families to visit Hong Kong, thus promoting the tourism sector.

31. Mr CHAN Kam-lam enquired about the bases for determining the "reversionary value" of the exhibition facility as mentioned in paragraph 11(D)(ii) of the paper since this value would ultimately affect the amount of profit to be shared among the Government, the developer/operator consortium and the AA in future. DGIP advised that upon the completion of the new IEC, the AA would have a 10% equity shareholding while the Government and the developer/operator consortium would each have a 45% equity shareholding. He pointed out that any surplus of income over the preferred return on the developer/operator consortium's investment as specified in the open tender would be distributed among the three parties according to their equity contribution ratio. However, the consortium would have to re-distribute half of its share in this second slice to the Government and the AA on the basis of their relative equity contribution ratio. On Mr CHAN's enquiry about the land value of the new IEC, DGIP advised that in return for the 10% equity shareholding, the AA would need to forgo revaluation of the land during subsequent development phases of the IEC and upon expiry of the initial 25-year term.

32. Mrs Sophie LEUNG enquired whether the developer/operator consortium would be given a free hand in developing and managing the new IEC so as to provide responsive services and adopt competitive pricing. DGIP replied in the affirmative and said that during the tendering process, the Administration would critically consider factors such as the composition, business plan, professional management experience of the developer/operator consortiums concerned as well as their track records in attracting new exhibition business before making a decision.

33. Referring to the proposal in paragraph 11(B) of the paper, Mr Henry WU was concerned that if construction work for the new IEC was to be implemented in two phases, the developer/operator consortium might not be able to complete the whole

project should there be funding problems. DGIP advised that the selected developer/operator consortium would be required to make financial commitments for both phases should it opt for a two-phase development. Depending on the construction cost to be injected by the consortium, the Administration would provide funding on a matching basis with the ceiling capped at \$2 billion.

34. The Chairman concluded that the Panel supported the proposal of establishing a new IEC at CLK and noted that the funding proposal would be submitted to the Finance Committee (FC) of the Legislative Council (LegCo) for approval in December 2001.

x x x x x

**Extract of the minutes of meeting of the
LegCo Panel on Commerce and Industry held on 14 January 2002**

x x x x x

Action

IV Proposal of establishing a new exhibition centre at Chek Lap Kok
(LC Paper No. CB(1) 764/01-02(03))

4. Members noted that the Panel discussed and expressed general support for the proposal of establishing a new exhibition centre at Chek Lap Kok at the meeting on 12 November 2001. However, when the Finance Committee (FC) considered funding for the project at its meeting on 21 December 2001, some LegCo Members raised a number of queries and the Administration undertook to return to the Panel for further consultation on the proposal.

5. The Director-General of Investment Promotion (DGIP) said that the Administration had provided further information in the paper to address members' concerns expressed at the FC meeting. He added that there had been broad support from members on the need for a new exhibition centre by 2005 for Hong Kong to maintain its competitiveness in capturing the growing exhibition business in the Asia-Pacific region. There appeared to be general acceptance that Chek Lap Kok was the most suitable location for the centre and that the design of the new centre should be basic and simple. Moreover, in view of the considerable economic benefits generated by the project, Government's contribution towards the construction cost would seem justified.

Size and construction cost of the new exhibition centre

6. Ms CHOY So-yuk supported the establishment of a new exhibition centre at Chek Lap Kok but remarked that the proposed centre of only 50 000 m² net usable area would not meet the industry's demand for provision of 100 000 m² exhibition facilities. She also expressed concern that the new exhibition centre could not be viable and stay competitive in face of the Hong Kong Convention and Exhibition Centre (HKCEC). As regards the construction cost for the new exhibition centre, Ms CHOY considered that the estimated cost of \$4 billion was unreasonably high and was four times as expensive as the Singapore Expo. Notwithstanding that the industry supported a column-free design for the new centre, it also proposed that the centre should comprise two large exhibition halls which could substantially lower the construction cost.

Action

7. Mr Albert CHAN also considered the estimated construction cost for the new centre too high. Given the downward adjustment of 20% to 30% on construction cost in recent years, Mr CHAN pointed out that the estimated reduction of only 13% in construction cost for the new centre as compared with the HKCEC had not reflected the prevailing market situation. To facilitate a meaningful comparison on the construction cost of the new centre with similar facilities in the region, Mr CHAN urged the Administration to provide details on the design, facilities, target users and construction cost of exhibition facilities in selected places for members' reference. He also remarked that the Administration should provide the detailed calculation on the estimated cost for the new centre. Mr CHEUNG Man-kwong concurred that there should be room to trim down the construction cost for the new centre.

