

10 May 2001

Mrs Florence Lam
Clerk to Panel on Commerce and Industry
Legislative Council Secretariat
3rd Floor Citibank Tower
3 Garden Road
Hong Kong

Dear Mrs. Lam,

**Follow-up to LegCo Panel on Commerce and Industry
Meeting on 12 February 2001**

At its meeting held on 12 February 2001, the LegCo Panel on Commerce and Industry discussed the provision of additional convention and exhibition facilities in Hong Kong. Government representatives who attended the discussion undertook to provide or help obtain the following information for Members' reference:

- (a) the relevant part of the consultancy study report on the land use of the airport north commercial district concerning convention and exhibition facilities;
- (b) the basis on which the Hong Kong Trade Development Council (TDC) has projected the occupancy rate of the Hong Kong Convention and Exhibition Centre (HKCEC) up to 2007;
- (c) the occupancy rates of the exhibition facilities in neighbouring cities such as Tokyo, Singapore, Korea, Taiwan and Shenzhen; and
- (d) the reasons for the relatively low occupancy rate of the Hong Kong International Trade and Exhibition Centre (HITEC).

On (a), the Airport Authority has provided a summary paper on a proposed exhibition centre at Chek Lap Kok (Annex A).

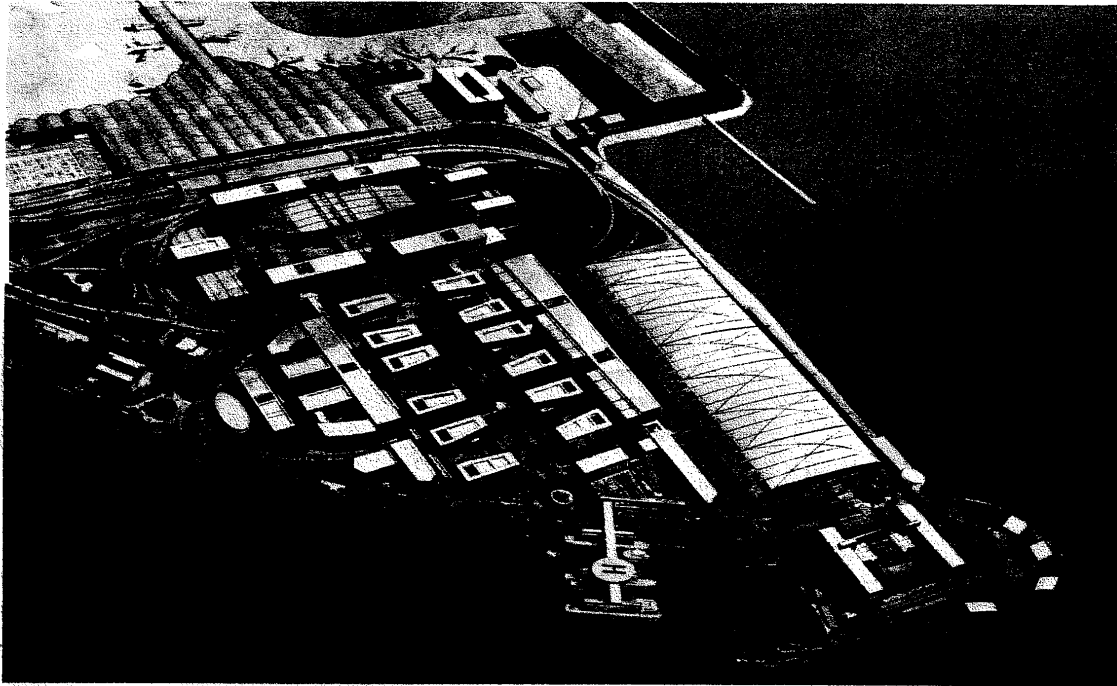
As regards (b), in considering whether there is a need to build an underground extension to the east of the HKCEC Extension, the TDC has taken into account the bookings already received by the HKCEC and the HKCEC Operator's projections of future demand for exhibition space. The occupancy rate of the HKCEC's exhibition facilities during the peak months in 2000 was 58%. Assuming the occupancy rate would increase by 2% in each subsequent year, the HKCEC Operator forecasts that the occupancy rate of the exhibition facilities would reach 72% during the peak months in 2007. In general, an exhibition facility is regarded as saturated when the occupancy reaches 70%. The forecast above only reflects a preliminary assessment and the TDC will conduct a detailed study on the future demand for exhibition facilities before deciding whether it is necessary to build a further extension to the HKCEC.

Information on (c) is not available. Members may however wish to note that in the context of the consultancy study commissioned by the Economic Services Bureau in 1998 on the provision of additional convention and exhibition facilities, the consultant noted that in 1996 Hong Kong ranked third in Asia in terms of exhibition space utilised per event, after Japan and Taiwan, and in 1997 Hong Kong surpassed these two cities, ranking second only after the Mainland. Extract of the consultancy study report is at Annex B.

Regarding (d), we have invited the operator of the HITEC to consider providing the requested information. We are still awaiting the company's response.

Yours sincerely,

(Ellen Choy)
for Secretary for Commerce and Industry



HONG KONG
INTERNATIONAL AIRPORT

**PROPOSED INTERNATIONAL
EXHIBITION CENTRE**

SUMMARY PAPER (MARCH 2001)

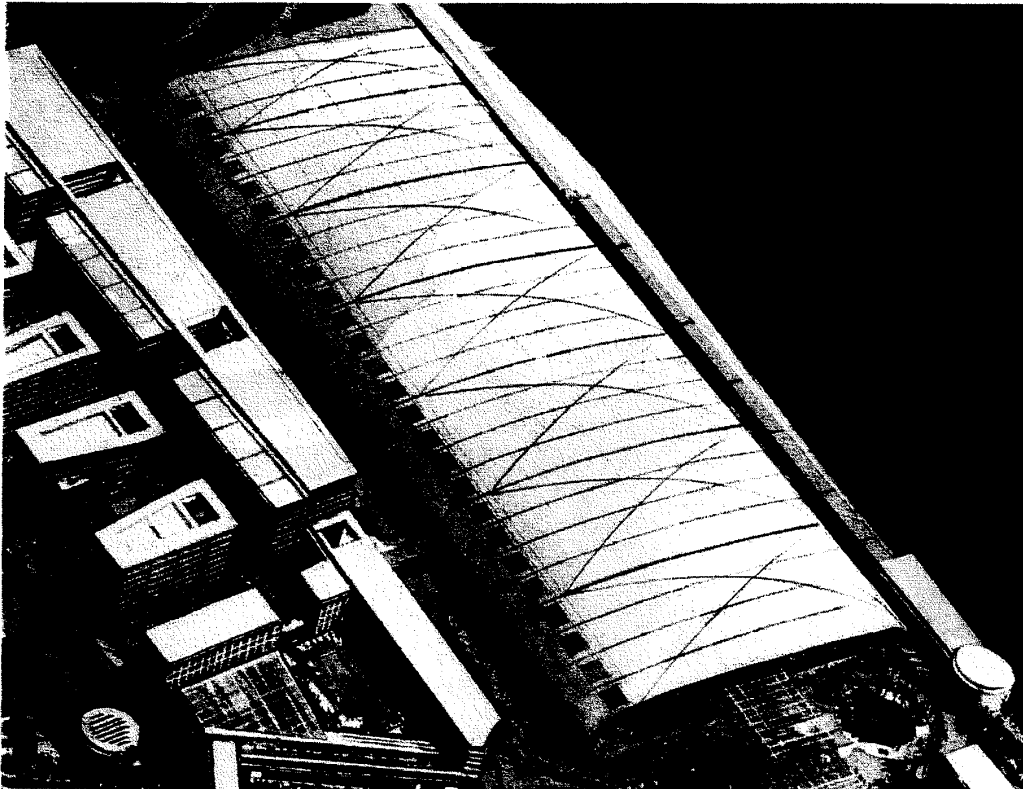
Summary Paper
on
Proposed International Exhibition Centre
at
Hong Kong International Airport

