

## **ITEM FOR FINANCE COMMITTEE**

### **CAPITAL INVESTMENT FUND**

#### **HEAD 962 - INDUSTRY**

#### **New Subhead “Equity in the Hong Kong Science and Technology Parks Corporation for an InnoCell”**

Members are invited to approve –

- (a) a commitment to inject \$560 million as equity from the Capital Investment Fund; and
- (b) a guarantee by the Government for a commercial loan amounting to \$240 million and the interest arising therefrom

to the Hong Kong Science and Technology Parks Corporation for developing an InnoCell adjacent to the Hong Kong Science Park.

### **PROBLEM**

The Hong Kong Science and Technology Parks Corporation (HKSTPC) requires an equity injection and guarantee of a commercial loan and the associated interest from the Government to develop an InnoCell adjacent to the Hong Kong Science Park (HKSP) in order to foster the development of the innovation and technology (I&T) ecosystem in Hong Kong.

**/PROPOSAL .....**

## PROPOSAL

2. We propose that Members approve a commitment to inject \$560 million as equity from the Capital Investment Fund, together with a contingent liability to be assumed by the Government for guaranteeing a commercial loan of \$240 million to be drawn by HKSTPC and the associated interest for proceeding with the InnoCell development.

## JUSTIFICATION

### Policy Commitments

3. The Policy Address delivered in January 2017 announced that the Government would support HKSTPC in developing an InnoCell adjacent to the HKSP in order to reinforce the development of the I&T ecosystem. The InnoCell will provide residential units with flexible design and ancillary facilities for leasing to principals of tenants and incubatees of the HKSP and their employees as well as visitors from the Mainland and overseas at affordable rents.

### Accommodation Need of HKSP Tenants

4. HKSTPC conducted a market survey in 2016 which revealed that –
- (a) there was a strong interest in on-campus living accommodation within the HKSP community, especially amongst start-up technology companies;
  - (b) there was insufficient affordable housing nearby for employees working in the HKSP, particularly those from the Mainland and overseas. Many employees lived in Tai Po, while others opted to commute daily between Shenzhen and the HKSP;
  - (c) many HKSP tenants/incubatees stressed the importance of having affordable accommodation in attracting and retaining talents; and
  - (d) researchers generally worked long and flexible hours. The co-living and co-working environment which the InnoCell could offer would help foster cross-fertilisation of ideas and collaboration among members of the HKSP community.

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5. The survey indicated that the anticipated housing demand in 2015-16 was more than 420 units and it would grow to around 580 units by 2020-21 with the increasing number of jobs to be offered in the HKSP. We note that many science parks around the world<sup>1</sup> provide accommodation support to I&T talents.

### **Economic Case**

6. The HKSTPC also completed a study to assess the economic impact of the development of the InnoCell. The study concluded that the InnoCell would facilitate companies in the HKSP to attract talents from the Mainland and overseas and retain existing ones, thereby generating wider economic benefits to Hong Kong. The InnoCell can create 300 direct and indirect employment opportunities, of which 100 are direct supporting staff of the InnoCell. There will be a direct value added of around \$110 million, as well as indirect and induced value added of \$56 million per year (at 2014 prices)<sup>2</sup>. During its three-year construction period, the InnoCell would generate \$180 million value added and 354 man-years of employment.

7. The InnoCell will be a pioneer in “on-site” accommodation for the I&T sector in Hong Kong and will help increase the competitiveness of the HKSP. It can support the expansion programme of the HKSP, create a more vibrant I&T ecosystem, provide an additional incentive for attracting and retaining talents, showcase “Smart Home” products developed in the HKSP, and enhance collaboration among local and overseas talents.

## **IMPLEMENTATION PLAN**

### **Target Tenants and Admission Criteria**

8. Applicants for the InnoCell need to comply with a set of pre-determined admission criteria and applications will be considered by a panel to be established by HKSTPC, with a scoring system that covers both “Merit” and “Need” considerations. The tentative admission criteria include –

/(a) .....

