

**400IO – Transformation of the former Police Married Quarters on
Hollywood Road into a Creative Industries Landmark
Supplementary Information**

Objective

This note provides supplementary information as requested by Members at the Public Works Subcommittee (PWSC) meeting on 15 June 2011 for item 400IO - Transformation of the former Police Married Quarters on Hollywood Road into a creative industries landmark (item PWSC (2011-12)26).

Policy Objectives of Revitalisation of the PMQ Site

2. Creative industry is one of the six new economic areas that the Government seeks to drive forward. Developing creative clusters in the community and turning them into focal points of creative activities is one of the key development strategies for promoting the further development of this industry. The former Police Married Quarters site is one of the eight projects under the “Conserving Central” initiative announced in the Chief Executive’s 2009-10 Policy Address. The site was the home of the Central School with geographical advantages. It is well placed as it is in close proximity to a wide array of historic sites and buildings in Central, the existing cluster of cultural and creative industries establishments (e.g. antique shops and galleries) in the vicinity of Hollywood Road as well as the colourful cultural landscape of the SOHO and Lan Kwai Fong areas. Capitalising on the geographical advantages of the PMQ site, the Government brought together three objectives for the PMQ project, namely promotion of creative industries, heritage conservation and provision of local open space. The revitalised PMQ site will not only manifest the historical

significance of the site, but also meet the community's need for more quality open space and create synergy between the site and various heritage, cultural and tourist attractions in the area.

Proposals Selection Process

3. On 19 March 2010, the Development Bureau (DEVB) and the Commerce and Economic Development Bureau (CEDB) invited interested organisations and enterprises to submit proposals on the transformation of the former Police Married Quarters into a creative industries landmark.

4. The "Advisory Committee on Revitalisation of Historic Buildings" (AC) appointed by the Secretary for Development (SDEV) is responsible for assessing the conservation and revitalisation proposals received and making recommendations to SDEV. The AC, comprising members from the fields of historical research, architecture, surveying, social enterprise, finance etc., provides advice on the revitalisation of historic buildings to SDEV. Its membership list and terms of reference are set out in **Annexes 1** and **2**.

5. The AC attaches great importance to its project assessment work and a lot of preparation has been made before the start of project assessment. In order to fully fulfil the policy objectives of promoting creative industries and at the same time revitalising historic buildings, the AC invited CEDB to provide the latest analysis and information on the creative industries in Hong Kong in respect of their current position and way forward. The AC had also visited a number of creative industries clusters in Shanghai, Beijing and Shenzhen, during which they met and exchanged views with the project management team and

learnt from them valuable experiences in operating, managing and developing creative industries in different old buildings. In addition, the AC also visited the InnoCentre and the Jockey Club Creative Arts Centre in Hong Kong to get a better understanding of the operation of local creative industries centre. Moreover, SDEV had appointed four experts from the creative industries as co-opted members of the AC to take part in the assessment of proposals.

6. Three out of four proposals were deemed valid applications by the AC after vetting through the proposals received (One of the four proposal received was an invalid application because it failed to comply with the mandatory requirements stipulated in the Invitation For Proposal document). The AC assesses the proposals according to four prescribed criteria, namely reflection of historical value and technical aspects (10%), creative industries value, social value and social enterprise operation (40%), financial viability (25%), and management capability and other considerations (25%). Detailed assessment criteria are at **Annex 3**. The whole selection process is rigorous, with the AC carefully examining all the information of the three valid applications and meeting representatives of these organisations to obtain in-depth understanding of their proposals under assessment. Besides, the AC had site visits where they had detailed discussion on the contents and design concepts of the proposals. The AC also invited the two organisations with higher scores in the preliminary assessment to submit more detailed information, including detailed technical proposals, the positioning of the project in local creative industries and its benefits to the society and the industry, etc. for further consideration and assessment.

7. Following the competitive selection process and the recommendation from the AC, the “PMQ” project submitted by the “Musketters Education and Culture Charitable Foundation Limited” (“Musketters Foundation”), with the

support of the Hong Kong Polytechnic University, Hong Kong Design Centre and the Hong Kong Design Institute of Vocational Training Council was finally selected by DEVB in November 2010. The reasons for selecting the project are set out in **Annex 4**. To summarise, the project proposal of “PMQ” is the one which can best implement the objective of conserving and revitalising the former Police Married Quarters in the form of operating social enterprise, which means, the project is able to conserve this historic site, to transform the site into a creative industries landmark and to provide landscaped open space to neighbourhood. The proposal was fully complied with the requirements set out in the assessment criteria and has attained the highest overall mark.