8. On the size of the new exhibition centre, DGIP said that the proposed 50 000 m² net usable area was considered sufficient to meet the forecast demand for exhibition space in 2005. Nevertheless, the Administration remained open on the matter and if the private consortium participating in the project considered that a bigger centre would be viable, the Administration would consider the feasibility of expanding the project. DGIP said that the site in Chek Lap Kok would allow for future expansion beyond the planned 50 000 m². The option of expansion to 80 000 m² had already been provided for in the agreement with the Hong Kong Airport Authority (AA). Further expansion beyond 80 000 m² would be possible but would require considerable re-planning and probably reclamation. As regards whether the new exhibition centre should be implemented in single-phase or two phases, DGIP said that the Administration recognized the industry's general preference for a single-phase development. This proposal could be pursued technically and could lower the total construction cost from the original estimate of \$4 billion to \$3.45 billion.

9. On the concern about the high construction cost for the project, DGIP stressed that \$4 billion was only an estimate based on best information available at the moment, the actual construction cost would be known after the project had been tendered on a competitive basis. He remarked that the much lower construction cost for the Singapore Expo could be attributed to the use of imported labour for constructing the centre and that the centre was built on firm land. The Administration noted members' concern on the high construction cost and would continue to look for ways to further trim down the cost.

10. As to the design of the new centre, DGIP said that the AA and the industry had formed a committee to discuss improvements and concerned parties had visited Singapore to study the design of the exhibition facilities there. DGIP referred to a letter dated 11 January 2002 from the Hong Kong Exhibition and Convention

Action

Organisers' and Suppliers' Association (HKECOSA) and confirmed that the industry's views on the design of the new centre had been fully taken into account. DGIP further clarified that the air conditioning system for the new centre would be operated hall-by-hall in order to save construction and operating costs.

11. On Mr CHAN's comments on the construction costs for the new exhibition centre and the HKCEC, DGIP said that the Administration had already made reference to the movement in relevant price index when working out the estimated construction cost for the new centre. He undertook to provide information on the movement of tender prices for construction projects of similar scale from mid 1990s to date for members' reference after the meeting.

(Post-meeting note: The Administration's response on movement of tender prices for construction projects of similar scale with the new exhibition centre at Chep Lap Kok was circulated for members' reference vide LC Paper No. CB(1) 1068/01-02 on 11 February 2002.)

12. Ms CHOY So-yuk suggested that the Panel should meet with the convention and exhibition industry to seek its views on the proposal. DGIP reiterated that the Administration had consulted the industry in making improvements on the design of the new centre and its suggestions, in particular, those made by HKECOSA had already been incorporated. To facilitate members in understanding the industry's concerns, Mr CHEUNG Man-kwong requested the Administration to provide the letter from HKECOSA for members' reference. DGIP undertook to consult HKECOSA to see whether the letter could be disclosed to members.

(Post-meeting note: The letter dated 11 January 2002 from the HKECOSA together with the Administration's response was circulated for members' reference vide LC Paper No. CB(1) 943/01-02 on 29 January 2002.)

Government support and private sector involvement in the project

13. Dr LUI Ming-wah suggested that as the project would bring considerable economic benefits for Hong Kong, the Government should consider funding all the construction cost. Mr Albert CHAN on the other hand, was of the view that as the Government had been facing huge budget deficits in recent years and that the AA had already received a sizable capital injection from the Government upon its establishment, the AA would be in a better financial position to implement the project on its own. Mr CHAN further requested the Administration to provide information on the financial position of the AA.

14. DGIP stressed that there was a strong case for Government support for the new exhibition centre in view of the huge economic benefits to be generated. The

Action

Government had already heavily subsidized construction of the two phases of the HKCEC. International experience also revealed that government support for similar facilities was not uncommon. For instance, exhibition facilities in Singapore and Kuala Lumpur were fully funded by their governments.

