

**For discussion
on 23 April 2012**

Legislative Council Panel on Economic Development

Development of a New Cruise Terminal at Kai Tak

Purpose

This paper updates the Panel on the latest progress of the new cruise terminal project at Kai Tak and the promotional initiatives to enhance cruise tourism in Hong Kong.

Construction Works of the New Cruise Terminal

2. Construction works of the new cruise terminal are progressing smoothly. For site formation works for the berths, piling has been completed, and reconstruction works of the seawall and the apron are progressing in phases. For the terminal building, the superstructure of the ground floor to the second floor has largely been completed. Structural works of the roof top are underway. An aerial photo showing the latest progress at the site is at Annex. The overall progress of construction is satisfactory. It remains our objective to commission the terminal building and the first berth in mid-2013.

Tenancy for the Operation and Management of the New Cruise Terminal

3. We briefed Members on 24 January 2011 on the key terms of the proposed arrangements of the tenancy for the operation and management of the new cruise terminal. The tenancy has a term of 10 years, with an option for the Government to offer a 5-year extension subject to the operator's satisfactory performance. The operator is responsible for arranging the berthing of cruise vessels as well as embarkation and disembarkation of passengers, operation and management of the terminal,

such as traffic arrangements within the transportation area, security arrangements, tenancy of ancillary commercial area, etc. It is required to pay to the Government a fixed rent and a variable rent. There is no prescribed minimum fixed rent, and the operator will share a percentage of its gross receipt each year with the Government as the variable rent. The operator is given the flexibility to determine the berthing fees having regard to the prevailing market situation and in response to market changes. There will be a mid-term review after the tenancy has commenced for five years to determine whether any adjustment to the rent level and berthing fees is necessary. The Government will monitor the operation of the terminal through a management committee as well as a set of service pledges and performance indicators to be drawn up by the operator. The operator will participate in international and regional cruise conferences to keep abreast with the latest market developments and promote the cruise terminal. Members in general had no objection to the proposed arrangements of the tenancy.

4. In March 2011, we launched an open tender for the tenancy. Two submissions were received when the tender closed in June 2011. A Tender Assessment Panel, comprising representatives of relevant bureaux and departments, was formed to evaluate the submissions. The Tender Assessment Panel considered that the Worldwide Cruise Terminals Consortium (WCT)'s tender had complied with the tender requirements. On the recommendation of the Tender Assessment Panel, the Central Tender Board approved the acceptance of WCT's tender.

5. WCT is a joint venture of three companies, namely Worldwide Flight Services, Royal Caribbean Cruises Limited and Neo Crown Limited. Worldwide Flight Services is one of the world's leading providers of airport ground handling, air cargo handling and airport technical services. It is present at over 120 major airports, including the Hong Kong International Airport. Royal Caribbean Cruises Ltd is one of the major cruise companies in the world and has good experience in operating cruise terminals. The holding company of Neo Crown Ltd is Shun Tak Holdings Ltd, which has core businesses in property development, leasing and management, transportation, etc. WCT will pay to the Government a fixed rent of approximately \$13 million for the 10-year tenancy. The Government will also receive a percentage of the

gross receipt of the operator as the variable rent. The percentages of the annual gross receipt to be shared with the Government by WCT are set out below:–

Annual Gross Receipt	Percentage of Gross Receipt payable to the Government
Such part of Annual Gross Receipt not exceeding HK\$ 30 million	7.3%
Such part of Annual Gross Receipt exceeding HK\$ 30 million but not exceeding HK\$ 60 million	18%
Such part of Annual Gross Receipt exceeding HK\$ 60 million but not exceeding HK\$ 90 million	23%
Such part of Annual Gross Receipt exceeding HK\$ 90 million	34%

Promotion of Hong Kong as a Cruise Hub

6. To pave the way for the commissioning of the new cruise terminal, the Hong Kong Tourism Board (HKTB) is stepping up the promotion of cruise tourism in the coming years in order to drive further development of Hong Kong's cruise business and reinforce our position as a cruise hub in Asia. The HKTB will encourage cruise companies to develop new itineraries featuring Hong Kong and work closely with them to drive market demand through joint promotion. Major initiatives include:-

- (a) Strengthening strategic partnerships with cruise companies and launching a new promotion fund to support advertising and promotion, in order to encourage cruise liners to berth in Hong Kong or even make Hong Kong their home port;

- (b) Further stimulating cruise demand among consumers in the southern part of Mainland China by organising consumer activities with cruise companies. Promotion and education activities targeting retirees and families which are two high-potential cruise visitor segments will be organized. A new consumer website to introduce the cruise products of Hong Kong will be launched and the existing Cruise South China website will be enriched;
- (c) Inviting cruise itinerary planners, as well as ports in the region to attend fora where they can get together and discuss the planning of regional itineraries; and encouraging cruise companies to choose Hong Kong as one of the stops in their itineraries;
- (d) Conducting market studies in collaboration with cruise companies and partnering ports on possible new cruise products, so as to find out the preferences of different visitor segments and markets and devise effective promotion strategies for the new products;
- (e) Developing new shore excursion programmes featuring Hong Kong's mega events and other attractions in partnership with cruise companies and shore excursion operators, so as to increase visitors' spending onshore; and upgrading hospitality programmes for cruise visitors to enrich their experience in Hong Kong; and
- (f) Highlighting the latest development of the new cruise terminal at international fora, including trade shows, in the run-up to the opening of the terminal in mid-2013.

7. In March 2012, the Tourism Commission, the HKTB and WCT attended the annual Cruise Shipping Miami Conference to update the cruise industry on the latest developments of cruise tourism in Hong Kong and the appointment of the new terminal operator. Cruise Shipping Miami is the largest cruise trade event, bringing together industry stakeholders from all over the world every year. The

conference this year was attended by industry representatives from over 120 countries and cities. We updated the participants on Hong Kong's strong performance in tourism and our plans to boost our cruise tourism capitalizing on the commissioning of the new terminal. We also met with the senior management of a number of major cruise companies to explore the possibility of enhancing their ship deployment to Hong Kong. The HKTB also set up an exhibition booth to showcase the design of the new cruise terminal as well as Hong Kong's position as a world-class tourist destination.

8. Members are invited to note and provide comments on the latest development of the new cruise terminal at Kai Tak and the cruise promotional initiatives.

Tourism Commission
Commerce and Economic Development Bureau
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