

立法會
Legislative Council

LC Paper No. CB(1)1367/17-18(01)

Ref : CB1/PS/2/16

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

Special meeting on 11 September 2018

**Background brief on the M+ project and
the recent developments in relation to the M+ main works contract**

Purpose

This paper provides background information on the M+ project and the recent developments in relation to the M+ main works contract, including the making of direct payment to relevant subcontractors by the West Kowloon Cultural District Authority ("WKCD") and the termination of the M+ main works contract between WKCD and Hsin Chong Construction Company Limited ("HCC").

Background

2. M+ is a new museum for visual culture in Hong Kong to be located at the western end of the West Kowloon Cultural District ("WKCD"). According to WKCD, the mission of M+ is to focus on the 20th and 21st century visual culture, broadly defined, from a Hong Kong perspective, the perspective of now, and with a global vision. Its collections encompass the three main disciplines of visual art, design and architecture, and moving image. Following an international competition, the Swiss architectural firm Herzog & de Meuron, in joint venture with Hong Kong-based TFP Farrells and Ove Arup & Partners Hong Kong, was selected in June 2013 to design and administer the M+ building project.

Works progress

3. The main works of the M+ project started in the fourth quarter of 2015. HCC was awarded the M+ main works contract (including retail/dining/entertainment ("RDE") Building (P39B), interfacing car park and sewage pumping station at WKCD) in September 2015 after a selective tendering process.¹

4. In June 2016, WKCDA updated the former Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project ("the Joint Subcommittee") formed in the Fifth Legislative Council ("LegCo") on the development of M+, advising that the M+ building and the Conservation and Storage Facility ("CSF"), which would provide approximately 60 000 square metres in gross floor area together, were targeted for completion in the second half of 2018 for opening in 2019.²

5. In February 2017, WKCDA advised the current Joint Subcommittee that the construction works was behind schedule by 19 weeks, yet, WKCDA had undertaken mitigation measures including substantially increasing WKCDA's collaboration with and management of the main constructor (i.e. HCC) to enhance their planning, coordination and progress. With careful monitoring and management of the works progress, WKCDA endeavoured to maintain its original plan to open M+ and CSF in late 2019.³ In February 2018, WKCDA updated the Joint Subcommittee that the M+ building is targeted for completion in 2019 with opening a year later.⁴

Construction cost of the M+ building project

6. The former Joint Subcommittee was advised in July 2013 that the estimated construction cost of the M+ building project was \$5,413 million (in money-of-the-day ("MOD") prices). In view of the significant escalation in the cost of the WKCD project, members generally considered that WKCDA should make its best endeavor to contain the construction costs of individual facilities of WKCD without compromising the overall quality and functions of the facilities.

¹ Source: The [list of awarded contracts](#) for capital projects on WKCDA's website

² LC Paper No. [CB\(2\)1766/15-16\(03\)](#)

³ LC Paper No. [CB\(1\)560/16-17\(03\)](#)

⁴ LC Paper No. [CB\(1\)559/17-18\(01\)](#)

7. In July 2013, WKCDA advised that the Authority had already started negotiations with Herzog & de Meuron and TFP Farrells to further contain the cost to be incurred to a target budget of \$5 billion (in MOD prices) inclusive of consultancy fees. WKCDA assured members that it would attach importance to cost control and endeavor to ensure value for money in implementing the M+ project. In May 2016, WKCDA further advised that, following the approval of the application for minor relaxation of the development intensity of WKCD by the Town Planning Board, the Authority had adopted a cost-effective design for the M+ building by including one additional floor of RDE facilities and two additional floors for other arts and cultural facilities.