15. On whether the AA should undertake the project on its own, DGIP said that the proposal to establish a new exhibition centre was initiated by the Administration in 1999 following a consultancy study confirming the need for provision of such facilities. The AA was subsequently invited to consider how to take the project forward. Given that the project was assessed to be not financially viable and that the AA must run on prudent commercial principles, it would not be possible for the AA to implement the project on its own. Regarding information on the financial position of the AA, DGIP said that he would convey Mr CHAN's request to the relevant policy bureau and it might be more appropriate for this matter to be taken up by the LegCo Panel on Economic Services. Upon members' request, the Deputy Secretary for Commerce and Industry (DSCI) undertook to follow up the matter with the AA and provide relevant information as far as possible.

CIB

16. Mr SIN Chung-kai expressed concern that in view of the low forecast return of the investment, it would be difficult to attract private investors to participate in the project. DGIP said that under the proposed tripartite partnership, the selected consortium would be allowed to obtain a return on its investment on a priority basis up to a preferred rate specified in its tender bid. Any surplus of income over the preferred return would be distributed among the three parties according to their equity contribution ratio. He believed that such arrangement could provide incentive for private investors to participate in the project.

17. On Mr NG Leung-sing's enquiry about whether consideration had been given to finance the project by obtaining loans from financial institutions, DGIP said that the Finance Bureau did seek advice from banks and financial advisers. In view that the new exhibition centre would be a risky project, lending institutions would require substantial Government guarantee for loans. This option would indeed increase Government's financial commitment for the project. Moreover, as the forecast rate of return of the project was low, it would be unattractive to potential lenders.

18. In response to Mr CHAN Kam-lam's enquiry on the sharing of the reversionary value of the new exhibition centre as mentioned in paragraph 20(b) of the paper, DGIP said that the tripartite joint venture would be dissolved at the end of the 25-year franchise period and the Government and the AA would share the reversionary value of the new centre in accordance with their relative equity stakes up to June 2047. The Government and the AA would consider offering a new franchise to operate the centre after the expiry of the 25-year franchise period.

Action

19. Mr CHEUNG Man-kwong stressed that should the project be able to attract private investment for its implementation, the Government should not be involved. Mr CHEUNG and Miss Emily LAU further queried the rationale for the Administration to seek FC's funding approval for the project before inviting tender. They found it difficult to support the proposal in the absence of information on the tender prices and indication of interest from the private sector to participate in the project.

CIB

20. On why the Administration preferred to seek funding approval for the Government investment before the tender, DSCI said that such course of action would give more credibility to the project and would provide prospective bidders with assurance of the Government's determination and sincerity to proceed with the project and make it a success. In view of members' concern, the Administration would review this approach and the timetable for submitting the proposal for FC's approval.

Forecast lease rates of the new exhibition centre and competition with the HKCEC

21. Dr LUI Ming-wah expressed concern about the future lease rates of the new exhibition centre and suggested that a mechanism should be put in place to control the fees level of the new centre. He reiterated that if the Government funded the entire project, it would have a greater say in the management of the centre in future and could better monitor the rates to be charged. He also requested the Administration to provide information on the likely lease rates to be charged by the new centre.

22. DGIP said that given competition from the HKCEC and counterparts in the region, it was estimated that the lease rates of the new centre would be considerably lower than facilities elsewhere in order to attract business in the initial stage. The AA's consultant estimated that on opening of the new exhibition centre, its rates might be as much as 45% below existing HKCEC rates but the differential would diminish over time as the new centre became more popular. Its rates would likely continue to be around 25% lower even in the longer term. DGIP stressed that the lease rates of the new exhibition centre would ultimately be determined by the free market and that market forces should help keep rates at the new centre competitive. DGIP further added that the Administration recognized members' concern about future lease rates of the new centre and would see what further information it could provide on fees charged by other exhibition facilities for members' reference in a future submission.

Invest
Hong Kong

Action

23. Miss Emily LAU was of the view that the proposal of establishing a new exhibition centre should be considered in conjunction with other proposals for new exhibition facilities in Hong Kong, such as a possible extension of the HKCEC, so as to allow optimal use of Government resources. In response, DGIP said that the proposal of extending the HKCEC was only at a very preliminary stage and therefore unlikely to meet the forecast need of additional exhibition facilities by 2005.

