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**Joint Subcommittee to Monitor the Implementation of the  
West Kowloon Cultural District Project**

**Meeting on 11 June 2018**

**Background brief on  
the Art, Commerce and Exhibitions Development Package  
of the West Kowloon Cultural District**

**Purpose**

This paper provides background information on the Art, Commerce and Exhibitions ("ACE") Development Package (formerly known as the Exhibition Hub Development Area ("EHDA")) of the West Kowloon Cultural District ("WKCD"). It also summarizes the major views and concerns expressed by members of the Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project ("the Joint Subcommittee") on the subject.

**Background**

2. According to the information on the website of WKCD,<sup>1</sup> ACE at WKCD will include an Exhibition Centre ("EC"), a hotel and rental offices together with embedded retail/dining/entertainment ("RDE") facilities. The proposed EC will provide 47 045 m<sup>2</sup> of art, commerce and exhibition space. Adjacent to the proposed EC is a U-shaped site for 81 066 m<sup>2</sup> of hotel and rental offices as well as 6 894 m<sup>2</sup> of embedded RDE facilities. The location of the proposed EC and the adjacent U-shaped site is shown on **Appendix I**.

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<sup>1</sup> <https://www.westkowloon.hk/en/the-district/architecture-facilities/ace>

Enhanced financial arrangement and the development of the Exhibition Hub Development Area

3. To provide the West Kowloon Cultural District Authority ("WKCDA") with the financial capability to operate various WKCD facilities sustainably and continue to develop the remaining planned facilities, the then Chief Executive announced in his 2017 Policy Address the implementation of the enhanced financial arrangement ("EFA") for the WKCD project. The Government would grant development rights of the hotel/office/residential ("HOR") portion of WKCD to WKCDA, including the HOR sites that would be developed in conjunction with the proposed EC, for development under the Build-Operate-Transfer ("BOT") model.

4. The Administration and WKCDA briefed the Joint Subcommittee in February 2018 on the following development strategies for EHDA:<sup>2</sup>

- (a) procurement model: WKCDA will develop EHDA in the form of a BOT whereby private sector investors/partners will be invited to tender for the right to construct and operate the facilities in the package during the BOT period;
- (b) components of the package: the proposed EC in EHDA will be a medium-sized, multi-purpose venue for exhibition, convention and performance purposes. It serves to respond to a growing demand for space from expanding convention and exhibition events as well as new events that cannot secure slots in the existing convention and exhibition venues. Moreover, the EC aims to provide a platform to support cultural and creative industries in particular major art-themed events such as art fairs and art exhibitions which have to face keen competition with other hirers for existing exhibition spaces. Moreover, with a seating capacity of around 10 000 persons in concert mode, column-free and meeting specified acoustic standards, the main hall of the EC will also be suitable for staging various types of performances. The hotel and rental offices and the embedded RDE facilities in the adjacent U-shaped site will be packaged as part of the BOT development to capture the synergy in design, construction and management;

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<sup>2</sup> Source: [LC Paper No. CB\(1\)559/17-18\(01\)](#)

- (c) implementation strategy: WKCDA has engaged a project consultant in July 2017 to advise on the implementation strategy and plan the development package of EHDA;
- (d) public engagement: WKCDA will commence a new stage of public and stakeholder engagement in March 2018 to update the general public on the planning of EHDA and solicit views on the proposed EC;
- (e) market engagement: market engagement exercise will also be carried out to generate market interest in the project and to gather feedback from potential domestic and international market participants. Potential market participants include exhibition centre/convention centre and performance venue operators, developers, hotel owners and investors; and
- (f) tendering: after considering and assessing the views/suggestions received from the engagement exercises, WKCDA will prepare the tender document of the EHDA BOT for issue in late 2018. Tenderers will compete on, among other technical requirements, their offer of share with WKCDA the income generated from the operation of the BOT development package. As mentioned in [LC Paper No. CB\(1\)560/16-17\(01\)](#), upfront payment to the Government will not be required for the EHDA package.<sup>3</sup> WKCDA will retain the right to cancel the tender if the income to be shared with WKCDA offered by tenderers is unreasonably low (i.e. lower than the pre-tender estimate). Subject to the tender returns and assessment, it is estimated that the tender will be awarded in 2019 with the operation of the EHDA to commence in 2023.