**SUMMARY PAPER
ON
PROPOSED INTERNATIONAL EXHIBITION CENTRE
AT
HONG KONG INTERNATIONAL AIRPORT**

A) PREFACE

In response to the request of the Services Promotion Strategy Group (SPSG), a Development Overview sets out the key findings on the provision of a new international exhibition centre at the Hong Kong International Airport (HKIA), based on the various consultant studies commissioned by the Government and the Airport Authority (Authority) was submitted to the Government for consideration in February 2001.

This paper outlines the position of the Authority in response to the invitation from the SPSG to consider the way forward on the provision of a proposed International Exhibition Centre (IEC) at the HKIA and in particular, highlights the economic and planning considerations as they relate to the Authority to include an exhibition centre in its Airport City development within the North Commercial District (NCD).



B) Introduction

In response to the continuous demand for additional exhibition space from the exhibitions industry and the new challenges posted by competitors in the Asia Pacific region, SPSG chaired by the Financial Secretary has directed the Economic Services Bureau (ESB) in 1997 to take the lead in 'considering the case for providing additional convention facilities possibly near the new airport and possibly associated with an outdoor exhibition area.' Consequently, a Steering Committee on the Provision of Additional Convention and Exhibition Facilities (SCACF) chaired by the Secretary for ESB was set up in September 1997 to take the idea forward. The membership of SPSG consists of prominent business and community leaders and senior government officials. SCACF is comprised of senior representatives from various government and quasi-government authorities.

On January 1998, SCACF commissioned PKF Consulting Limited to study the provision of additional convention and exhibition facilities in Hong Kong. A Working Committee was formed to supervise the consultant study and review findings throughout an 18-month study period. The report was completed in 1999 and was unanimously endorsed by SCACF and SPSG in late 1999. The ESB report was referred to the Authority for follow-up actions upon the recommendation of SPSG.

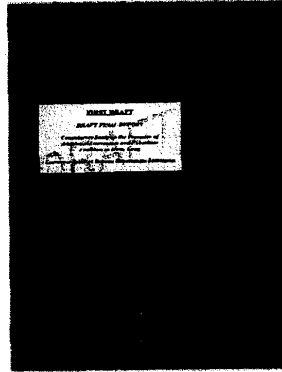
In order to move the project forward, the Authority has commissioned PricewaterhouseCoopers Hospitality and Leisure (PwC) [formerly the PKF Consulting Limited] to further the consultancy study to examine the specific impact of the ESB Report on HKIA. At the same time, a comprehensive master layout plan study on HKIA's NCD was also carried out by Skidmore, Owings & Merrill, International Ltd. (SOM) to examine the overall landuse and identify a suitable site for the proposed IEC.

This paper summarises the relevant findings of these consultancy studies and puts forward the Authority's proposed implementation plan in principle for consideration by the Government.

C) Feasibility of Additional Exhibition Centre in Hong Kong

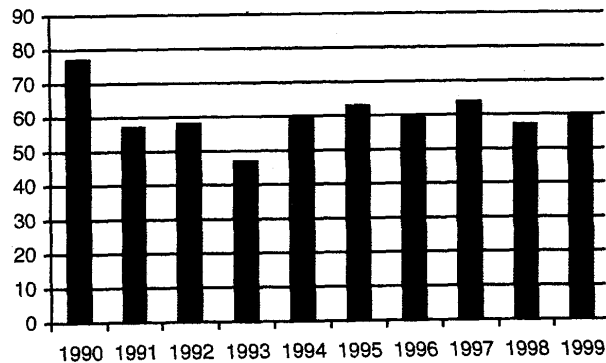
With the direction from SPSG, ESB has taken the lead to identify the feasibility of an additional exhibition facility in Hong Kong. A detailed study on the conventions and exhibitions industry in Hong Kong was commissioned with the following areas being examined:

- a) Past and future of the conventions and exhibitions industry;
- b) Potential to further enhance competitiveness and expand global and regional market share;
- c) Supply and demand for convention and exhibition facilities;
- d) Development recommendations;
- e) Potential location for the additional facility;
- f) Financial viability and economic costs/benefits; and
- g) Preliminary implementation options for the additional facilities.



Overview of the Exhibition Market

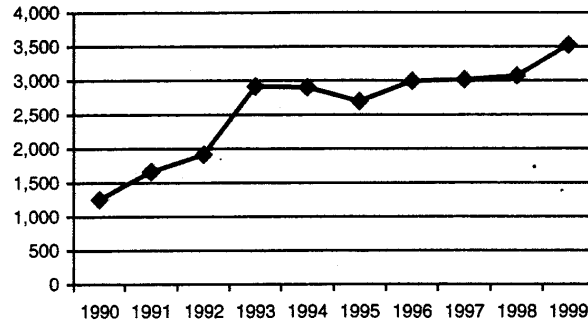
The number of exhibitions held in Hong Kong fluctuated between the years 1987 to 1997, ranging from a low of 47 in 1993 to a high of 96 in 1989. The most significant fluctuation occurred in the period 1987 to 1991, while the growth in the Hong Kong exhibitions market was generally stable from 1991 to 1997. Among all markets in Asia, Hong Kong ranked 6th in the number of exhibitions held in 1997, after China, Singapore, Japan, Korea and Thailand.



**Number of Exhibitions Held in Hong Kong
1990 to 1999**

Overseas exhibition visitors from Asia increased significantly over last eleven-year period representing approximately 60% of total participants from foreign countries. While visitors from North Asia and Southeast Asia contribute a major share among all regions in Asia, the share of participants from China increased sharply from 1987 to 1997.

In 1997, participants from China increased significantly by 61.7% over the previous year. The total number of overseas exhibition participants increased from 51,986 in 1987 to 193,086 in 1997, showing an overall growth rate of 271 % over this eleven-year period.



Average Number of Overseas Visitors per Exhibition in Hong Kong 1990 to 1999

Survey results also showed that Hong Kong generally meets the established exhibition destination selection criteria except for its ability to meet the appropriate exhibition facility requirement. Other criticisms included the shortfall of space during peak periods, lack of flexibility in configuration of exhibition space and the high lease rates. The major areas for improvements by order of their importance are listed as follows:

- a) Decrease in lease rates for exhibition space;
- b) Need for greater financial support from the Government;
- c) Ease of visa issuance to Chinese businessmen;
- d) Reduction in hotel room rates
- e) Formulating a united front in the promotion of events in Hong Kong;
- f) Provision of better design and layout for exhibition facilities;
- g) Improvement of service standards in Hong Kong tourism industry;
- h) Clearing the perceived conflict of interest for the Trade Development Council and Hong Kong Convention and Exhibition Centre (HKCEC) relationship;
- i) Decreasing the overall cost of living in Hong Kong; and,
- j) Improvement in the inventory management system of the HKCEC.