Vision and Concept of the “PMQ”

8. The “PMQ” project aims to provide in the former Police Married Quarters pooled creative resources and service platforms for emerging designers and various start-up design entrepreneurs, and studios for the display and sale of creative products and demonstration of creative activities. The vision of the project is to strive to develop “PMQ” into a hub for international, Asian and local creative talents, raise design standards for the industry and promote a new icon for the creative industries. Its focus is to foster the development of creative industries, rather than to make profits.

Business Plan of “PMQ”

Design Industry as the Development Core

9. The former Police Married Quarters was once the site of the Government

Central School. With its surrounding areas on the Hollywood Road and in the vicinity of SOHO filled with culture, art, history and the mix of east and west, it is an ideal location for development into a landmark for the creative industries. Given that the usable floor area of “PMQ” is limited, the Musketeers Foundation would focus their resources to develop “PMQ” into a design and creative industries landmark in Hong Kong, making it the landmark in Hong Kong, the Great Pearl River Delta as well as Asia. The design sector cuts across various creative industries (such as architecture, product design, fashion design, digital entertainment, digital media, art & crafts, video and films, etc). Through outstanding designs, the “PMQ” will convert creative ideas into industries with sustainable development. The Musketeers Foundation plans to convert the units in the former Police Married Quarters on Hollywood Road into about 130 studios (including units at concessionary rent for start-up designers) for young designers and create-preneurs to engage in creative design-related activities and to display and sale of their creative products. In order to encourage cross fertility of ideas, co-development works and interactions across various creative industries, setups from digital media, art and crafts, video and film, etc. will also be invited to join the design cluster of “PMQ”.

Integration of International and Local Elements

10. Spaces will primarily be allocated to Hong Kong brands, some of the tenants will be international creative enterprises and professionals in order to enhance international exchange and foster brand building. “PMQ” will also provide six quarter units to designers. These rental lodges will accommodate designers of creative exchange programmes and internationally renowned designers who are invited to host talks, exhibitions, workshops and exchange programmes on creativity. They will also be let to local, mainland and overseas partners to our sponsoring and exchange programmes, including international

designers associations, and mainland and overseas academic institutions etc., with a view to fostering and encouraging collaborative creativity and strategic development exchange between local and visiting designers and creative talents, widening their exposure and experience and nurturing more local talents in creative industries. Through the aforesaid arrangement, “PMQ” aims to transform the former Police Married Quarters into a new creative cultural landmark which gathers international, Asian and local creative talents, raises the quality of creative designs and promotes creative culture.

Hardware Facilities

11. In addition to the about 130 design studios, “PMQ” will have a 1 000m² multi-purpose covered exhibition area (including 600 m² to be covered by i-Cube and 400 m² to be covered by transparent canopy) and an about 600m² 2-storey multi-function hall named the “i-Cube”. These two event spaces will act as a platform for events for creative talents to connect them with creative industries through major exhibitions, art displays and fashion shows. Moreover, year-round creativity-based activities will be organised, which will help foster closer integration of creative industries with the life of the people. In order to encourage emerging creative enterprises and brands to display their products and services in “PMQ” and to carry out retail and market planning activities, the Musketeers Foundation has also earmarked about 400m² at that portion of the site adjoining Staunton Street as for exhibition purposes.

Software Complementary Facilities

12. To facilitate the development of “PMQ” into a creative landmark in Asia and an important platform to showcase to the world the best of Hong Kong’s creative quality products and designs, the Musketeers Foundation will set up a

“Creative Resources Centre” with established expertise and international networks that will facilitate young creative talents to transform their creative ideas into products/services, find business partners, and provide them with relevant information and distribution chains locally, internationally and in Great Pearl River Delta. To further help young start-up createpreneurs in brand building, the “Creative Resources Centre” will provide support services in professional training, marketing publicity, packaging, legal advice, etc. or even contacts with factories in the Great Pearl River Delta and international networks. The objective of Musketeers Foundation is to develop these local brands into popular local or regional brands and eventually become internationally renowned quality brands.

Community Integration

13. Through active collaboration with culture-creative bodies, social enterprises in Sheung Wan, shops in tourist spots like Lan Kwai Fong and SOHO in Central, and other operating organisations of projects under the “Conserving Central” policy, “PMQ” will take forward a range of community activities that will facilitate better pedestrian flow, thereby enhancing the integration of creative and community cultures. By such collaboration, the different revitalised heritage clusters, shops of local design brands, antique and art works, galleries, restaurants and bars, as well as distinctive streets in the district can be linked up. In order to promote the initiatives of heritage conservation and the brand building of heritage trails in the Central District, activities which reflect the cultural landscape of the community and heritage conservation based on the ”point-line-surface” model will be organised.