24. Responding to Mr HUI Cheung-ching's concern about the mechanism for monitoring the management of the new exhibition centre, DGIP said that the Government, the AA and the private sector consortium would be represented on the Board of Directors of the joint-venture company in proportion to their equity stake. The new centre would be operated on prudent commercial principles and malpractice in the management would be unlikely.

25. The Chairman urged the Administration to take into account of members' views and provided the requested information as soon as possible.

x x x x x

**Extract of the minutes of meeting of the
Finance Committee of the Legislative Council held on 21 December 2001**

X X X X X

Action

Item No. 3 - FCR(2001-02)50

CAPITAL INVESTMENT FUND

NEW HEAD - "NEW EXHIBITION CENTRE AT CHEK LAP KOK"

♦ **New Subhead "Equity in the International Exhibition Centre"**

16. Members noted that the present proposal had been discussed by the Panel on Commerce and Industry on 12 November 2001.

17. Miss CHOY So-yuk supported in principle the establishment of a new International Exhibition Centre (IEC) at Chek Lap Kok (CLK) but expressed concern about the funding arrangement for the project. She pointed out that there was no question about the need for more exhibition facilities in Hong Kong, but the recent announcement of the Government's plan to fully fund the extension of the Hong Kong Convention and Exhibition Centre (HKCEC) in Wanchai would make the proposed IEC project financially not viable. As the IEC would be a tripartite joint venture (comprising a private sector participant, the Government and the Hong Kong Airport Authority (AA)) and the private sector participant was expected to finance half of the \$4 billion construction cost of IEC, Miss CHOY queried how IEC could stay competitive and viable in the face of HKCEC. She further pointed out that the industry was in need of a large exhibition centre with all basic requirements at reasonable charges. There was no need to incur \$4 billion to build another venue for high-end exhibitions, as the industry would not be able to afford the resultant high charges.

18. In response, the Director-General of Investment Promotion (DG of IP) clarified that the existing extension wing of the HKCEC provided some 28 000 m² and 10 000 m² of exhibition area and meeting/convention area respectively while the proposed IEC would provide 50 000 m² net usable area for exhibitions. On the funding arrangement by way of a tripartite joint venture would ensure the commitment on the part of the private sector participant in the success of the project. As the proposal to develop a new IEC at CLK was not financially viable from the investment point of view, the selected private sector participant would be allowed to

**Extract of the minutes of meeting of the
LegCo Panel on Commerce and Industry held on 8 April 2002**

x x x x x

**V Briefing on the work of inviting international private sector consortia
to develop the proposed new exhibition centre at Chek Lap Kok**
(LC Paper No. CB(1) 1415/01-02(03))

20. The Director-General of Investment Promotion (DGIP) briefed members on the results of the Administration's recent overseas meetings with key exhibition centre operators and exhibition companies in Europe and North America and on the way forward for the new exhibition centre project at Chek Lap Kok.

Interest in the new exhibition centre project

21. In reply to Mr CHAN Kam-lam's enquiry about interest of overseas exhibition companies and centre operators in participating in the project, DGIP advised that there had been very encouraging responses from the organizations met and 19 organizations had specifically requested to be included at the "expression of interest" (EOI) stage of the project. The Administration envisaged that at least five of them would compete for the right to take part in the project. In addition, two overseas conglomerates had taken initiative to express interest in bidding for both the construction and financing of the new exhibition centre.

22. On the details of these organizations/conglomerates, DGIP said that they were predominantly operators of world's major exhibition centres with plentiful international experience in management of exhibition facilities, while some were also owners of renowned exhibition centres. As all these organizations/conglomerates were potential competitors of the project, DGIP considered it inappropriate to disclose their names and further information about them at the present stage.

23. Since only two out of 21 organizations/conglomerates had indicated interest in bidding for financing the project, Miss CHOY So-yuk expressed concern whether the project would be able to attract investors. In reply, DGIP advised that the Administration was looking for a private sector consortium which would contribute to the cost of constructing the new centre, with expertise in the design and construction of exhibition facilities, and international experience in the management and operation of exhibition facilities and business. Consortia with strong Hong Kong knowledge would gain certain advantages over other competitors. DGIP

added that the 19 organizations which had specifically requested to be included at the EOI stage understood the need to seek investors in forming consortia in order to compete for the project. The Administration was aware that some organizations were in the process of identifying potential partners for financing the project. As such, the Invest Hong Kong and the Airport Authority (AA) had jointly operated an information matching scheme to help potential participants finding each other to facilitate the formation of private sector consortia.