Existing and Proposed Exhibition Facility

With the existing convention and exhibition facilities at HKCEC, the utilisation at high season will increase from 61.8 % to 142.9 % over the next ten years. In view of the exhibitions market of Hong Kong as a whole, a moderate CAGRs ranging between 10.2 % and 12.4 % over the next decade in terms of exhibition floor space was predicted (the historical growth rate was 14 %). It should be noted that the HKCEC was expanded when its high season utilisation was approximately 65 %, which was virtually reaching capacity.

Based on the analysis, a multi-purpose centre that is exhibitions-focused, with a net usable area of 50,000 to 87,000 m² was recommended for Hong Kong over the period 2005-06 to 2007-08, with the ability to expand after this period. The development of a multi-purpose centre that is designed primarily for exhibitions may help free up space at the HKCEC for convention use, provide the necessary critical mass for development, and the flexibility and cost efficiency to both the operator and end-users.

Potential Location

A location assessment aimed largely at the strategic level and the future direction of infrastructure development in the context of the existing strategic planning framework for Hong Kong was carried out.

Initial results indicated that HKIA is the most favourable location followed by North Lantau and Pak Shek Kok. These three sites were then re-assessed in the stage 2 analysis which again confirmed HKIA as the most favourable location. In both stages of the analysis, HKIA was ranked the highest based on accessibility, visibility, demand relationship, ancillary facilities, site availability, phasing and implementation, timing and other leisure and tourism facilities.



Costs and Benefits to Hong Kong

The net economic benefit for the IEC to Hong Kong was estimated to range between \$6.6 to \$21.5 billion (excluding induced income) and between \$10.4 to \$32.8 billion (including induced income). In comparison to the HKCEC's estimated economic impact in 1991 of approximately \$2.1 billion (i.e. excluding economic costs), the subject property's potential net economic contribution to Hong Kong is considered substantial. However, analysis also indicated that the potential IEC would not be financially viable from an investment standpoint without Government financial assistance.

Besides generating employment and revenue within the exhibitions and other related industries, the IEC would also promote tourism in Hong Kong and provide a new venue or market place to showcase Hong Kong's products and services. It was estimated that the potential new IEC could bring in about 65,000 to over 100,000 foreign visitors to Hong Kong in a stabilised year of operation. Moreover, both the image of Hong Kong as Asia's centre for business, finance and services and as the preferred destination of regional conventions and exhibitions could be reinforced.

Development Recommendations:

The feasibility study undertaken by ESB recommended the following development criteria should be taken forward by the Government:

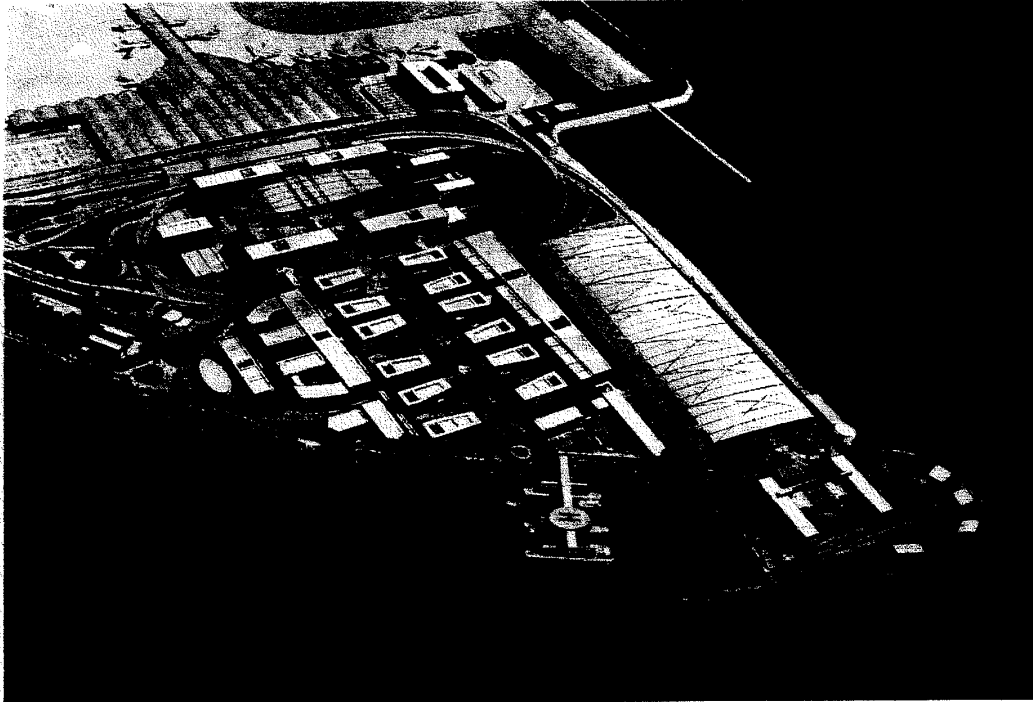
- a) A multi-purpose centre, exhibition-focused and with a net usable area of 50,000 to 87,000 m², should be considered for Hong Kong over the period 2005-2006 to 2007-2008, with the ability to expand after this period at the chosen site;
- b) This centre, designed primarily for exhibitions, may help free up space at the HKCEC for convention use. It should be a single-storey design with high ceiling, high floor loading, easily accessible by public transportation and with ancillary services in the vicinity;
- c) CLK is recommended as the most suitable location for the potential centre, ranking ahead of North Lantau Reclamation, New Territories, South East Kowloon Reclamation, West Kowloon Reclamation and Central/Wanchai Reclamation. The evaluation criteria include potential accessibility, visibility, demand relationship, ancillary facilities, site availability, timing/phasing/implementation and other leisure/tourism facilities;
- d) The proposed centre would not be financially viable from an investment standpoint for either the one-phase only scenario or two-phase scenario. The

investment risks associated with the one-phase only scenario are projected to be significantly lower than those of the two-phase scenario;

- e) The net economic benefit to Hong Kong is estimated to range between \$6.6 billion and \$21.5 billion (excluding induced income) and between \$10.4 billion and \$32.8 billion (including induced income) over a 10 year period. The proposed centre could promote tourism by bringing in between 65,000 to over 100,000 foreign visitors to Hong Kong in a stabilised year of operation and provide a new venue to showcase Hong Kong's products and services;
- f) The ownership may take the form of either a private sector Build, Operate and Transfer (BOT) arrangement or a Government initiative with land or development cost assistance;
- g) The operator of the potential IEC should be an independent developer/operator, selected through a normal tendering process; and
- h) Marketing of the potential IEC should be co-ordinated with the relevant organisation responsible for the overall marketing of Hong Kong as an exhibition and convention destination.