Development by Stages

14. The Musketeers Foundation plans to develop “PMQ” by stages in the coming 10 years, aiming at giving an impetus to the growth and enhancing the competitiveness of the local creative industries.

(a) Early Stage (2014 – 2015): The “PMQ” will house about 130 design studios run by emerging designers from Hong Kong and overseas, and showcasing a range of lifestyle products (such as fashion, household products, entertainment facilities, arts & craft) and other design services. Other main functions of the studios will be the provision at concessionary rents of a more stable working environment for nurturing new young local talents in developing their brands. Diverse creative and design based exhibitions and activities will be organised in collaboration with tenants, creative communities, education institutions and other non-profit-making organisations both local and non-local to showcase the design excellence in Hong Kong, to promote exchanges of new ideas, and to raise public appreciation of art and design. Exquisite shops with creative products and special dining restaurants and cafes that embrace an entire design experience will be opened attracting repeated visitors to the site.

(b) Middle Stage (2016 – 2017): In this stage, with injection of more resources to provide more comprehensive professional services, Musketeers Foundation will strive to develop “PMQ” into an incubation platform for developing local brands. In addition to the provision of more comprehensive support services on professional training, market promotion, brand building and legal advice by the “Creative Resources

Centre”, the “Creative Resources Centre” will also help all the tenants and local designers to establish contacts with their counterparts, from factories in the Great Pearl River Delta and other international networks like brand consultants, PR firms and business consultants, to international media, international tradeshows, exporters, buyers, etc. “PMQ” will also closely collaborate with other major stakeholders in the creative sector such as HKTDC, Hong Kong Design Centre, CreateHK, etc, to enhance the promotion of the local creative works. Tenants as well as other workers in the creative industries can leverage on the Creative Resources Centre’s expertise and extensive networks designed for the creative industries to market and launch their creative ideas/products/services locally and internationally.

(c) Later Stage (After 2017): The Musketeers Foundation will work collaboratively with the creative industries and make the “PMQ” develop and mature gradually into a hub for creative talents and brands that gathers together the city’s creative forces to achieve synergy through active collaboration. The public can visit for the creative experience together with the vast variety of activities and events that bring new ideas and inspirations to a better life. Tourists can come and buy the Hong Kong specialty gifts and souvenirs. Manufacturers will get new product designs or creative ideas and services from the tenants and creative talents of different disciplines. International traders and buyers can come and source products/services for licensing and exports at “PMQ”. The “PMQ” will become the catalyst which turns creative ideas into values and products that bring economic values to the Hong Kong economy. At the same time, a new breed of local talents will also be groomed and emerge in the international market that fuels the longer term development of local creative industry.

The Tenancy and Financial Arrangement of the “PMQ”

15. Under the concept of sustainable delivery of revitalisation projects, the “PMQ” project will be operated on a self-financing basis. The Government will enter into a tenancy agreement with the Musketeers Foundation for the operation of the “PMQ” project on the PMQ site. The tenancy will be a fixed term of 10 years, renewable for another 5 years. This has given due regard to the need to facilitate longer-term business planning for the operation of the creative industries landmark on the PMQ site, so as to tie in with the delivery of the project in three stages as planned.

16. The Musketeers Foundation has pledged to contribute \$110 million for revitalising and operating the “PMQ” and for the purpose of nurturing creative talents. The contribution by Musketeers Foundation is a committed fund from the founder and its partners and will not be recovered in any way. A breakdown of the estimated expenditure for the contribution is at **Annex 5**.

17. The Musketeers Foundation will lease out, at reasonable rents, its studios and complementary facilities (e.g. food and beverage premises) in support of a wide variety of related activities to bring in regular income for its operation. Selection criteria and conditions will be set for offering preferential terms to young start-ups for renting its studios at concessionary rents, in a bid to encourage young local designers to create their own brands. For the lease of premises for organising activities for the creative industries, the Musketeers Foundation will only charge management fees (including maintenance and security fees, water and electricity charges etc) if the tenant is a non-profit-making organisation. As of expenditure, the Musketeers Foundation will bear the day-to-day expenses of the future “PMQ”. These include the staff cost, and the costs of professional services, public facilities and their maintenance, strategic development, international exchange and scholarship scheme etc. Additional resources will be injected for marketing and promotional purposes to

attract more visitors. The estimated operational income and expenditure of the “PMQ” is at **Annex 6**.

