

LCQ1: Financial position and operation of Kai Tak Cruise Terminal

Following is a reply by the Acting Secretary for Commerce and Economic Development, Mr Godfrey Leung, to a question by the Hon Ronny Tong in the Legislative Council today (November 26):

Question:

The Kai Tak Cruise Terminal (the Terminal), built at a cost of over \$8.2 billion by the Government with the aim of developing it into the Asia cruise hub, was commissioned in June last year. The Government has awarded a 10-year tenancy for operating and managing the Terminal to an operator which is required to pay the Government a fixed rent of about \$13 million in total, plus a variable rent based on a progressive percentage of the operator's gross receipt. Up to the end of this year, there will be a total of 37 ship calls at the Terminal only, and only 55 ship calls are expected for next year. On the other hand, it has been reported that there were respectively more than 100 ship calls at the cruise terminals in Singapore and Shanghai in the second year after their commissioning in 2012, and quite a number of cruise vessels have chosen to homeport at these two terminals. In this respect, the performance of Hong Kong is poor vis-à-vis the performances of these two places. In this connection, will the Government inform this Council whether it knows:

(1) the financial position of the Terminal since its commissioning, including the fixed rent and variable rent paid by the operator to the Government, as well as the various recurrent and non-recurrent expenses; the estimated income and expenditure of the Terminal in the coming 10 years;

(2) the berthing fees that the operator currently charges cruise vessels, as well as the annual rental income it derives from leasing the commercial facilities of the Terminal; the amount of annual variable rent that the Government currently receives from the operator, and its percentage in the operator's annual gross receipts; and

(3) whether, other than the cruise company, which is one of the shareholders of the operator, that will homeport one of its cruise vessels at the Terminal for a period of four months next year, there are cruise companies planning to choose the Terminal as the homeport for their vessels; whether the authorities had set any targets in respect of the number of cruise vessels to homeport at the Terminal, its annual total number of ship calls and its annual total receipts when they planned to build the Terminal; if they had

not, of the reasons; if they had, the details of that?

Reply:

President,

Cruise tourism has been fast developing in the Asia-Pacific region in recent years as rapid increase in the middle class population in the region spurred an increasing demand for cruise tourism products. As an international metropolis with strategic location and well-developed infrastructure, Hong Kong is well-equipped to become one of the leading international cruise centres in Asia.

Building mega cruise vessels has become an international trend. The Ocean Terminal cannot accommodate such large cruise vessels due to site constraints. In the past, Hong Kong lacked cruise terminals of considerable size, and if cruise companies were to include Hong Kong in the itineraries of their large cruise vessels, such vessels had to berth either at a container terminal or operate at mid-stream. Such arrangement was inconvenient for cruise passengers and might reduce cruise companies' interest in deploying large cruise vessels to Hong Kong. To facilitate the development of cruise tourism, construction works of the Kai Tak Cruise Terminal (KTCT) commenced in 2009. The terminal building and the first berth commenced operation in mid-2013. In March 2012, the Administration, through an open tender, awarded a 10-year tenancy contract to the Worldwide Cruise Terminals Consortium (WCT) for cruise terminal operations and management of the terminal.

The cruise terminal provides the essential infrastructure that enables us to capitalise the rapid growth of the cruise industry in the region. By enhancing the berthing capacity of Hong Kong for large cruise vessels, including the world's largest cruise vessels with a gross tonnage of 220 000 tonnes, the terminal has enabled us to tap into new source markets of cruise passengers, thus diversifying our tourism industry.

Developing cruise tourism can enrich the tourism product portfolio of Hong Kong and offer new choices for local residents. This will, in turn, provide new business opportunities for the travel trade. Upon arrival in Hong Kong, cruise passengers usually join various on-shore excursion tours arranged by travel agents and visit different tourist attractions or places for sightseeing, food and entertainment. Some may stay overnight in Hong Kong and incur spending before or after their cruise journeys, bringing benefits to the tourism, hotel, retail, transport as well as food and

beverages industries in Hong Kong. For instance, according to a recent newspaper report, a shopping mall near the KTCT had estimated that for the five ship calls at the KTCT in November and December this year, based on the average spending between \$2,000 and \$2,500 per visitor, these five scheduled ship calls would bring about approximately \$25 million of spending to the mall.