D) Feasibility of Proposed Exhibition Centre at HKIA

At the invitation of the SPSG to secure an additional exhibition venue with a view to facilitate the development of Hong Kong as a regional trade fair and exhibition capital, the Authority has carried out initial consultations with various parties and commissioned independent consultants to assist in assessing the potential for the development of an IEC at HKIA and its compatibility with the overall airport land use strategy. The work carried out by ESB was used as the basis to indicate potential economic benefits to HKIA and the potential ownership/development structures that could be employed.



Airport City

In order to optimise the commercial development on the 57 hectares of land adjacent to the passenger terminal at NCD, the Authority commissioned a master layout plan study for the NCD. The objective was to look at developing an Airport City, which would strengthen the HKIA as a regional transfer aviation hub with better business facilities and amenities. Development strategies would have the effect of promoting further economic growth, emphasising the airport's role as the gateway to the Pearl River Delta (PRD) and providing additional non-aviation revenue.

The Airport City will provide a major upside potential with development of over 900,000 m² GFA including the first phase of 280,000 m² GFA. The first phase is

expected to open for business on or before 2005 – the opening year of Hong Kong Disneyland. Also, the Airport City will serve as an economic engine for the PRD region and as a gateway to the enormous market in China.

The Airport City consists of a wide range of commercial uses including business park, retail and entertainment facilities, hotels, service apartment and a Cross-Border Ferry Terminal (CBFT). The proposed IEC could accelerate infrastructure, road and rail improvements in support of future business park and create a critical mass for CBFT, both of which will strengthen Hong Kong's economic ties to PRD.

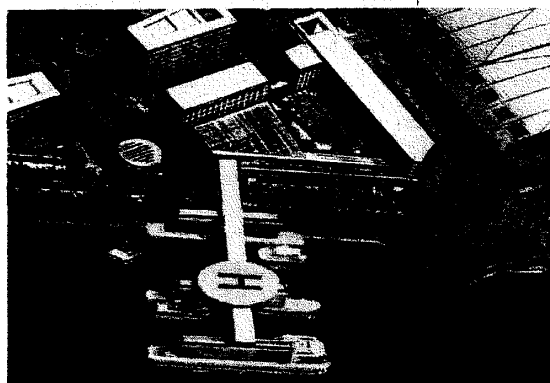
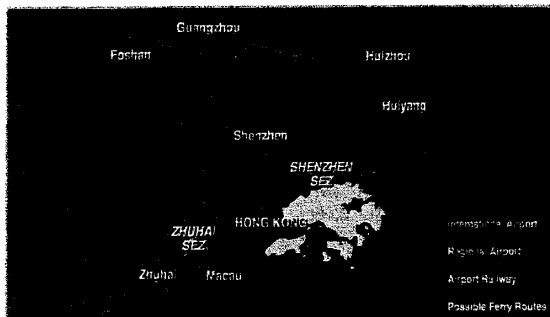
- Business Park

The unique opportunity to establish either a corporate headquarters and/or a representative office in a well landscaped campus environment is believed to be attractive to multi-national companies with the intention to develop a close business relationship with China in the PRC region via Hong Kong.



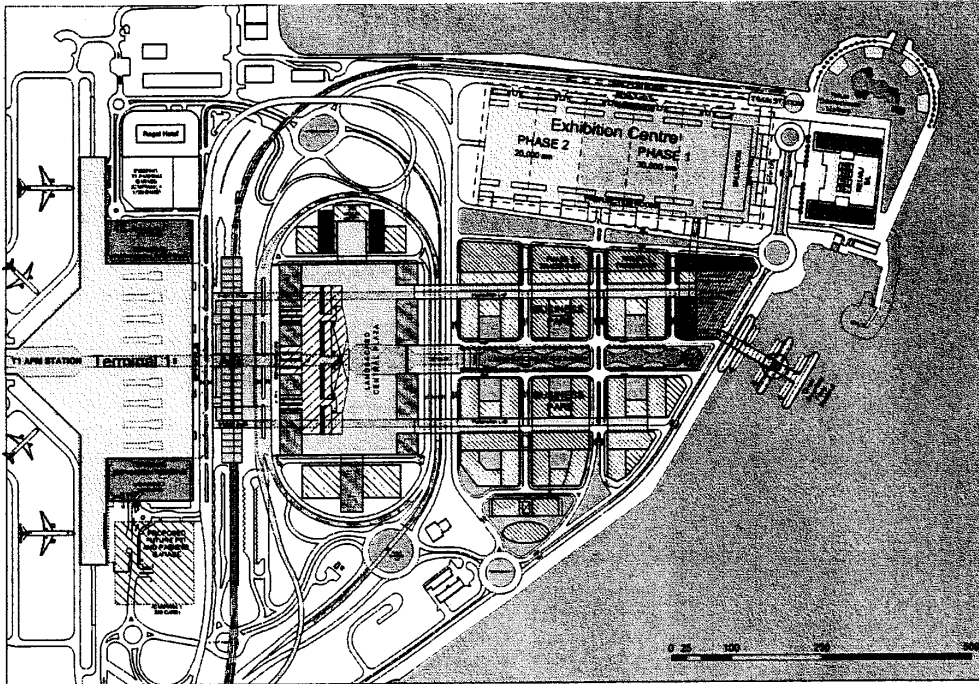
- Cross Border Ferry Terminal

The Authority anticipates that the sea transport will play a significant role and provide an alternate and cost-effective transport mode to facilitate both passenger and cargo traffic especially those to and from the PRD area via HKIA. Besides being a strategic decision to implement the CBFT at the airport to create a stronger transportation hub and complete the transportation circular link with PRD, the CBFT would also greatly enhance the accessibility of visitors to IEC and Hong Kong Disneyland from the PRD.



Exhibition Centre within the Airport City

With the idea to develop a multi-purpose IEC at HKIA, the NCD study revealed that the best location for the proposed single floor building would be the northern edge of the site where the safeguarding limits are lowest. The site is also in close proximity to the existing AEL cleaning platform that could potentially be developed into a passenger station right next to the entrance of the proposed IEC.



In addition, scenarios with and without a proposed IEC were also examined. On the completion of the study, the findings and recommendations based on the scenario with the proposed IEC located in NCD were presented and adopted in principle by the Authority in November 2000. Space planning and architectural design parameters as suggested by the consultant for the proposed IEC are listed in Appendix 1 and 2.

The first phase of the centre would be 30,000 m² net usable hall area with a second phase expansion to 50,000 m² and beyond, if demand justifies it in the future. It would be designed as a smart building similar to the Singapore Expo with large contiguous exhibition halls, direct entry and loading access, high ceiling height, high floor loading and decentralised building systems which can be shut down to save operating costs.

Contributions to Hong Kong and the Authority

Based on the economic model established in the ESB report, a specific analysis on the potential economic benefit related with the proposed IEC at HKIA was carried out based on the latest available statistics and attached in Appendix 3. The overall economic impact to Hong Kong based on the 1st development phase of the proposed IEC was calculated to be around \$18 billion NPV over the first 10 years of operation.

The Authority considered that the proposed IEC would have some positive economic and planning contribution to the Authority but would result in a substantial financial loss to the investors. The scenario with the IEC was proven to be preferable to a scenario without such facility. The IEC is a strategic anchor for generating the critical mass needed to support new commercial development of this scale. The presence of the IEC will largely expand the potential of commercial development at HKIA. It will generate additional reasons for people to be at the airport. It also offers a dual attraction to those businesses associated with the airport due to transportation needs, which could also benefit from an opportunity to exhibit goods and materials.