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<sup>1</sup> Examples include the Hsinchu Science Park in Taiwan, the Zhangjiang InnoPark in Shanghai and the WeLive in New York.

<sup>2</sup> Direct impact refers to the direct effect on employment and value added of the companies that are attracted to or retained at the HKSP due to the InnoCell. Indirect impact refers to the economic effect arising from the non-wage expenditure of these companies at the HKSP on services and goods provided by the supporting sectors (e.g. utilities, transportation, professional and financial services). Induced effect refers to the economic effect arising from wage-related expenditure of the employees in these companies at the HKSP and the supporting sectors.

- (a) Applicants who are **principals of tenants/incubatees** in the HKSP should not solely, jointly nor through a company own any residential property in Hong Kong. The “Merit” considerations will tentatively include technology skills or knowledge, academic achievements, contribution to/participation in the local technology ecosystem and willingness to interact with other residents etc. The “Need” considerations will tentatively cover the operational characteristics of his/her company, the location and condition of his/her current accommodation and other relevant factors. The tenancy period will make reference to the rental period of their offices/laboratories in the HKSP or the length of their incubation programmes, but will not exceed two tenancies, each lasting up to 24 months. It is expected that this tenant group will take up about 40%-45% of the units in the InnoCell.
- (b) Applicants who are **Mainland or overseas employees of tenants/incubatees** should be a full-time staff of the tenant/incubatee with a valid working visa in Hong Kong. The “Merit” considerations will be similar to those of (a) above, while the “Need” considerations will tentatively cover the applicant’s income level and the priority accorded to him/her by the employer. The tenancy period will make reference to his/her period of employment, but will not exceed two tenancies, each lasting up to 24 months. It is expected that this tenant group will take up about 40%-45% of the units in the InnoCell; and
- (c) Applicants who are **Mainland or overseas visiting scientists/researchers** will have to demonstrate his/her participation in research and development (R&D) projects at the HKSP. The tenancy period will follow the length of the projects or programmes that they are attached to. It is expected that this tenant group will take up about 5%-10% of the units in the InnoCell.

The aforesaid mix of tenant groups in the InnoCell is only a preliminary estimate. The assessment panel will review from time to time the composition of tenants, admission criteria and scoring system, taking into account operational experience, the demand and supply situation, etc.

/Rental .....

## Rental Strategy

9. The monthly rental of the InnoCell will tentatively be set at around 60% of the market rent of properties of similar quality in the nearby areas<sup>3</sup>. Based on our current projection, the monthly rental in 2021 will likely be around \$8,000 to \$10,000 (covering management fees, furniture, rates, water and electricity as well as fees for using common facilities) for a furnished unit with a saleable floor area of about 250 square feet<sup>4</sup>. The proposed rent is considered reasonable and competitive for premises with dual functions both as working space and short to medium-term accommodation. Its proximity to the HKSP, the shared facilities available and synergy with the technology community are add-on benefits.

## DEVELOPMENT PLAN

### Proposed Scope and Programme

Encl. 1 10. The InnoCell is located adjacent to the south-east entrance of the HKSP with an area of about 0.28 ha (Enclosure 1). It falls within an area zoned “Government, Institution or Community” on the current Pak Shek Kok (East) Outline Zoning Plan. The proposed building consists of an 18-storey tower with a maximum building height of 59.2 mPD (metres above the Hong Kong Principal Datum) and a total maximum Gross Floor Area (GFA) of about 15 300 m<sup>2</sup> (approximately equivalent to a plot ratio<sup>5</sup> of 5.4). It will provide about 500 units for residential use. Common facilities (such as rooms for reading/computer, gymnasium, laundry mart, etc.) and common rooms will be available on G/F and M/F to provide space for communication, collaboration and leisure. A sitting lounge will be provided on M/F and small common rooms on individual floors. These common facilities would take up about 8-10% of the total maximum GFA of the proposed building.