Apart from being used for berthing of cruise vessels, the KTCT also provides restaurants, shops and open space for the enjoyment of visitors and locals alike. With its column-free design, the KTCT can be used for other events when there is no ship call with a view to better utilising the terminal facilities and increasing visitor flow. The terminal operator has actively promoted the KTCT as an event venue to different parties. Since its commissioning, the terminal has hosted a variety of events, including brand promotion activities and Cruise Holiday Expo, etc.

My reply to the three parts of the question is as follows:

(1) and (2) The rent to be paid by the operator to the Government comprises two components, i.e. fixed rent and variable rent. The operator should pay a total of about HK\$13 million as fixed rent over the 10-year operation period. The variable rent payable to the Government is set as a percentage of the terminal's gross receipts. The sliding scale for receipts sharing has been tabulated in the document provided to the Members (see Annex).

The terminal operator has paid the rent in accordance with the Tenancy Agreement. According to the current financial position, the total gross receipts of the terminal operator over the past year did not exceed \$30 million. As such, the Government would share 7.3 per cent of its total gross receipts.

In addition to the income generated by the berthing of cruise vessels, the terminal operator also draws revenue from rental paid by the sub-tenants of the ancillary commercial areas and from venue rental paid by event organisers. In respect of expenditure, the terminal operator is responsible for its own operation expenses, e.g. staff emolument and publicity expenses, as well as utility charges for electricity, air-conditioning fees, property management fees, etc. for the part of the terminal building under its management.

However, the business income including berthing fees and shop rental, expenditure as well as the financial estimates of the terminal operator are confidential commercial

information. We are not in a position to disclose such information.

(3) Generally speaking, cruise companies plan their fleet itineraries and deployment two years in advance. Since the KTCT commenced operation over a year ago in June 2013, the number of cruise berthings has risen steadily. There were 9 ship calls (totalling 15 berthing days) in 2013. In 2014, there will be 28 ship calls (totalling 50 berthing days). The number will nearly double to 56 ship calls (totalling 77 berthing days) in 2015. We understand that a number of international cruise companies have expressed interests in deploying cruise vessels (including new fleets) to the KTCT. Whilst we are not in a position to disclose further deployment details, we anticipate that there will be continuous increase in the number of ship calls at the KTCT. Meanwhile, the terminal operator is also actively marketing the KTCT to various cruise companies to attract deployment of more cruise vessels to the terminal.

We have been actively promoting cruise tourism through different channels in order to expand our visitor source markets, attract cruise vessels deployment to Hong Kong, and enhance the image of our city. A more recent major cruise industry event is the Cruise Shipping Asia-Pacific 2014, an international cruise industry conference, held last week (19 - 21 November). The event was organised by UBM, with the Hong Kong Tourism Board (HKTB) as the supporting organisation. Hong Kong played host to key stakeholders in the cruise industry from around the world. The event helped arouse international cruise companies' interest in deploying cruise vessels to Hong Kong, in particular, in deploying more mega international cruise vessels to berth at Kai Tak.

In addition, the HKTB, together with the Taiwanese tourism authority, launched the Asia Cruise Fund (ACF) in April 2014 to promote regional cooperation. The ACF is open for application since June. The amount of financial incentives provided under the ACF is subject to the length of stay at each port under the ACF. The subsidy is used for promotion and publicity or product development. The HKTB has extended invitations to Hainan, Xiamen, seven ports in southern Japan, the Philippines and Vietnam, etc. and received very encouraging responses. Among them, Hainan and the Philippines confirmed joining the ACF last week.

While the KTCT was completed later than our neighbouring ports, it is undergoing a steady development. The Administration will continue to closely monitor the operations of the KTCT to enhance the service levels and ancillary arrangements.

Ends/Wednesday, November 26, 2014

Issued at HKT 14:49