Without the IEC, the land use alternatives are limited to businesses that need to be at the airport. The list of potential tenants will expand only with time as the NCD develops the critical mass necessary to support a variety of uses and attracts businesses that follow the establishment of a commercial cluster. Early phases of development without the IEC will be smaller as the market absorption of new development will be slower.

Consultant's Recommendations

A review of the development structures of comparable convention and exhibition centres in Asia, North America and Europe suggested a wide range of approach but generally some form of government involvement was essential. A preliminary cost estimate made by Davis Langdon & Seah suggested that the development cost (excluding land and its related interest cost) would be \$2.1 billion for the first phase of development. In view of the competitive rental rates for similar facilities in the region, the financial analysis indicated that the project would be unprofitable and therefore unattractive to the private sector for investment. The consultant therefore concluded that Government funding be pursued as a critical step in the way forward, in combinations with investors in light of the poor financial feasibility and its overall economic benefits to the local economy.

- In terms of the potential ownership structure, it was recommended that an approach involving the Authority in combinations with the SAR Government and the private sector could provide the most viable option for implementation while the potential for Government funding assistance be investigated further. The

options considered include Build Operate and Transfer, Authority and private sector partnership, direct sale of land and intergovernmental funding.

- The Authority to carry out a market sounding or Expression of Interest (EOI) exercise on a global scale designed to seek and test the level of interest in the development.
- The Authority to consider the preparation of tender documentation and the requirements for negotiations with prospective developers.

Appendix 1 - Planning Parameters of Proposed Exhibition Centre

Purpose

This description, in conjunction with the drawings, defines the design criteria and describes the materials and quality of workmanship assumed in the planning of the IEC at HKIA. This document should be considered indicative and preliminary though the planning and design criteria and the quality of the work specified should remain substantially as outlined.

Background

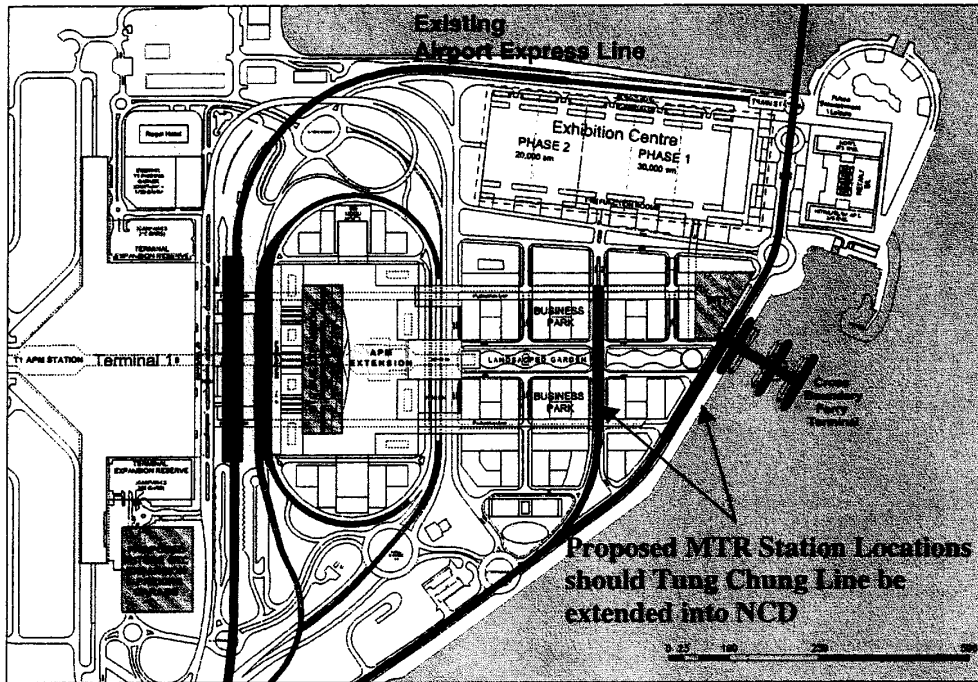
The Master Layout Concept Plan (MLCP) is intended to establish the framework for future development within the NCD. The planning guidelines for the IEC outlined below are integral to the planning framework of the NCD and should not be substantially altered without review of the consequences for the coherence of the local and overall planning framework.

Project Site

The site of the IEC is located within the NCD, a zone of commercial development east of the Terminal 2 reserve area, the Ground Transportation Centre (GTC) and AEL, and Passenger Terminal Building (PTB), Terminal 1. The specific project site of the IEC is a rectangular area that lies along the northern edge of the NCD, just south of the AEL Platform.

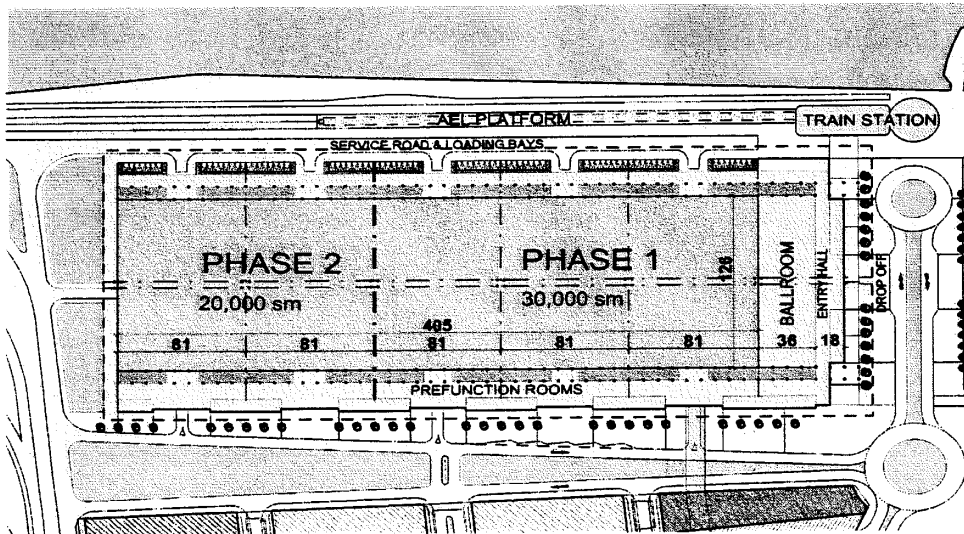
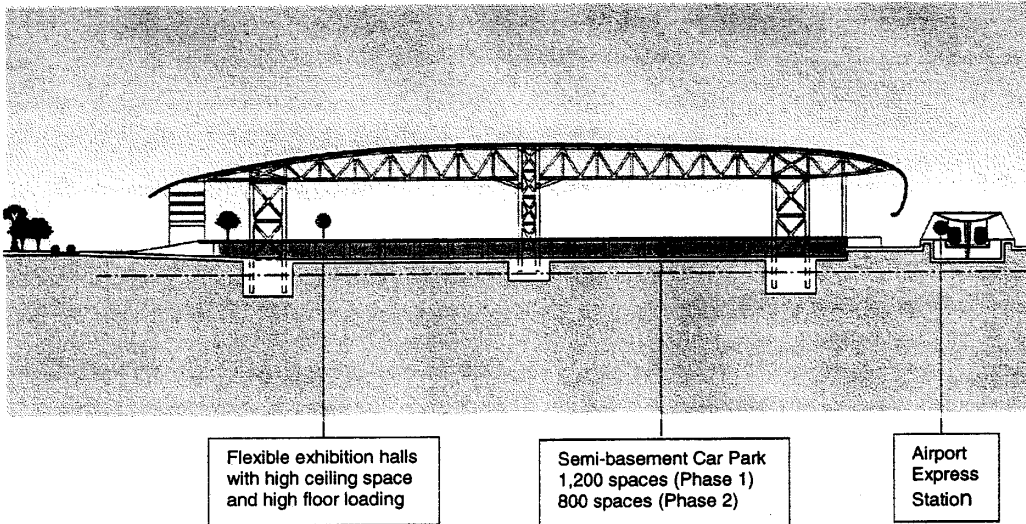
The project site measures approximately 110,400 m². This area is intended to include the IEC building itself, its loading/unloading zone, and associated exterior plaza areas. The urban design guidelines of the MLCP do not permit substantial encroachment on these exterior areas. However, the site will permit some modification of the IEC footprint to accommodate specific design and functional arrangements.