18. The “PMQ” project will be operated in the form of social enterprise (SE) and is non-profit-making. Given the resources put in by the Government up-front to this project, a net operating surplus arising from the operation will be shared between the Musketeers Foundation and Government every five years on a 50/50 basis. Government’s portion will be returned to the General Revenue Account while that of the Musketeers Foundation will be ploughed back into the “PMQ” project for future operation and promotion of activities. The arrangement of sharing the operating surplus every five years will ensure there will be adequate cashflow to promote heritage conservation and the development of creative industries in Hong Kong. All surplus within the five years (i.e. before sharing the operating surplus) will be re-invested within the project and cannot be siphoned off for other uses. In the light of the Musketeers Foundation’s budget, its pledged contribution and Government’s funding the capital cost of the project with the funding support by Legislative Council, we envisage the project will be financially sustainable.

Tenancy Agreement and Monitoring of Project Operation

19. With reference to the arrangements of the “Revitalising Historic Buildings Through Partnership Scheme”, the Government will continue to own the land and property of the PMQ. The Commissioner for Heritage’s Office of DEVB will enter into a tenancy agreement with the special purpose company (SPC) established by the Musketeers Foundation. The tenancy agreement will spell out clearly the SE’s project content, including the operation period, project scope, uses of the PMQ site, mode of operation and estimates of major revenue

and expenditures etc; as well as the conservation requirements and repair and maintenance responsibility within the site. The future operation of the project will be subject to the terms and conditions specified. The tenancy term of the site is 10 years and is renewable for another five years.

20. The DEVB will review the performance of the SPC set up by the Musketeers Foundation and other factors prevailing at the time to decide whether the tenancy will be renewed. To monitor the business performance of the project at the operation phase, the Government will require the SPC to submit mid-year progress reports (including financial reports and cash-flow statements) and the year-end annual report (including the annual audited financial statements) and the final evaluation report (including the final audited accounts) on completion of tenancy. The annual report and the final evaluation report should include the audited accounts and the auditor's reports for the examination by DEVB of the operation of the project. Failure to submit a report or submission of reports containing insufficient, incomplete or false information may result in termination of tenancy by the DEVB. Other key terms and conditions governing operation are clearly set out in the Invitation for Proposal and will be written into the tenancy agreement, details of which are at **Annex 7**.

21. The DEVB will submit regularly the latest information of the "PMQ" project to the "Advisory Committee on Revitalisation of Historic Buildings" (AC) during the validity period of the tenancy agreement and will listen to their views to ensure that the project has met the set objectives and its operation is in accordance with the requirements of the tenancy agreement.

Capital Cost for Transformation Works

22. The total capital cost for the transformation works is \$577.1 million in MOD prices. Taking into account the \$17 million (in MOD prices) contribution from the contribution of \$110 million by Musketeers Foundation, the remaining capital cost is \$560.1 million, funding of which will be sought from the Legislative Council. Among this figure, the breakdown of the estimated cost for the building works under the proposed project of \$305.6 million is at **Annex 8**. Furthermore, \$2 million will be allocated for the following specialist consultancy services:

- (a) Archaeological investigations (AI): AI will be carried out at the Underground Interpretation Area (UIA) during the construction period. It is not appropriate to conduct AI before the construction period as the depth of excavation at the UIA has to be about 3m and below the footings of the existing quarters blocks. The current proposal is to make use of the steel pipe pile walls of the proposed UIA as supports for carrying out the AI. The services to be provided by the specialist consultant will include preparation of Archaeological Action Plan¹, conducting excavations under the supervision of qualified archaeologists and field assistants, recording remains of archaeological interests, and compiling reports etc.

- (b) Tree preservation: We will engage a tree expert to advise on tree preservation measures and to monitor the implementation of the measures for all trees within the site. The services to be provided by the tree expert during construction will include

¹ This is a plan certified by the Antiquities and Monuments Office (AMO) for illustrating the scope, time-table and method for conducting the required AI before and during construction works.

assessing the impact of the proposed development on the trees, vetting contractor's proposals on protecting trees, conducting coaching sessions for the contractor, carrying out regular inspections and submission of relevant reports etc.

Tree Preservation

23. During the design stage, we have engaged a tree expert (Prof. C. Y. Jim of the Department of Geography, The University of Hong Kong) to provide consulting services with a view to enhancing preservation of the existing trees within the site, including 15 stonewall trees and two non-stonewall trees.

24. Upon funding approval of the project, the tree expert will monitor the implementation of the tree preservation measures during construction and provide the aforesaid professional advice in tree preservation within the site.

Conclusion

25. As mentioned in paragraph 12 of the LC Paper No. PWSC(2011-12)26, the "PMQ" project will generate multifaceted benefits for the district and the community as a whole. We seek Members' support to this funding application so that the project can be implemented as early as possible.