Design, size and construction cost of the new exhibition centre

24. Dr LUI Ming-wah appreciated the efforts made by the Administration in the past few months in pressing ahead with the project. On the design of the new exhibition centre, Dr LUI was of the view that it should be practical but presentable and capable of meeting the needs of the exhibition industry. He further enquired whether the private sector consortium selected would be responsible for the design of the new centre and whether the Administration would provide guidelines in this respect.

25. Noting that most renowned exhibition centres began from a modest base and expanded incrementally in response to market demand and that centre operators which the Administration met had confirmed that only a few international trade fairs in Asia would need an exhibition space of 50,000 m² or more, Mr MA Fung-kwok enquired about the justification for expanding the size of the new centre from 50,000 m² net usable area to 100,000 m² as indicated in paragraph 8 of the information paper. He also asked whether consortia competing for the project would be given option to develop the centre in phases. On the other hand, Miss CHOY So-yuk stressed that it was the consensus of the exhibition industry that the new centre should have at least a net usable area of 100,000 m² if it were to be viable and to stay competitive in face of the Hong Kong Convention and Exhibition Centre (HKCEC).

26. As regards construction cost for the new centre, Mr CHAN Kam-lam cast doubt on whether the Administration's proposed contribution of \$2 billion would be sufficient in view that the size of the centre had been increased to 100,000 m². As the private sector had shown keen interest in investing in the project, the Chairman asked whether the Administration would consider contributing less towards the construction cost of the new centre.

27. In response, DGIP said that given the different views expressed by Legislative Council Members, the exhibition industry and international centre operators on the three key variables of the project, viz. size, design and cost, the Administration considered that the EOI stage would be the best means to strike a balance between these variables. To achieve this, the Administration would set out

broad parameters for the EOI process. The Airport Authority (AA) would make available a site for developing a 100,000 m² net usable area of exhibition facility on the existing airport island. Private sector consortia would be invited to provide a business plan for a facility of 80,000 m² to 100,000 m². The Administration would make an equity contribution of a maximum of \$2 billion towards the cost of the centre and necessary infrastructure. Private sector consortia would have much flexibility in formulating their proposals at the EOI stage. The Administration could then make a firmer view on the project and work out the details for the tendering stage.

28. As far as the design of the new centre was concerned, DGIP said that it would be a decision for the private sector consortia taking into account the broad parameters. If a consortium was prepared to contribute more to the construction cost for a sophisticated design which it considered might be beneficial to the centre's business and hence increase the return of its investment, it would make such a proposal in its business plan at the EOI stage. In this regard, DGIP assured members that the Administration and the AA would ensure that the design of the new exhibition centre would be respectable and compatible with Hong Kong's economic role and its international image.

29. In respect of the size of the new exhibition centre, DGIP stressed that the Administration fully recognized the industry's view that a 50,000 m² facility would not meet the market demand. Taking into account feedback from international exhibition centre operators, the Administration considered that the new centre should have a net usable area between 80,000 m² to 100,000 m². Private sector consortia would be required to include in their business plans submitted at EOI stage their preferred optimal size of the centre and how they would develop the centre up to the target size of 100,000 m². DGIP added that while the Administration would look at the merits of individual business plans, it would prefer a proposal to provide a larger exhibition centre as soon as possible.

30. On the construction cost of the new centre, DGIP said that the organizations which the Administration had met were familiar with the cost estimates for the facility quoted by the Administration including the different estimates for constructing the centre in a single phase (i.e. \$3.45 billion) or in two phases (i.e. \$4 billion). DGIP reiterated that the government was prepared to contribute up to \$2 billion for the project and confirmed that it would not pursue its original proposal to require a dollar-for-dollar matching investment from the private sector consortium. In essence, if the total construction cost of the new centre was \$2.5 billion, the private sector consortium would need to meet the balance of \$0.5 billion. As regards whether the Administration would contribute less towards the construction cost, DGIP said that there would be room for considering this issue during the tendering stage. He stressed that in principle, the Administration would

prefer a consortium which would contribute more to the construction cost so that the government's share could be reduced.