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<sup>3</sup> The current rental level of an unfurnished flat in Shatin and Tai Po is \$32-\$45 per square foot of saleable floor area (**excluding** utilities and management fees). We project that this would go up to \$37-\$51 per square foot by 2021 assuming an annual rental increase of 3% on average. For a high quality flat similar to that in the InnoCell with 250 square feet, the estimated average market rent is projected to be around \$12,000 (**excluding** utilities and management fees).

<sup>4</sup> According to the Residential Properties (First-hand Sales) Ordinance (Cap 621), saleable floor area comprises the internal floor area of a unit with wall thickness. Based on the preliminary design plan, the average saleable floor area of an InnoCell unit is approximately 290 square feet (ranges from approximately 250 square feet for typical 1-bed units to approximately 610 square feet for typical 3-bed units).

<sup>5</sup> The plot ratio is subject to the actual site area obtained from the detailed survey.

11. The proposed development was approved with conditions by the Town Planning Board on 5 May 2017. The Executive Council has agreed to grant the site to HKSTPC by private treaty at nominal premium.

12. The estimated development cost of the InnoCell is \$800 million at money-of-the-day prices (or \$677.9 million at September 2016 price level). This is equivalent to \$44,938 per square metre of construction floor area. Smart home technologies such as mobile apps for reservation of communal space and check in/out services, in-room devices for control of guest entry, roller blinds, air-conditioning and lighting, etc. will be adopted in the design as appropriate. Based on the average rental rate of \$9,000 proposed in paragraph 9 (with 3% annual increase) and the projected increasing occupancy rate of the InnoCell from 30% in 2021 to 95% in 2023 and thereafter, the average annual rental income for the InnoCell will be around \$58 million between 2021 and 2034. The average annual operating and finance costs<sup>6</sup> will be around \$56 million during the same period.

13. Subject to funding approval from the Finance Committee in early 2018, the InnoCell is expected to be completed by 2021.

### Proposed Financial Arrangements

14. To demonstrate Government's strong commitment to promoting the development of the I&T ecosystem in Hong Kong, we consider it appropriate to provide financial support to the project in the form of an equity injection of \$560 million to HKSTPC and government guarantee for a commercial loan of \$240 million and the associated interest. The proposed financial arrangements for the project are as follows –

	<b>Estimated % of total development cost</b>	<b>\$ million</b>
Government equity	70	560
Commercial loan guaranteed by the Government	30	240
<b>Total</b>	<b>100</b>	<b>800</b>

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<sup>6</sup> Including (a) operating costs, i.e. staff costs, general administration, miscellaneous costs, as well as marketing and promotional expenses (\$10.3 million), property management costs (\$11.7 million); and (b) finance costs, i.e. interest expenses (\$6.8 million) and depreciation (\$27.3 million).

15. The proposed financial arrangement for the InnoCell has taken into account HKSTPC's overall financial position and cash flow projections, including its planned capital works projects and new initiatives in coming years, as well as the need to maintain adequate cash balance<sup>7</sup> to cater for operational needs and unforeseen circumstances. HKSTPC is shouldering loans amounting to \$4,453 million and associated interest payment of about \$790.3 million up to 2035-36 for its committed capital projects<sup>8</sup>.

16. While the rental income from the HKSP is generally adequate for HKSTPC to cover its operating and finance costs at the moment, it cannot generate sufficient cash inflow to finance the full development cost of the InnoCell. The proposed equity (70%) cum loan (30%) financial arrangement would allow HKSTPC to take forward the development of the InnoCell while maintaining adequate cash balance. HKSTPC's cashflow projection is at Enclosure 2.

Encl. 2

17. Any surplus arising from the InnoCell development will be credited to the general revenue reserve account of the HKSTPC for financing its operations.