Development Bureau
July 2011

**Term of Reference of the
Advisory Committee on Revitalisation of Historic Buildings**

The term of reference of the Advisory Committee on Revitalisation of Historic Buildings (AC) are listed below :

- a) Examine applications and make recommendations to the Secretary for Development (SDEV) on the use of historic buildings as announced by the Government from time to time, under the Revitalising Historic Buildings Through Partnership Scheme (the Revitalisation Scheme).
- b) Upon selection of successful applicants for the Revitalisation Scheme, recommend the level of subsidy to the applicants both in terms of the one-off major renovation cost and the one-off grant to meet the starting costs and operating deficits.
- c) Monitor and evaluate the effectiveness of approved projects under the Revitalisation Scheme in terms of the conservation of the buildings and the operation of the social enterprises.
- d) In the case of non-compliance by the successful applicants (or tenants) under the Revitalisation Scheme, advise what necessary actions are to be taken.
- e) Upon expiration of a tenancy, review overall performance of the successful applicant under the Revitalisation Scheme and recommend way forward, e.g. offer a new tenancy, not to offer a new tenancy, or offer a new tenancy but with conditions attached.

- f) Advise on other matters relating to the revitalisation of historic buildings as referred by SDEV.

**Membership List of the
Advisory Committee on Revitalisation of Historic Buildings**

Chairman

Mr Bernard Chan

Members (Non-official)

Mr Nelson Cheng Wai-hung

Ms Susanna Chiu Lai-kuen

Mr David Fong Man-hung

Mr Raymond Fung Wing-kee

Mr Andrew Lam Siu-lo

Dr Lau Chi-pang

Ms Vivian Lau

Ms Deborah Wan Lai-yau

Dr Philip Wu Po-him

Members (Official)

Commissioner for Heritage, Development Bureau

Assistant Director of Architectural Services (Property Services) Architectural
Services Department

Assistant Director of Leisure, Cultural and Services (Heritage and Museums)
Leisure and Cultural Services Department

Co-opted Members for Assessment of the Former Police Married Quarters

Projects

Mr Herman Lam Heung-yeung

Professor Desmond Hui Cheuk-kuen

Mr Maurice Lee Wai-man

Deputy Secretary for Commerce and Economic Development

(Communications and Technology)

**The Specified Assessment Criteria in
Invitation For Proposal for Transformation of the Former Police Married
Quarters on Hollywood Road**

Areas of assessment	Marks	
	Maximum	Passing
<p>1. Reflection of Historical Value and Technical Aspects of Proposal: including how the Proposal can bring out the historical value or significance of the site, design concepts, name(s) of technical advisor(s), experience of the maintenance team, compliance with licensing requirements and users requirements, implications and capital costs of Revitalisation Works of the site, variation in implementation timetable, etc.</p>	10%	6%
<p>2. Creative industries value, social value and social enterprise (SE) operation: including project objectives, general project description, transforming the site into a unique creative industries landmark, non-financial aspects of the Business Plan, benefits to creative industries and the community value, SE Service Plan (including plan to provide areas for creative industries establishments and activities at affordable prices, to provide for areas for exhibition and sale of creative services and products, to organise creative industries activities regularly at the site so as to enhance patronage and to make use of the site efficiently and effectively), proportion of the site devoted to commercial activities, tangible and intangible social value, target clients and degree of public access to the site, etc.</p>	40%	24%

<p>3. Financial Viability: including financial aspect of the Business Plan, projected income and expenditure statement, pre-operating expenditure, financing method(s), assumptions and basis of calculations on income and expenditure, staff cost projection, cost control measures, Financial Viability and sustainability of business and financial capability, other funding sources, provision of undertakings to guarantee performance, etc.</p>	25%	15%
<p>4. Management capability and other considerations: including management capabilities (including institutional set-up, adequacy of resources to deliver the Project, capability of the management team, track record (if any), level of commitment), history of organisation, corporate objectives, core services provided, sources of income, support from third-party endorsers, any cross-sector collaboration, etc.</p>	25%	15%

Reasons for Selecting the Project “PMQ”

According to the specified assessment criteria in the Invitation for Proposal for transformation of the Former Police Married quarters on Hollywood Road, the “PMQ” has the following merits:

a) **Historical Value and Technical Aspects**

- Musketeers Foundations proposed various ways, including guided tours, seminar and workshops, for the interpretation of the history of the former Central School, and the history of Victoria City. The intention to relate and connect the site with the neighbouring Dr Sun Yat-sen Historical Trail would help promote the cultural characteristics of the district and form a strong bond with the local community.
- Musketeers Foundation has shown adequate understanding of different layers of history related to the site and proposed innovative ways to interpret its history. The proposed underground interpretation area by allowing visitors to walk along a created corridor between the underground foundation stones of the former Central School and to appreciate the archaeological remnants. The proposal will help promote the cultural characteristics of the district and at the same time to convert the site into an iconic landmark.