31. Responding to Mr HUI Cheung-ching's concern about the low forecast financial return of the project, DGIP stressed that the Government economist estimated that the new exhibition centre would generate enormous economic benefits including promoting trade for Hong Kong, creating new jobs and enhancing the tourism industry. He added that international experience revealed that government support for exhibition facilities was not uncommon and was indeed necessary to bring about success for the projects.

Future expansion of the new exhibition centre

32. Referring to the successful National Exhibition Centre in Birmingham which had set aside space adjacent to its permanent facility for provision of temporary structure to cater for occasional very large scale events, Miss CHOY So-yuk opined that the Administration should identify suitable land in the vicinity of the new exhibition centre for provision of temporary exhibition facilities.

33. In response, DGIP affirmed that the AA would make available a site on the existing airport island for a permanent exhibition centre of 100,000 m² net usable area. As to whether space would be available for provision of temporary exhibition facilities, DGIP said that while the Administration did not envisage such need in the near future, the AA would review the situation from time to time in the light of market demand for exhibition space and taking into account various competing demands for land on the existing airport island, in particular those for airport-related facilities.

34. On Miss CHOY So-yuk's suggestion that the Administration should explore the feasibility of providing additional space in other parts of the Lantau island for provision of temporary exhibition facilities and future expansion of the new centre, DGIP advised that the Administration had examined other sites but due to lack of necessary infrastructural facilities, none of them were identified suitable so far.

Management of the new exhibition centre

35. Miss CHOY So-yuk expressed grave concern over the monopoly in the present management of the HKCEC. In order to avoid recurrence of the problem, Miss CHOY opined that the Administration should require the private sector consortia to include details on the proposed management arrangement of the new centre, such as fees to be charged, in their business plans.

36. In response, DGIP said that the Administration noted Members' concern over the existing arrangement in the management of the HKCEC which was a result of several historical reasons. In order to promote competition in the provision of exhibition space, the Administration had decided that the management and operation of the new exhibition centre should be independent of that of the HKCEC and the parties involved in the latter's management would be excluded from participating in the project. The private sector consortia would have to state their proposed rate of preferred return in the business plans which would include details on management arrangements. He assured members that more details in this area would be available after the EOI stage.

Timing for seeking funding approval

37. In reply to the Chairman's enquiry, DGIP advised that the Administration's intention was to commence the EOI stage in May or June 2002. On conclusion of the EOI stage, a small number of potential partners would be shortlisted and the Administration would firm up the proposal and seek the Finance Committee (FC)'s approval for the government contribution before the end of the current legislative session. The Administration might consult the Panel on the finalized proposal before submitting it to the FC. If there was slippage, the Administration would need to defer its submission to the FC to October or November 2002 and proceed with tendering in the first quarter of 2003. As construction would take about two years, the new exhibition centre would commence operation by mid-2005. This would tie in with the scheduled opening of the Hong Kong Disneyland to provide synergy between the two new facilities in attracting business travellers to the centre accompanied by their families for leisure.

x x x x x

Action

secure a return on its investment on a priority basis up to a preferred return rate specified in its bid during the franchise period. DG of IP further confirmed that the proposed IEC would not be another high-end facility and would cater for the needs of the exhibition trade. The actual construction cost might be less than \$4 billion as a result of competitive bidding and depending on whether it would be developed in a single- or two-phase scenario. However, funding approval was needed to demonstrate the Government's commitment and capability for undertaking the project when conducting the international road show.

19. In this connection, the Principal Assistant Secretary for Commerce and Industry (PAS(CI)) supplemented that although government funding was provided for the construction of phases I and II of the HKCEC, the HKCEC was now run on prudent commercial principles. She advised that the Trade Development Council was still studying the feasibility of a proposal to build a further extension to the HKCEC. At this stage, there was no finalized plan yet.

20. Mr Albert CHAN also considered the estimated construction cost of \$4 billion for 50 000 m² of net usable area too high. In response, DG of IP reiterated that \$4 billion was only the estimated maximum cost. The amount was not exclusively for the IEC but also included the estimated cost for providing the necessary infrastructure and transportation facilities. On whether there was a continued need for government funding, DG of IP assured members that the Government's contribution under the present proposal was one-off and the future IEC would have to finance its own operation.