The MLCP for the NCD calls for the IEC to be accessible by several modes of transportation: private vehicles and taxis, public buses and coaches, ferry, and the AEL. The at-grade road system of the NCD will provide various degrees of vehicle and service access to all four sides of the IEC. Car parking can be provided, if appropriate, in a semi-basement of the IEC itself, with overflow parking available nearby.



Project Development

The project will consist of a two-story IEC approximately 27 mPD. It should be noted that all building heights in the MLCP are calculated from the mPD. Ground level is approximately 5.15 mPD. The height of any building or construction on this site is constrained by the aircraft landing approach to the north runway of the HKIA. Detailed design of the IEC will require confirmation that the building will be built within this envelope.



The IEC is planned to have a total overall gross enclosed area of approximately 67,000 m² in Phase 1. This entails series of 3 exhibition halls of 30,000 m² as well as adequate breakout rooms, meeting halls and a pre function gallery.

Phased Development

The MLCP of the NCD Study assumes that, for economic reasons, the IEC will be built in two phases. Phase 1 would be concurrent with the general Phase 1 of the NCD development. The timing of Phase 2 would be determined by demand. Therefore, the IEC is designed in a way that it can be easily expanded to the west without disruption of ongoing operations.

Phase 2 and the framework plan for the NCD permit the expansion of the IEC by an additional 45,000 m², of which 20,000 m² is an expansion of the exhibition hall. If further demand justifies, a potential phase 3 added to the east of the centre and proposed hotels can be realised to the north. This will allow the full potential build-out of the IEC may entail (112,000 m² of enclosed area, of which 50,000 m² make up the exhibition hall plus breakout rooms, meeting halls, etc.). The MLCP calls for the IEC to be built in two or more phases depending on market conditions. This is based on the assumption that the demand will initially support an IEC with a 30,000 m² exhibition hall plus breakout rooms and meeting halls of various sizes. Phase 1 shall be constructed on the eastern portion of the site. The design of the building should permit the expansion of the building to the west without disruption of the ongoing operation of the IEC and also to the east if necessary.

Development Parameters

Objective One - Maximum Flexibility

The IEC has been planned, to the extent possible, to accommodate a wide range of exhibition activities, i.e., sizes and types of exhibitions. The size and proportions of the centre have been planned to provide maximum flexibility for either large exhibitions or a series of small concurrent ones and other multi-purpose functions. It has not been optimised for one type or another.

Objective Two - Cost-effective in construction, operations and maintenance

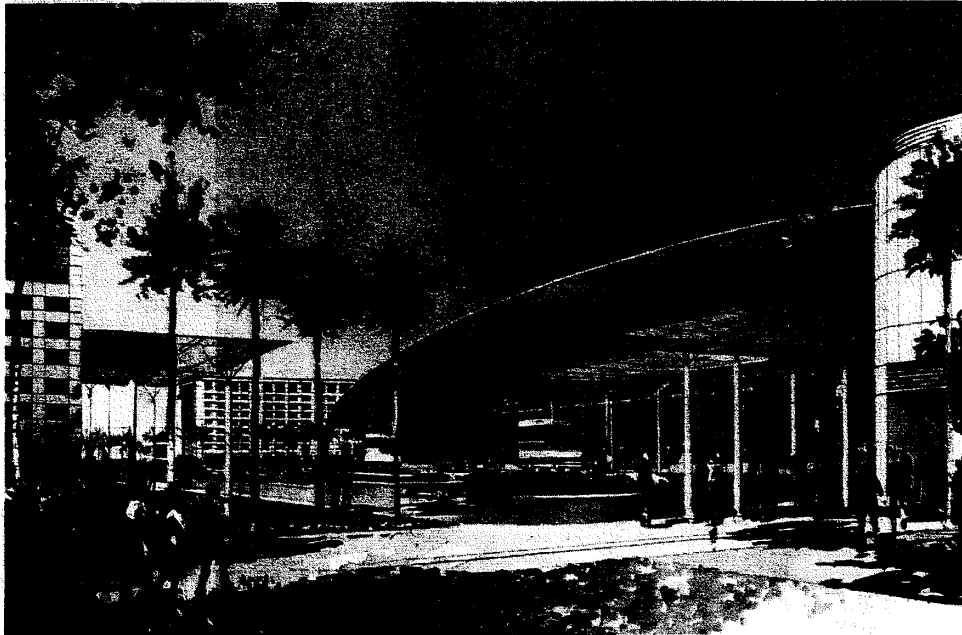
The Centre has been designed with the aim to achieve a quality exhibition facility in a cost-effective way. Straightforward, linear layout with a simple roof form is adopted in the design to minimise costs for construction, operations and maintenance. Quality building materials with low maintenance cost-effective building materials and finishes will be used to maintain in keeping with the standards of a quality required. The design allows for shutdown of air-conditioning and ventilation system for the exhibition areas not in operation.

Appendix 2 - Design Parameters of Proposed Exhibition Centre

Exterior

North Side - The project shall include adequate loading/ unloading and service areas along the entire north side of the IEC. This façade faces the runout and terminus of the AEL. As a semi-public façade, this side of the building should be designed and detailed with some care for appearance. The design of the dock area should be tailored to the intended use of the centre.

East Side - The east side of the IEC faces a public plaza and public street to permit vehicles to access this side of the building. It is possible that Phase 1 of the NCD development will entail the construction of an AEL station at the head of the AEL overrun, thereby permitting visitors to the IEC to arrive and depart by the AEL. This station would be located along part of the northern edge of the plaza, possibly with an enclosed or covered connection directly to the east façade of the IEC. Across the plaza from the IEC will be located a hotel and entertainment complex. The plaza will include plantings and other landscape and streetscape elements.