- The architectural improvements such as the construction of i-Cube and the extended canopy proposed by Musketeers Foundation would provide much more space for conducting indoor and outdoor creative industries related activities and enhancing a creative atmosphere for the community. “i-Cube” would provide an additional 600m² of weatherproof open space underneath the elevated structure and it can also provide an about 500m² rooftop garden for free access of the tenants, public and visitors.
- These proposed architectural changes were considered reasonable for increasing the space for indoor and outdoor activities so as to enhance patronage of the site and hence the financial viability of its business plan. Musketeers Foundation has committed to shoulder \$17 million for the construction cost for these proposed architectural changes in order to suit the future use of the site.

b) Creative Industries Value, Social Value and Ability of Operating Social Enterprise

- Musketeers Foundation has set out a clear vision of what the Police Married Quarters site will become. The site would primarily be a design cluster, inspire enterprises and entrepreneurs to create value through innovation. The “PMQ” covered the business plan, marketing strategy, tenant mix, supporting facilities, activities and programmes for nurturing creative cluster and attracting patronage. On the operation side, Musketeers Foundation had put up a three-stage plan which clearly outlined the steps to implement the project’s vision.

- Musketeers Foundation adopted a reasonable approach in assessing the benefits of the “PMQ” to the creative industries and envisaged that the project would benefit individual creative industries talents (or “createpreneurs”), small and medium sized creative enterprises, the local neighbourhood, the creative industries and the community at large. Musketeers Foundation had set out measurable targets for monitoring future performance.
- In addition, the “PMQ” proposed to enhance the interaction between local creative enterprises and talents; and overseas artists and designers to facilitate the international exchange.

c) Financial Viability

- Musketeers Foundation has adopted a prudent financial projection. Based on the projected income and cash outflow at MOD price level, the project would have a surplus in Year 5 (i.e. 2018) of the operation period. At that moment, the project would have an estimated net present value of \$22.5 million. The Government’s share of surplus in the 15-year period (assuming further 5 years renewal tenancy after the expiration of 10 years fixed tenancy) would have an estimation of \$30 million.
- Musketeers Foundation agreed to contribute \$110 million, in which \$59.5 million is used to finance part of the transformation works, expenses for fitting out and furnishings and pre-operating staff and project related

expenses¹. The remaining \$50.5 million to act as the general working capital throughout the three stages of development of the project.

- Musketeers Foundation had adopted a very conservative approach on income projections. In their assumption, the occupancy rate was only set at 80% in Year 1 to Year 4, and 85% in Year 5 to Year 15. Musketeers Foundation also proposed to offer concessionary rent for the budding createpreneurs to use the studios in order to encourage the local designer for creating their own brand name.
- On expenditure estimation, Musketeers Foundation had also adopted a very conservative approach. Total average annual expenditure over the 15-year tenancy period is \$42.4 million.
- Both the income projection and the expenditure forecast by Musketeers Foundation are very conservative. With the prudent financial projection approach adopted and the contribution pledged, ACRHB realised that the project is likely to be sustainable.

d) Management Capability

- Since the foundation in 2008, Musketeers Foundation, full name known as Musketeers Education and Culture Charitable Foundation Limited, has been committed to the advancement of education and culture. Apart

¹ \$59.5 million including \$17 million to augment Government's capital funding for the transformation works, \$19.5 million for fitting out and furnishings, \$23 million for pre-operating staff and project-related expenses..

from providing financial and human resources, it also acts as the strategic leader and principal coordinator of the project.

- The experience and track record of Musketeers Foundation and its three co-applicants in the operation of creative industries are beyond doubt. The founding directors of Musketeers Foundation are successful businessmen in their respective fields. Two of them have been engaged in the management and daily operation of businesses in creative industries (i.e. in advertising, publishing and software and computer software and application) for over 20 years. The three co-applicants are key players involved in design and creative industries in Hong Kong: The Hong Kong Design Centre, being a strategic partner of Innocentre, has rich experience in the promotion of creative industries in Hong Kong; The Hong Kong Polytechnic University has close links with public and private practitioners of the creative industries and actively participates in the relevant fields; and The Vocational Training Council has a long history of providing education and training in design.
- Musketeers Foundation will form a board of directors comprising members nominated by the Musketeers Foundation and the three co-applicants as well as appointments of renowned independent directors from relevant fields to steer and oversee the “PMQ” project. It will set up a management committee and an executive management team to oversee the daily management, operation and maintenance of the “PMQ” project.

