

Legislative Council Panel on Commerce & Industry

International Exhibition Centre at Hong Kong International Airport

Introduction

This paper informs Members of the tender award for the International Exhibition Centre (IEC) project at Hong Kong International Airport (HKIA), and the gist of the project.

Background

2. At the meeting of the Legislative Council Panel on Commerce and Industry on 9 December 2002, Members supported the IEC project at HKIA which would help meet the growing demand for high quality exhibition facilities and sustain Hong Kong's leading position as a prime location for major international exhibitions in the Asia-Pacific region. At the Finance Committee meeting held on 20 December 2002, Members approved a commitment to inject \$2 billion from the Capital Investment Fund to partly finance the construction cost of the IEC.

The tender award

3. On 28 February 2003, the Government and the Hong Kong Airport Authority (AA) invited tenders for the project. After careful evaluation of the submissions received, the Tender Evaluation Committee, comprising representatives from the Government and AA, decided to award the IEC project to Dragages et Travaux Publics (HK) Limited, Yu Ming Investments Limited and Yu Ming Investment Management Limited (hereafter referred to as the Joint Venture Partners).

4. The Government and AA will form a company, to be named "IEC Holdings Limited" (the Holdings Limited), as their investment vehicle for the project. The Holdings Limited and the Joint Venture Partners will form a Joint Venture Company to construct, operate and own the IEC. The Government and the Joint Venture Partners will jointly finance the project cost in exchange for equity in the Joint Venture Company. The AA will allocate a site within the North Commercial District of HKIA sufficient for the IEC development of up to

100,000 square metres net usable area, in exchange for a fixed 10% equity stake in the Joint Venture Company. The Joint Venture Partners will be responsible for the design and construction of the IEC. The joint venture agreement between the Government, AA and Joint Venture Partners will be signed on 23 August 2003.

The gist of the IEC project

Corporate structure of the Joint Venture Company

5. The Government and AA will, through their shareholding in the Holdings Limited, respectively hold 76.5% and 10% of shares in the Joint Venture Company, while the Joint Venture Partners will hold 13.5%. The 13.5% investment by the Joint Venture Partners represents approximately 15% of the construction cost of the IEC (see para. 8 below).

Business of the Joint Venture Company

6. The business of the Joint Venture Company is to carry out, monitor and supervise the IEC project, to appoint the contractor and operator, and to carry out any other activities which are directly related thereto.

Development of the IEC

7. The IEC will be developed in two phases:-

- (a) Phase 1 development comprising 66,000 square metres of net usable area and 40,000 square metres of outdoor area; and
- (b) Phase 2 development comprising a further development extending the IEC to a minimum size of 100,000 square metres of net usable area.

Phase 2 development will proceed at the appropriate time to meet expansion in market demand. It will commence when certain performance triggers (utilisation and cash flow parameters) have been met.

Funding

8. The Government, through the Holdings Limited, will invest \$2 billion as equity into the Joint Venture Company. For Phase 1 development, the Government will fund 85% of the total construction cost up to \$2 billion, and the Joint Venture Partners will fund the remaining 15% of the total construction

cost by way of equity into the Joint Venture Company. In the event that the full \$2 billion is not required towards the construction cost of Phase 1, the balance of the Government's equity investment will be deferred and applied to Phase 2.

Completion Date

9. Soft opening of the IEC will take place in end 2005 while Phase 1 development will be completed for full operation by the first quarter of 2006.

Operation of the IEC

10. The IEC will be managed and operated by the Joint Venture Partners in association with the NEC Group from Birmingham of the United Kingdom at an operating standard consistent with a first-class international exhibition centre.

Return to Shareholders

11. Subject to the relevant provisions of the joint venture agreement, the Joint Venture Partners may receive its share of distributable profits first. After payment of such profits to the Joint Venture Partners, the remaining distributable profits may be paid to all shareholders of the Joint Venture Company by way of dividends.

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