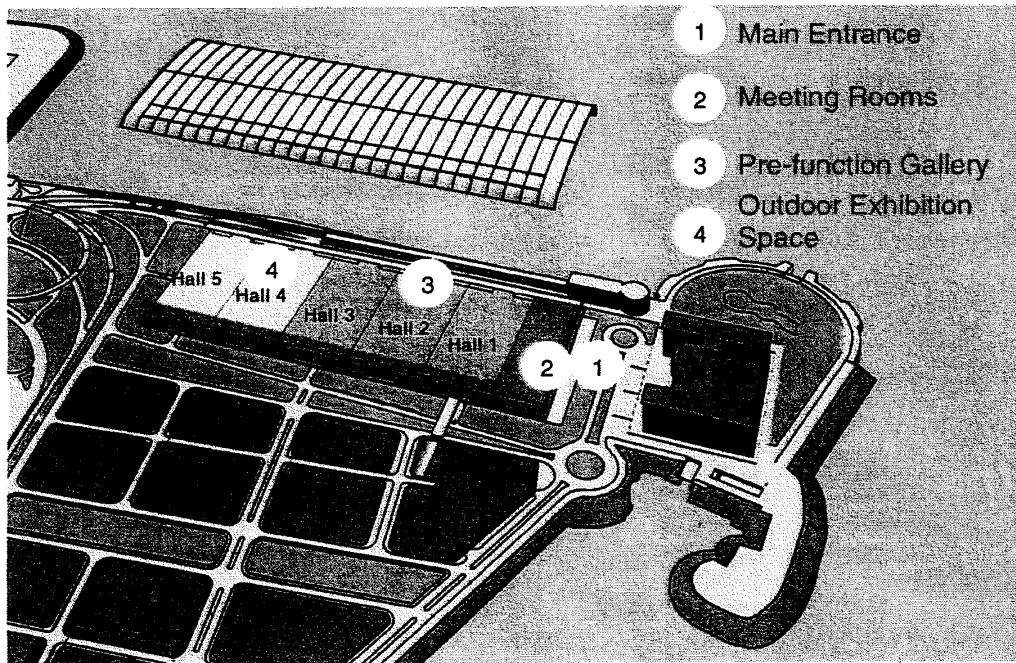


South Side - A public plaza with landscape and streetscape elements also fronts the south side. Beyond the plaza is a major east-west street providing vehicle access to different points along this façade. The east side and the south side are the most important public facades of the IEC and shall be designed and detailed according to the design guidelines of the MLCP.

West Side - The west side of the Phase 1 IEC faces the direction of the GTC, existing PTB, and Regal Airport Hotel. It should therefore be designed and detailed with appropriate care for appearance. However, this façade must be easily removed to permit the Phase 2 expansion of the IEC. Likewise, the area in front of this façade should be safeguarded for the expansion of the building.

Interior

Semi-basement - A semi-basement could be provided under the entire building footprint of Phase I development, if appropriate, to serve primarily for car parking. The floor of the car parking will be set at approximately 2 m below grade, leaving approximately 1 m of this single story above grade. Construction of this level shall be by open excavation. The car parking would provide approximately 1,200 spaces in Phase 1. Additional car parking of approximately 800 spaces may be needed in Phase 2, subject to future need.



Exhibition Level - The exhibition level shall consist of foyers, public circulation areas, prefunction gallery, breakout rooms, meeting halls, food and beverage areas, and the exhibition halls itself. The three exhibition halls in the Phase 1 development measure 30,000 m². It is a rectangular space with sides measuring approximately 243m x 126m. It should have a clear interior height of approximately 16m. The Phase 1 hall can be divided by demountable partitions

into as many as three spaces. Phase 2 adds two more such spaces, measuring in plan a total of approximately 162m x 126m. A band of ancillary spaces rings the exhibition hall. These contain building services and other functions such as food and beverage spaces. The east end of the building houses a major entrance. The south side, also with major entrances, is lined with the prefunction rooms which should be a double-height space. A series of meeting rooms are also arranged along with the prefunction rooms in front of each exhibition hall. The north side of the building houses the truck docks, loading/unloading, workshops, pantries, and other services and back-of-house spaces. The west side, due to the phased development, should remain free specialised functions or services in order to permit the Phase 2 expansion.

Mezzanine Level - The exhibition hall itself, the principal lobbies, and the prefunction spaces along the south side of the building should be double-height spaces. However, this leaves a considerable area for functions to be placed at a mezzanine level. These could include mechanical, electrical and plumbing plant rooms, administration offices, and the like.

Appendix 3 - Indication of The Potential Economic Impact

Approach

The methodology utilised by PKF Consulting Limited originally and adopted by PricewaterhouseCoopers (PwC) for its assessment of the economic benefits to CLK is shown below. In order for the reader to gain a detailed understanding of the inputs to the model a review of the original PKF report for CLK should be undertaken. PwC has changed only the input relating to the size of the facility in the model that calculates the demand inputs for the economic impact calculations and we have not changed any of the underlying market assumptions from the PKF report.

Methodology - Calculation of the Potential Economic Impact (Hong Kong)

To arrive at the total direct and indirect economic impact resulting from the development of convention and exhibition space, an analysis of the estimated spends per visitor was utilised. The following paragraphs outlined the analysis and assumptions utilised in the analysis.

Estimated Personal Expenditure from Exhibition Visitors

The *New Demand - Subject Annual Exhibition Floor Space Utilised* was assessed by subtracting the *Existing Demand for exhibition floor space from the Subject Annual Exhibition Floor Space Utilised*.

This resulting number was then divided by the *Estimated Average Length of Events* as sourced from the HKCEC. This figure was then multiplied by the *Estimated Number of Visitors per Utilised Square Metre* (again as supplied by HKCEC).

The *Estimated Annual Visitors* figures were then multiplied by a factor of 9.0 percent to arrive at the number of foreign visitors. The *Annual Foreign Visitors* were then multiplied by the *Average Direct Expenditure per Foreign Visitor* (based on per capita spending figures supplied by HKTA and inflated to 2005 dollar values) to arrive at the *Personal Expenditure from Foreign Visitors*.

A factor of 0.25 was calculated to represent the number of *Accompanying Persons per Visitor*. This factor was multiplied against the *Annual Foreign Visitors* resulting in a figure for *Annual Accompanying Persons*.

The *Annual Accompanying Persons* figures were multiplied by an *Average Direct Expenditure Per Accompanying Person* (approximately 57 percent of foreign delegates average expenditure) to result in the *Personal Expenditure from Accompanying Persons*.

The *Personal Expenditure from Accompanying Persons* was added to the *Personal Expenditure from Foreign Visitors* to arrive at the *Total Personal Expenditure from Exhibition Visitors and Companions*.

Estimated Personal Expenditure from Exhibition Exhibitors

The *Estimated Number of Exhibitors per Utilised Square Metre* was determined based on information provided by the HKCEC. This figure was multiplied by the *Annual Exhibition Floor Space Utilised* to result in the *Annual Exhibitors (Companies)*.

The *Annual Exhibitors (companies)* was multiplied by the *Average Number of Persons per Company* to arrive at the *Number of Exhibitors (persons)*.

The *Share of Foreign Exhibitors* was multiplied by the *Number of Exhibitors (persons)* to arrive at the *Annual Foreign Exhibitors (persons)*.