- In addition, Musketeers Foundation also drawn in the advisors who are experts in various disciplines of creative industries such as advertising, architecture, art, design, digital media, film, music, performing arts, publishing, software and computing and in other aspects like heritage conservation, finance, branding communication, public relations to promote the “PMQ” project.
- Musketeers Foundations has also obtained support from a number of strategic partners. They possess a solid clientele and have extensive networks with local practitioners in the creative industries. Their involvement would help incubate the new designers in the creative industries.

In a nutshell, the “PMQ” project could implement the Government’s objectives (viz. heritage conservation, transforming the site into a creative industries landmark and provision of public open space to the neighbourhood) in conserving and revitalising the Former Police Married Quarters in the form of operating social enterprise. The “PMQ” project has attained the highest overall mark according to the specified assessment criteria.

Breakdown of Estimated Expenditure For the Contribution
by Musketeers Foundation

The Musketeers Foundation has pledged to contribute \$110 million for revitalising and operating the “PMQ” and for the purpose of nurturing creative talents. The contribution by Musketeers Foundation is a committed fund from the founder and its partners and will not be recovered in any way. A breakdown of the estimated expenditure for the contribution is at below:

	<u>Inflow (\$ million)</u>	<u>Outflow (\$ million)</u>	<u>%</u>
MF's General Contribution	<u>100.0</u>		<u>91</u>
Building works expenses		19.5	18
Contribution for the conservation and revitalization works		17.0	15
Pre-opening operating cost		23.0	21
Operation fund		40.5	37
MF's Contribution on Strategic Development	<u>10.0</u>		<u>9</u>
10 years Strategic Development Program for the project		10.0	9
TOTAL	<u>110.0</u>	<u>110.0</u>	<u>100</u>

Estimated Revenue & Expenditure of “PMQ” in Operation Period

Annex 6(a) Estimated operational revenue of “PMQ” (2014 – 2023) (Tenancy terms of 10 years)

Annex 6(b) Estimated operational expenditure of “PMQ” (2014 – 2023) (Tenancy terms of 10 years)

Annex 6(c) Estimated operational revenue of “PMQ” (2014 – 2028) (Tenancy terms of 10 years, renewable for another 5 years)

Annex 6(d) Estimated operational expenditure of “PMQ” (2014 – 2028) (Tenancy terms of 10 years, renewable for another 5 years)

Estimated Operational Revenue of "PMQ"

(2014 – 2023)

(Tenancy terms of 10 years)

	Before Breakeven 2014-2017 %	After Breakeven 2018-2023 %
CASH INFLOW		
Recurring		
Rental Income & Management Fee		
Studio	49	51
F&B/ Commercial Units	38	36
Multipurpose Hall "i-Cube" & Open Platforms	1	1
Subtotal	88	88
Constant		
MF's General Contribution	9	10
MF's Contribution on Strategic Development	3	2
Subtotal	12	12
TOTAL	100	100

Estimated Operational Expenditure of “PMQ”

(2014 – 2023)

(Tenancy terms of 10 years)

	Before Breakeven 2014-2017 %	After Breakeven 2018-2023 %
	<u> </u>	<u> </u>
CASH OUTFLOW		
Recurring		
Staff cost	39	38
Professional service fee (property management, securities, cleaning etc.)	18	18
Marketing, sales and promotion	14	11
Public utilities maintenance, water & electricity fees and other public expenses (including landscaping and tree preservation)	14	12
Strategic development, international exchange and scholarship program	3	6
Others (Rates, property tax, insurance premium etc.)	12	10
Subtotal	<u>100</u>	<u>95</u>
Non- recurring		
Payment for government's share	0	5
Subtotal	<u>0</u>	<u>5</u>
TOTAL	<u><u>100</u></u>	<u><u>100</u></u>

Remarks

The calculation already taken into account the factor of inflation and salary adjustment

Estimated Operational Revenue of "PMQ"

(2014 – 2028)

(Tenancy terms of 10 years, renewable for another 5 years)

	Before Breakeven 2014-2017 %	After Breakeven 2018-2028 %
CASH INFLOW		
Recurring		
Rental income & Management Fee		
Studio	49	56
F&B/ Commercial Units	38	37
Multipurpose Hall "i-Cube" & Open Platforms	1	1
Subtotal	88	94
Constant		
MF's General Contribution	9	5
MF's Contribution on Strategic Development	3	1
Subtotal	12	6
TOTAL	100	100

Estimated Operational Expenditure of “PMQ”

(2014 – 2028)

(Tenancy terms of 10 years, renewable for another 5 years)