## FINANCIAL IMPLICATIONS

18. Subject to Members' approval, the Government will inject \$560 million to HKSTPC. In addition, the Government will assume a contingent liability for guaranteeing a commercial loan of \$240 million to be taken out by HKSTPC and the associated interest.

19. The project has no recurrent financial implications for the Government. HKSTPC will be required to exercise due care to control the overall project cost. In the event that the project cost exceeds the current estimate, HKSTPC is expected to bridge the funding gap using its own resources.

**/CONTROL .....**

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<sup>7</sup> The Board of Directors of HKSTPC has endorsed that HKSTPC should maintain a minimum cash balance of \$200 million, which is equivalent to some three months of HKSTPC's average monthly operating expenses in 2017-18.

<sup>8</sup> These include an outstanding government loan of \$496 million for the development of HKSP Phase 2; a commercial loan of \$1,707 million in the form of medium term note for the development of HKSP Phase 3; a government loan of \$600 million to be drawn for developing HKSP Phase 3; and a government loan of \$1,650 million to be drawn for the development of the Data Technology Hub and Advanced Manufacturing Centre at Tseung Kwan O Industrial Estate.

## **CONTROL MECHANISM**

20. The HKSTPC Ordinance (Cap. 565) requires the Corporation to operate in accordance with prudent commercial principles. The Corporation will put in place a proper control mechanism to monitor the InnoCell development. The Government will monitor the InnoCell development through the Board of Directors of HKSTPC. Tendering procedures for consultancy and works contracts of this project will be modelled on Government's procedures and practices.

## **PUBLIC CONSULTATION**

21. The InnoCell project was first announced in the Policy Address delivered in January 2017 and is welcomed by the public in general and the I&T community in particular. The Development and Housing Committee of the Sha Tin District Council was consulted on 6 July 2017 and members were generally supportive of this project. Some members have expressed concerns over the likely traffic impact of the project and whether the InnoCell would be able to attract and admit suitable I&T talents. In this connection, HKSTPC will implement appropriate traffic improvement measures and ensure that the admission eligibility criteria are fair, transparent and conducive to the objective of fostering the development of the I&T ecosystem in Hong Kong.

22. We briefed the Panel on Commerce and Industry (C&I Panel) on 18 July 2017 (LC Paper No. CB(1)1293/16-17(03)). Members generally supported the proposal and considered the InnoCell project effective for attracting and retaining I&T talents in Hong Kong. Members raised a number of issues including the reason for the Government to inject a relatively high proportion of equity into HKSTPC for the project; the need for the HKSTPC to draw up detailed admission criteria and suitable tenancy period; the expected rental income from the InnoCell as well as its management and operating costs; and the need for the Government to elaborate on the economic benefits to be derived from the project.

23. To address Members' concerns, we briefed the C&I Panel further on 21 November 2017 with supplementary information (LC Paper No. CB(1)212/17-18(03)). Members expressed support for the InnoCell project and passed a motion urging Government to take into account the income level and affordability of the start-ups and their employees when fixing the rental level of the InnoCell.