21. Dr LUI Ming-wah suggested that the Government should either fund the construction cost for the IEC in full and select a private operator to manage the facility, or provide more detailed information on the contract to be entered into with the private sector participant if a joint venture was to be formed. Dr LUI considered the existing arrangements of the HKCEC unsatisfactory as users were charged very high fees and there was very little the Government could do under the contractual agreement with the operator. He reiterated that if the Government funded the entire IEC project, it would have a greater say in future management matters such as the level of charges.

22. In response, DG for IP advised that the Government did not see a need for it to bear the entire construction cost as according to the Government's assessment, it should be able to secure third party investment in the IEC project under the proposed preferred return rate and income-sharing arrangements. At this stage, the Administration was not in a position to provide details of the contract pending discussion with leading operators worldwide during the international road show. In assessing bids, the Administration would give due consideration to factors such as

Action

Admin

robustness of business plans and the bidders' ability in attracting new exhibition business to Hong Kong. DG of IP confirmed that progress would be reported to the Panel on Commerce and Industry in due course.

23. Regarding the choice of site for IEC, DG of IP informed members that a number of locations had been examined by the consultant engaged for the purpose. The two best locations were North Lantau and CLK. CLK was the only site which was available, serviced and formed by 2005 when the new facility was required. Synergy could also be achieved as the completion of the IEC would likely tie in with that of the Disneyland in 2005. Experience elsewhere had indicated that those who came for the exhibition would also visit the town as a whole, hence benefiting the rest of the community.

24. Noting that AA would contribute the site, time and money and reserve for the first ten years of the IEC's operation an additional piece of adjoining land to cater for further expansion, Mr James TIEN asked why AA would only exchange for a 10% equity stake in the joint venture but not higher. In reply, DG of IP said that 10% was a compromise reached after negotiation between the Government and AA.

25. On future development plans on the airport island, Mr James TIEN recalled that at a recent meeting of the Economic Services Panel, the AA had briefed members on a massive SkyCity comprising not just the IEC, but also office and retail developments. Both he and some Panel members had expressed reservation on AA's expanded scope of activities. They questioned whether this expansion of activities would be consistent with AA's role in managing the airport and maintaining Hong Kong's status as an aviation centre. DG of IP said that he was not in a position to comment on proposed developments outside his policy purview but confirmed that the provision of an exhibition centre was compatible with the objective of the airport. Moreover, about half of exhibition materials were usually flown in.

26. Given the prevailing economic condition, Mr James TIEN asked whether the Government had in mind any reasonable level of preferred return. In response, DG of IP said that he could not speculate on the return rate. While bidders specifying a lower preferred return rate might secure a better chance of being selected, other factors such as the bidder's management experience and track record in attracting business would also count. DG of IP further confirmed that the preferred return rate was different from the Scheme of Control Agreement applicable to utility companies as the former was not a guaranteed return and the Government would not have to top up the shortfall, if any. He added that the preferred return rate was cumulative and through competitive tendering, the Government would be able to secure a lower level of preferred return rate.

Action

27. Mr James TIEN asked whether consideration had been given to a bipartite joint venture consisting of a private partner with either the Government or the AA. In reply, DG of IP advised that as the land of the airport island belonged to AA pursuant to a private treaty grant, AA's partnership in return for an equity stake was essential unless the government somehow acquired the land. On the other hand, if the Government was not to participate in the project, it would have to inject extra capital into the AA to permit it to do so. DG of IP pointed out that under the current arrangement, the Government would be represented on the Board of Directors of the joint venture to ensure proper monitoring of both the construction and future operation of the IEC.

28. Mr Albert CHAN held the view that as AA had already received a sizable capital injection from the Government and was granted some 1 000 hectares of land, it should be in a position to implement the IEC project. Mr CHAN considered that AA should undertake the project and invite tender. Only if this failed should the Government consider funding part of the cost.

29. For clarification, DG of IP said that the \$2 billion was not a capital injection into AA, but the Government's maximum share of the construction cost of the IEC in exchange for equity and representation on the board of the joint venture. As to why AA would not develop the project on its own, DG of IP advised that this was because the IEC project was assessed to be not financially viable and AA must operate in accordance with prudent commercial principles. He stressed that an essential element of the present proposal was a competitive tendering exercise in which bidders worldwide would submit bids on the basis of their proven ability and their preferred return rate on investment.