The *Annual Foreign Exhibitors (persons)* was multiplied by the *Average Direct Expenditure per Foreign Exhibitor* (based on information provided by HKTA inflated to 2005 figures) to result in the *Total Personal Expenditure form Exhibitors*.

Estimated Personal Expenditure from Convention Delegates

The *New Demand - Subject Annual Exhibition Floor Space Utilised* was calculated by subtracting the *Existing Demand - Subject Annual Convention Floor Space Utilised* from the *Subject Annual Floor Space Utilised*.

The *New Demand - Subject Annual Exhibition Floor Space Utilised* was then divided by the *Estimated Average Length of Event* (as supplied by the HKCEC) to arrive at the *Annual Convention Floor Space Utilised*.

The *Estimated Number of Delegates per Utilised Sqm* is estimated at 0.4577 based on information provided by the HKCEC. This figure was multiplied by the *Annual Convention Floor Space Utilised* to arrive at the number of *Annual Delegates*. Utilising a figure of 50.0 percent to account for the *Share of Foreign Delegates* the figure for *Annual Foreign Delegates* was calculated. This figure was then multiplied by the *Average Direct Expenditure per Foreign Delegates* as provided by the HKTA to arrive at the *Direct Expenditure from Foreign Delegates*.

A factor of 0.75 was calculated to represent the number of *Accompanying Persons per Visitor*. This factor was multiplied against the *Annual Foreign Delegates* resulting in a figure for *Annual Accompanying Persons*.

The *Annual Accompanying Persons* figures were multiplied by an *Average Direct Expenditure Per Accompanying Person* (approximately 57 percent of foreign delegates average expenditure) to result in the *Average Direct Expenditure per Accompanying Person*.

The *Average Direct Expenditure per Accompanying Person* was added to the *Direct Expenditure from Foreign Delegates* to arrive at the *Total Expenditure from Foreign Convention Delegates*.

The *Total Personal Expenditure (Conventions & Exhibitions)* is obtained through the addition of the *Total Expenditure from Foreign Convention Delegates*, the *Total Personal Expenditure from Exhibitors* and the *Total Personal Expenditure from Exhibition Visitors and Companions*.

Estimated Business Expenditure From Exhibitions

The *Annual Exhibitor (Companies)* was multiplied by the *Share of Trade Exhibitions* to arrive at the number of *Trade Exhibitors*.

The *Annual Exhibitor (Companies)* figure was then multiplied by the *Average Expenditure per Stand by Exhibitors* based on information obtained by PKF Consulting on the estimated average expenditure per stand adjusted to 2005 figures to arrive at the *Stand Expenditure - Trade Shows*.

The *Annual Exhibitor (Companies)* was multiplied by the *Share of Consumer/Public Exhibitions* to arrive at the number of *Consumer/Public Exhibitors*. This figure was then multiplied by the *Average Expenditure per Stand by Exhibitors (Consumer Shows)* based on information obtained by PKF Consulting on the estimated average expenditure per stand adjusted to 2005 figures to arrive at the *Stand Expenditure - Consumer Shows*.

The *Stand Expenditure - Consumer Shows* was added to the *Stand Expenditure - Trade Shows* to arrive at the *Total Stand Expenditure*.

PKF Consulting assumed, based on their research, that the *Share of Exhibitors Spending on Promotion* was 10.0 percent. This figure was multiplied by the *Annual Exhibitors (companies)* to arrive at the *Estimated Number of Exhibitors Spending on Promotion*. This figure was then multiplied by the *Average Expenditure by Exhibitors* based on information obtained by PKF Consulting on the estimated average expenditure adjusted to 2005 figures to arrive at the *Total Promotion Expenditure*.

The *Total Business Expenditure* was calculated by summing the *Total Stand Expenditure* and the *Total Promotion Expenditure*.

Estimate of Economic Impact

In order to evaluate the flow of expenditure through the economy, we have used various multipliers to determine the direct, indirect and induced income generated from the potential centre. Direct expenditure, including wages, salaries and profits, generates indirect expenditure or spending on other goods and services, and therefore, further income generation. Both direct and indirect income generates further expenditure, which in turn gives rise to further spending on other goods and services or induced income.

The *Total Personal Expenditure* was added to the Total Business Expenditure to arrive at the *Total Direct Expenditure* or *Direct Income Total Direct Expenditure*.

An *Aggregate Direct Income Multiplier* of 0.32 was applied to the *Direct Income Total Direct Expenditure* to arrive at the *Total Direct Income*. This multiplier was based on the Visitor & Tourism Study (Vistour) prepared for the Hong Kong Tourist Association.

An *Aggregate Indirect Income Multiplier* of 0.28 was applied to the *Direct Income Total Direct Expenditure* to arrive at the *Total Indirect Income*. This multiplier was also based on the Vistour Study prepared for the Hong Kong Tourist Association.

An *Aggregate Induced Income Multiplier* of 0.28 was applied to the *Direct Income Total Direct Expenditure* to arrive at the *Total Induced Income*. This multiplier was based on the Visitor & Tourism Study (Vistour) prepared for the Hong Kong Tourist Association.

The *Total Direct Income* was added to the *Total Indirect Income* and the *Total Induced Income* to arrive at the *Grand Total Income (Including Induced Income)*.

The *Present Value of Total Income (Including Induced Income - As at 2000)* was arrived at by discounting the *Grand Total Income (Including Induced Income)* by 1.5 percent per annum back to the year 2000.

Summary of Results

The resulting estimated economic impact to HK is summarised as follows:

The present value of the cumulative total (first ten years of operation) economic benefit to Hong Kong resulting from the development of a 30,000 m² exhibition and convention centre is estimated to be approximately \$18,395,638,645. Under the 50,000 m² scenario the present value of the cumulative total economic benefit to Hong Kong is estimated to be \$24,369,376,873.

Extract of the Executive Summary of the Consultancy Study on the Provision of Additional Convention and Exhibition Facilities in Hong Kong

1.2.2.3 Hong Kong's Share of the Asia Exhibitions Market

1.2.2.3.1 Given that information regarding the global exhibitions market is severely limited and is not readily available, PKFCL has examined the performance of the Hong Kong exhibitions market vis-à-vis the Asia exhibitions market, based on the information provided by Tradeshow Week Custom Research (Tradeshow Week) which includes only international exhibitions known to Tradeshow Week.

1.2.2.3.2 Among all markets in Asia, Hong Kong ranked 6th in the number of exhibitions held in 1997, after China, Singapore, Japan, Korea and Thailand. In real terms, the number of exhibitions held in Hong Kong increased from 63 in 1993, to 76 in 1997 (refer to Table II-6 in the Final Report).

1.2.2.3.3 However, during the period 1993 to 1997, Hong Kong experienced a decline in its market share in terms of number of exhibitions held, to other countries in Asia, that decreased from 8.7 percent in 1993 to 6.5 percent in 1997. The same trend is experienced in other categories such as the number of visitors, and to a lesser extent, the total floor space utilised. In all the other categories, however, Hong Kong was ranked 4th in 1997.

1.2.2.3.4 Hong Kong continues to host some of the largest shows in Asia. Hong Kong ranked 3rd in exhibition space utilised per event, after Japan and Taiwan in 1996. However, in 1997, Hong Kong managed to surpass these two countries and ranked 2nd, after China, in exhibition space utilised per event.