**/BACKGROUND .....**



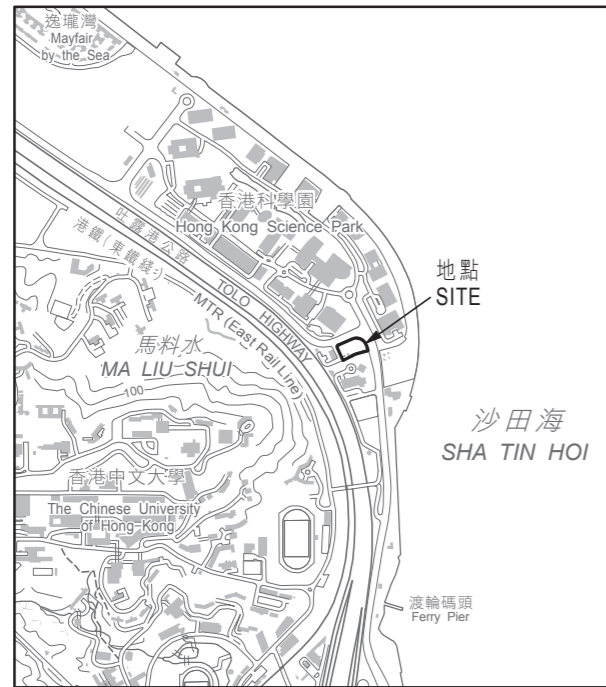
**BACKGROUND**

24. HKSTPC is a statutory body established in 2001 with a mission to facilitate the establishment and the nurturing of a world-class technology community dedicated to applied R&D in Hong Kong. The Government is the sole shareholder of HKSTPC, which is governed by a Board of Directors appointed by the Government. HKSTPC operates and manages the HKSP, three Industrial Estates at Tai Po, Yuen Long and Tseung Kwan O, and the InnoCentre at Kowloon Tong.

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Innovation and Technology Commission  
Innovation and Technology Bureau  
January 2018