8. As shown on the list of awarded contracts for capital works on WKCDA's website, the amount of the contract awarded to HCC on the M+ main works is over \$5,900 million and up to \$6,000 million.⁵

Latest developments

9. Some media reports in July 2018 reveal that WKCDA has paid the subcontractors directly in respect of the works for the M+ project since February 2017, as it has been aware of the difficult financial position of the main contractor HCC and its parent company, Hsin Chong Group.⁶

10. In a press statement issued by WKCDA on 16 July 2018, the Authority stated that to ensure the continuity of the construction of the M+ project, WKCDA has developed a positive risk mitigation plan. One of the measures taken with approval from the WKCDA Board is an arrangement to pay key subcontractors directly to ensure that they receive payment for certified work done. WKCDA also mentioned that the payment arrangements were explained in the LegCo Finance Committee meetings in December 2017 and again in January 2018 in response to Members' concerns about payments to workers on the project.⁷ According to WKCDA, such arrangements are unusual but not exceptional, and similar arrangements have been used on projects in Hong Kong. The amount of money to be paid to key

⁵ Source: The [list of awarded contracts](#) for capital projects on WKCDA's website

⁶ The trading in the ordinary shares and debt securities of the Hsin Chong Group was suspended on 3 April 2017.

⁷ The concerns were raised when the Finance Committee was considering the funding proposal relating to the Integrated Basement for WKCD.

subcontractors each month is determined based on a detailed submission prepared by HCC, which has to be vetted and approved by the third-party Contract Administration. The monies paid are deducted from the contract sum payable to HCC by WKCDA.⁸

11. In its press release issued on 16 July 2018, the Government has mentioned that the above payment arrangement by WKCDA started in February 2017 with an aim to move the M+ project forward.⁹

12. On 17 August 2018, WKCDA informed the Joint Subcommittee about the termination of the M+ main works contract between WKCDA and HCC, as well as the relevant follow-up arrangements.¹⁰ WKCDA advised that it would urgently identify a management contractor to take over the M+ project and to see it through to completion. WKCDA indicated that it intended to use best endeavours to secure all the current subcontracts for the project by way of novation, and anticipated that this would take about six to eight weeks to arrange.

13. The Administration and WKCDA will brief the Joint Subcommittee on relevant issues at the special meeting to be held on 11 September 2018.

Relevant papers

14. A list of the relevant papers in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
4 September 2018

⁸ Please refer to the [press statement of WKCDA](#) issued on 16 July 2018.

⁹ Please refer to the [press release of the Government](#) issued on 16 July 2018.

¹⁰ Please refer to the letter from WKCDA on the M+ main works contract [[LC Paper No. CB\(1\)1333/17-18\(01\)](#)]. The English and Chinese version of the letter was issued to members on 20 August and 3 September 2018 respectively.

**The M+ project and
the recent developments in relation to the M+ main works contract**

List of relevant papers

Committee	Date of meeting/issue	Paper
Former Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project	23.4.2013 (Item II)	Agenda Minutes
	3.7.2013 (Item II)	Agenda Minutes
	29.11.2013 (Item III)	Agenda Minutes
	28.5.2014 (Item I)	Agenda Minutes
	23.7.2014 (Item I)	Agenda Minutes The Administration's response to members' concerns raised at the meeting CB(2)316/14-15(01)
	24.11.2014 (Item II)	Agenda Minutes
	12.1.2015 (Item III)	Agenda Minutes
	19.5.2015 (Item II)	Agenda Minutes
	30.5.2016 (Item II)	Agenda Minutes
	21.6.2016 (Item II)	Agenda Minutes

Committee	Date of meeting/issue	Paper
Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project	21.2.2017 (Item III)	Agenda Minutes
	9.2.2018 (Item II)	Agenda Minutes
	11.5.2018 (Item II – continuation of the discussion at the meeting on 9.2.2018)	Agenda

Press statement and press release respectively issued by the West Kowloon Cultural District Authority ("WKCDA") and the Government

Date of issuance	Press release
16 July 2018	Press statement of WKCDA
16 July 2018	Press release of the Government
17 August 2018	Press statement of WKCDA
19 August 2018	Press statement of WKCDA