30. Mr Albert CHAN urged that the long-term financial viability of the IEC should be carefully assessed in the face of keen competition from the Mainland and neighbouring countries and the failure of similar projects elsewhere. He saw no urgency for approving the funding at this meeting. DG of IP was aware of similar exhibition facilities in neighbouring areas and pointed out that if the IEC project was not proceeded with, thousands of job opportunities and potential exhibition business in Hong Kong would be foregone. On financial viability or otherwise, DG of IP advised that if contrary to the assessments by the Government and AA, the IEC project proved to be financially viable, then it would mean the surplus income above the preferred return rate available for distribution among the three parties would also be higher and the Government would be able to secure a greater share of revenue in future years.

31. Mr Abraham SHEK did not fully subscribe to the Administration's view and cautioned that if the project was not financially viable, the Government might have

Action

to bear the costs ultimately. He doubted how, under prudent commercial principles, AA could contribute the land to a financially unviable project and such action might affect the value of land in Hong Kong. Mr SHEK questioned whether the Administration had conducted any sensitivity tests on the recommendations of the consultancy report as he considered that the private sector might find the project attractive since no land premium had to be paid. Mr SHEK found it difficult to support the present proposal on the basis of the limited information available.

32. In response, PAS(CI) clarified that AA was contributing the land in exchange for a 10% equity stake in the joint venture. She advised that apart from the original consultancy study completed in 1999, the Administration had commissioned further consultancy studies which had come to the view that the IEC project was not financially viable from an investment standpoint. The currently proposed funding model was a reasonable arrangement.

Admin

33. On whether the Administration had examined the feasibility of the private sector undertaking the IEC project, DG of IP confirmed that according to the assessments by the Administration and its financial advisers, the project was not financially viable. He agreed to provide the relevant assessments for members' reference. DG of IP also informed members that in other Asian countries, government support was provided for similar facilities on account of the economic benefits brought to the entire community. In some countries, such facilities were 100% government-funded.

34. Miss Emily LAU agreed that there was inadequate information in support of the funding proposal. She also queried the prudence of committing up to \$2 billion in the face of the huge deficit without first tapping the readiness of the private sector in developing the project. She found it difficult to support the present proposal.

35. Dr YEUNG Sum suggested that the Administration should withdraw the paper and provide further information to address members' concerns about the high construction cost and the assessments on financial viability.

Admin

36. Mr CHAN Kam-lam recapped that at the last meeting of the Panel on Commerce and Industry, members present generally supported the development of an IEC in Hong Kong. Members of the Democratic Alliance for Betterment of Hong Kong also supported the establishment of an IEC on account of its importance in enhancing Hong Kong's position as a financial and logistics centre. However, in view of members' concerns, Mr CHAN suggested that the Administration should withdraw the paper and brief the Panel on Commerce and Industry on further details such as the equity arrangements and future operation of the joint venture. He commented that if justified, an economic infrastructure such

Action

as an IEC should be supported.

Admin 37. Miss CHOY So-yuk reiterated her concern about the proposed funding arrangement and high construction cost, but agreed fully with the need to provide an additional exhibition centre. Based on her experience, she cautioned that international investors might be interested in developing an IEC in Hong Kong for the sake of dominating the exhibition business. She requested the Administration to provide members with information on the potential investors identified from the international roadshow. To facilitate members' consideration, she also asked the Administration to provide more concrete information on the financial arrangements for the further expansion of the HKCEC in Wanchai.

Admin 38. Dr LUI Ming-wah concurred with the need for an additional IEC in Hong Kong but reiterated his concern about whether the current proposal was good value for money. He urged the Administration to furnish more information and revert to FC in the near future.

39. Mr Albert CHAN summed up that in principle, Members of DP supported the establishment of an IEC. However, they were concerned about the effectiveness of the funding and related arrangements.

Admin 40. Noting members' views, DG of IP said that the Administration would discuss the proposal further with the Panel on Commerce and Industry at its next meeting in January 2002 and provide the necessary information for members' consideration. The Administration would hope to revert to FC in January 2002. DS(Tsy) withdrew the proposal.

41. Mrs Selina CHOW, who had not spoken on the present proposal, requested to put on record her declaration of interest. (*Note: Mrs CHOW is a Board Member of the AA.*)

42. The proposal was withdrawn by the Administration.

x x x x x