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<sup>3</sup> In the paper, it was mentioned that the Government will grant the development right of 81 066 m<sup>2</sup> Gross Floor Area ("GFA") of hotel and office uses (about 22% of the total GFA of the HOR sites) in the U-shaped site adjacent to the EC to WKCDA at nominal premium without the need for WKCDA to pay an upfront payment to the Government, while for the granting of development right of the entire HOR portion of WKCD to WKCDA, upfront payments should be paid to the Government as determined through open and competitive tenders of the BOT arrangements with tender conditions set by WKCDA.

## **Major views and concerns of members**

5. At the meetings of the Joint Subcommittee in February 2017, and February and May 2018, the Administration and WKCDA briefed the Joint Subcommittee on the latest developments and financial situation of the WKCD project, as well as the key features of the BOT development packages covering EHDA and HOR. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

### Tendering of the development packages

6. Members enquired about the details of the BOT arrangements (e.g. the duration of BOT, income sharing between WKCDA and private developers, and areas in WKCD to be developed in the form of BOT, etc.) under EFA, as well as the related tender arrangements. Some members asked whether the Administration would set a timeframe (e.g. five or 10 years) for the WKCD project to break even.

7. WKCDA indicated that it would tender out the development of EHDA and HOR through different BOT development packages. The tenderers would compete on, among other requirements including technical requirements, their offer of upfront payments to the Government (in respect of HOR only) and the rental income to be shared with WKCDA. The tenderers would be given flexibility in deciding the mix of HOR uses as applicable under the relevant BOT agreement.

8. The Administration advised that certain terms and conditions would be imposed in the BOT tenders to protect the Government's interests under EFA. In this regard, WKCDA would be requested to engage independent consultant(s) to conduct the pre-tender estimates of the BOT development packages based on the pre-defined terms and conditions, and WKCDA would retain the right to cancel the tender if the tender price offered by tenderers was unreasonably low. While the Administration could not ascertain the year by which the WKCD project would break even, it was expected that EFA would generate considerable cash inflow for WKCDA, and upon expiry of the term of the BOT agreements, the Administration would be able to share the income generated from the EHDA and HOR development packages.

9. Some members enquired whether a minimum upfront payment and ratio of income sharing between WKCDA and the relevant developer would be worked out before tendering the development packages, and whether there were initial formulations for the sharing of surplus between WKCDA and the Government. Members urged WKCDA, when vetting the tender

submissions for the BOT development packages, to consider the merits of the tender proposals instead of focusing mainly on the income sharing offered by the tenderers. There was a view that the Administration should consider capping the tender costs of the BOT developments, in view of the public concerns over the high capital input in the WKCD project.

10. The Administration and WKCDA advised that it was necessary to ensure that the EHDA and HOR development packages would be commercially attractive to the tenderers as the BOT agreements would involve many variables (e.g. BOT duration, proportion of upfront payment and income sharing). For EHDA, instead of setting a predetermined ratio for income sharing with WKCDA as a tender condition, tenderers would be required to indicate the ratio of income from the operation of the BOT development package that they would share with WKCDA having regard to the tender conditions set by WKCDA. To ensure that private sector developers would propose a reasonable offer, WKCDA was required to come up with its own assessment of the income sharing ratio under full market value for the EHDA development package as well as the full market value of the upfront payment for the remaining HOR development packages. WKCDA assured members that it would consider the technical aspects in parallel with the offers of rental income sharing and upfront payments in the tender submissions.

11. Some members questioned how the Administration and WKCDA could ensure that the tendering of the EHDA and HOR development packages would be conducted in an open and competitive manner including whether there were any relevant guidelines for WKCDA to follow.

12. WKCDA advised that it would draw up a set of tendering guidelines having regard to current market best practices. To this end, WKCDA had set up an internal task force to plan for the implementation of EFA and prepare the tendering guidelines for approval by the Board of WKCDA.