	Before Breakeven 2014-2017 %	After Breakeven 2018-2028 %
CASH OUTFLOW		
Recurring		
Staff cost	39	39
Professional service fee (property management, securities, cleaning etc.)	18	18
Marketing, sales and promotion	14	10
Public utilities maintenance, water & electricity fees and other public expenses (including landscaping and tree preservation)	14	12
Strategic development, international exchange and scholarship program	3	6
Others (Rates, property tax, insurance premium etc.)	12	10
Subtotal	<u>100</u>	<u>94</u>
Non- recurring		
Payment for government's share	0	6
Subtotal	<u>0</u>	<u>6</u>
TOTAL	<u><u>100</u></u>	<u><u>100</u></u>

Remarks

The calculation already taken into account the factor of inflation and salary adjustment

**Proposed Terms and Conditions of the Tenancy Agreement on the
“PMQ” Project¹**

- (1) The Government will charge nominal rent for the site, to encourage the creative communities and the public to organise a wide variety of activities at concessionary rent (or even rent-free) which is beneficial to the community but may not be profitable, that meet the three policy objectives for promotion of creative industries, heritage conservation and provision of public open space). For example, leasing out dedicated space to emerging designers and creative establishments at concessionary rents for the development of creative industries and related education; organising heritage guided tours to the former Central School and relevant talks to promote public involvement in heritage conservation and their understanding of architecture and relics and related history of the site, as well as providing landscaped open space etc. for public free enjoyment.

- (2) Any net operating surplus arising from the operation will be shared between the Musketeers Foundation and Government every 5 years on a 50/50 basis. Government's portion will be returned to the General Revenue Account while that of the Musketeers Foundation will be ploughed back into the PMQ project for future operation and promotion of activities.

¹ The proposed terms and conditions of the tenancy agreement have been specified in the Invitation For Proposal Document, and will incorporate into the tenancy agreement.

- (3) The Musketeers Foundation will be responsible for repairing and maintaining the PMQ site and the premises at its own expenses, including all existing and new buildings, facilities, building services, landscapes and trees, etc., as well as those arisen from its renovation works. The cost and associated expenses of the structural maintenance of the buildings and facilities on the site, as well as those of maintenance of the retaining walls within the site will be borne by the Government.
- (4) Upon dissolution of the SPC set up by the Musketeers Foundation, any surplus funds and assets should be disposed in accordance with the Inland Revenue Ordinance (Chapter 112).
- (5) Furthermore, the tenancy agreement will also provide for termination of tenancy with the SPC set up by the Musketeers Foundation under specified circumstances, such as failure to make improvement or rectification within reasonable period of time on breach of tenancy by SPC, bankruptcy or insolvency, loss of its charitable status under Section 88 of the Inland Revenue Ordinance (Cap. 112), termination of operation without the consent of the DEVB. DEVB will issue warning to the SPC and demand an explanation or improvement to be made if its operation is found to be unsatisfactory or it fails to observe the terms of the tenancy. If the situation persists or no improvement has been made, we may consider to terminate the tenancy and retake possession of the site. Under the above circumstances, SPC would not be able to obtain any compensation.

Breakdown on the Estimated Cost of Building Works for the Project

Breakdown of the estimated building cost of \$305.6 million is as follows:-

	\$ million
1. Revitalisation and conversion of existing two quarters blocks and the former Junior Police Call House, to meet major functional needs, to comply with the statutory building and fire services regulations, and the relevant practice notes of the building and fire services requirements (including conversion works, refurbishment works, structural strengthening with steel, concrete repair, addition of lift shafts, alterations to existing lift shafts, replacement of steel windows, reprovisioning and addition of toilets, new plant rooms, improvements to construction site safety and environment etc.)	182.5
2. Heritage conservation works and public appreciation facilities (including the construction of Underground Interpretation Area, historic photos galleries and glass enclosures at ground floor of the quarters blocks, display showcases etc.)	35.1
3. Construction of a new elevated i-Cube for provision of indoor activities space as well as enhancement of interconnection between the two existing quarters blocks, and also provision of public open space on roof of i-Cube	29.0

- | | | |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 4. | Conversion of covered area of i-Cube and construction of a 450 m ² glazed canopy between the two quarters blocks for provision of all-weather community events spaces | 22.5 |
| 5. | Conversion works of basic facilities of existing construction (including the alteration of the partition walls, doors, windows etc of existing quarters) to meet the needs of creative industries | 12.4 |
| 6. | Ancillary facilities including restaurants and cafes etc (including structural alterations to layout of existing buildings, addition of glass enclosures at 6/F of Block B, and construction of new plant rooms etc.) | 24.1 |

Total:	305.6	(in September 2010 prices)