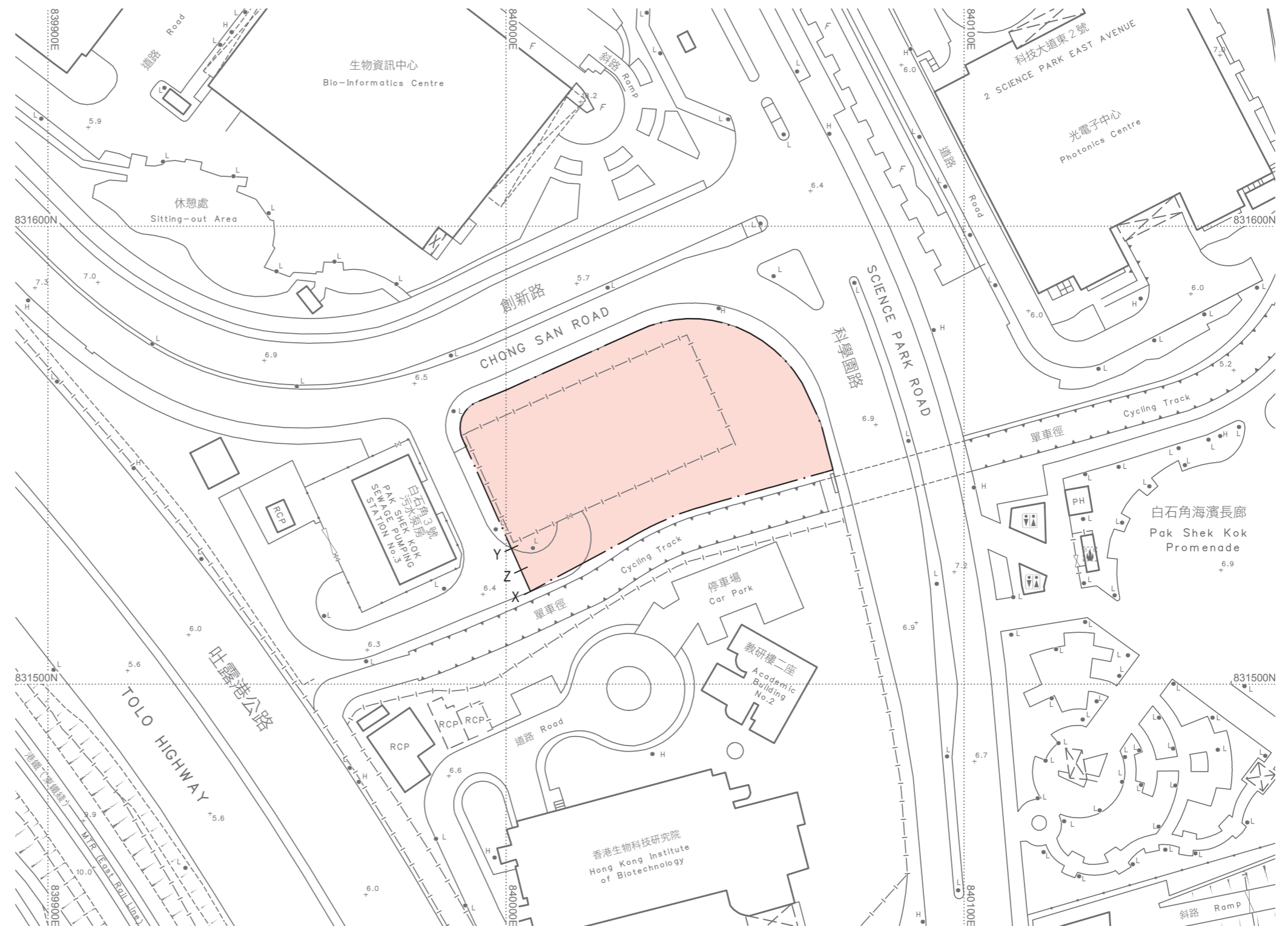
位置 LOCATION



比例 SCALE 1:20000

有關的特別條件  
SPECIAL CONDITIONS REFER

點 POINTS X Y Z  
擬議汽車出入口  
(PROPOSED VEHICULAR ACCESS POINT)



以粉紅色標示的面積約為 2 870 平方米  
COLOURED PINK AREA 2 870 SQUARE METRES (ABOUT)



只作識別用 FOR IDENTIFICATION PURPOSES ONLY

地政總署 大埔地政處  
District Lands Office, Tai Po  
Lands Department  
圖則由大埔測量處繪製  
Plan Prepared by District Survey Office, Tai Po

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大埔市地段第 245 號  
TAI PO TOWN LOT No.245

檔案編號 File No. DLO/TP 97/TLT/64  
測量圖編號 Survey Sheet No. 7-NE-17D  
分區計劃大綱圖編號 O.Z.P. No. S/PSK/13  
參考圖編號 Reference Plan No. -----  
圖則編號 PLAN No. TPM6232-X

## Cash Flow Projection of the Hong Kong Science and Technology Parks Corporation (in \$ million)

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>2028-29</u>	<u>2029-30</u>	<u>2030-31</u>
Opening cash balance	1,041	10,475	10,047	6,072	2,766	899	211	219	489	17	291	533	746	950	1,041
Net cash flow of HKSTPC excluding InnoCell Project financing	9,434	(959)	(3,750)	(3,168)	(1,703)	(659)	15	277	(465)	281	249	220	211	98	210
Available cash excluding InnoCell Project- financing	10,475	9,516	6,297	2,904	1,063	240	226	496	24	298	540	753	957	1,048	1,251
InnoCell's development cost (Note 1)		(29)	(225)	(367)	(157)	(22)									
Government equity injection		560													
Commercial loan with Government guarantee				240											
Repayment of commercial loan (Note 2)				(11)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Ending cash balance	<b>10,475</b>	<b>10,047</b>	<b>6,072</b>	<b>2,766</b>	<b>899</b>	<b>211</b>	<b>219</b>	<b>489</b>	<b>17</b>	<b>291</b>	<b>533</b>	<b>746</b>	<b>950</b>	<b>1,041</b>	<b>1,244</b>

**Note 1:** The total development cost of InnoCell is estimated to be \$800 million, which will be funded by \$560 million government equity injection and a commercial loan of \$240 million with government guarantee.

Subject to Finance Committee's approval, the tentative equity injection and commercial loan drawdown schedule is set out below -

<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Total</u>
-	560	-	240	-	800

**Note 2:** This includes basically interest payments with the principal to be repaid in the fiscal year 2033-34.