#### Land value of the development packages

13. The Joint Subcommittee sought information on the estimated land value of the HOR and RDE portions of WKCD. Some members cast doubt on the suitability of granting the development right of the entire HOR portion of WKCD to WKCDA at a nominal premium. Some other members enquired whether the private developers being granted the development right had to pay a premium and rates at market price under the BOT agreements.

14. The Administration advised that it had always been the Government's plan to vest the RDE part of the commercial sites in WKCD in WKCDA at a nominal premium to provide it with a steady source of recurrent income through rental proceeds to meet the operating deficits of the core arts and cultural facilities and related facilities. As such, WKCDA had not re-evaluated the land sale value of the RDE facilities since the estimation was made in 2007.<sup>4</sup> As for the HOR portion, the land sale value would depend on the specific tender conditions, the prevailing market situation and the GFA distribution ratio among the three uses which had yet to be determined. WKCDA's plan in 2017 was to develop the major portion of the GFA of the HOR sites into rental offices and a small portion into rental residential units. Since there was no land sale under EFA, it would be inappropriate to estimate and apply the present-day value of the HOR sites through normal land disposal to that under EFA. WKCDA still had to pay government rent and rates at market price where applicable.

15. Some members suggested that the Administration should consider retaining the ownership and development right of the HOR portion in WKCD while leasing out the land to WKCDA. The Administration responded that according to the normal land grant policy, new leases of land shall be granted for a term of 50 years from the date of grant. As it was projected that EFA would generate considerable cash inflow for WKCDA upon the expiry of the BOT agreements, the Administration would retain the right to share the income with WKCDA by then. The Administration currently had no plan to lease out the HOR portion of land in WKCD to WKCDA.

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<sup>4</sup> According to WKCDA, the financial advisor who assisted the Financial Matters Advisory Group of the WKCD Consultative Committee on the Core Arts and Cultural Facilities estimated in 2007 that the land sale value of the RDE sites in WKCD, with a total GFA of 119 000 m<sup>2</sup> and the HOR sites with a total GFA of about 308 940 m<sup>2</sup>, would be about \$3.2 billion and \$18.9 billion respectively in 2006 Net Present Value. This estimation was made prior to the formulation of the Development Plan for WKCD, i.e. before the adoption of the "City Park" Conceptual Plan. With the approval of the Development Plan and the subsequent application made to the Town Planning Board under section 16 of the Town Planning Ordinance (Cap. 131) for minor relaxation of development intensity of WKCD (which included a 15% increase in total GFA), the previous estimated land sale value was no longer valid as the GFA for RDE facilities had increased to 138 360 m<sup>2</sup> while the GFA for HOR developments had also increased to 366 620 m<sup>2</sup>.

### **Latest development**

16. At the meeting of the Joint Subcommittee to be held on 11 June 2018, the Administration and WKCDA will brief members on details of the ACE development and Artist Hostel/Residence of WKCD.

### **Relevant papers**

17. A list of relevant papers with their hyperlinks is in **Appendix II**.

Council Business Division 1  
Legislative Council Secretariat  
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西九文化區主要設施示意圖  
Schematic plan of major WKCD facilities



資料來源: [立法會 CB\(1\)215/17-18\(04\)號文件的附件一](#)  
Source: Annex 1 to [LC Paper No. CB\(1\)215/17-18\(04\)](#)



## Appendix II

### Art, Commerce and Exhibitions Development Package of the West Kowloon Cultural District

#### List of relevant papers

Committee	Date of meeting	Paper
Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project	21.2.2017 (Item II)	<p>The Administration's paper on update on the Financial Situation of the West Kowloon Cultural District project <a href="#">[LC Paper No. CB(1)560/16-17(01)]</a></p> <p><a href="#">Minutes</a></p> <p>The Administration's response to members' concerns raised at the meeting <a href="#">[LC Paper No. CB(1)845/16-17(01)]</a></p>
	9.2.2018 (Item II)	<p>The Administration's paper on update on the financial situation of and the enhanced financial arrangement for the West Kowloon Cultural District project <a href="#">[LC Paper No. CB(1)559/17-18(01)]</a></p> <p><a href="#">Minutes</a></p>