

Proposed International Exhibition Centre at Chek Lap Kok

Introduction

This paper informs Members of the Administration's plan to develop a new International Exhibition Centre (IEC) at Chek Lap Kok (CLK).

Hong Kong as a Premier Destination for Exhibitions and Conventions

2. With excellent facilities and services, Hong Kong has become a premier destination for exhibitions and conventions in the Asia-Pacific region. Almost 730 international conventions, exhibitions and corporate meetings were held in Hong Kong in 2000, attracting some 312,700 overseas visitors to these events. These represent an increase of 23.1% in the number of events and 19.9% in the number of overseas visitors from 1999.

3. The convention and exhibition industry is a high-yield business, and a high-value-added segment of the tourism industry. The per capita spending of convention and exhibition delegates is two and a half times that of the average visitors. In 2000, these delegates spent over \$3 billion in Hong Kong.

Need for a New Exhibition Centre

4. In the past few years, the convention and exhibition industry expressed concern over the lack of competitive convention and exhibition space in Hong Kong against a background of growing regional demand for such facilities.

5. In December 1999, a consultancy study commissioned by the Government concluded that by 2005, a new exhibition centre of about 50,000m² net usable area would be needed and that CLK would be the most suitable location. There would however be no significant shortfall in convention facilities¹. The consultancy study also concluded that without government financial assistance, the new exhibition centre project would not be financially

¹ It was considered that apart from the Hong Kong Convention and Exhibition Centre, other venues such as hotels also offer top-class venues for smaller or specialty conferences and meetings.

viable from an investment standpoint. The Government subsequently invited the Hong Kong Airport Authority (AA) to consider the way forward on the provision of a new exhibition centre at CLK.

6. Meanwhile, the exhibition industry, including the Hong Kong Exhibition and Convention Organisers' and Suppliers' Association (HKECOSA), has continued to demand proactive government involvement in providing additional exhibition facilities. The LegCo Panel on Commerce and Industry discussed the provision of additional exhibition facilities at its meeting held on 12 February 2001.

7. In response to the Government's invitation, in February this year, the AA proposed forming a tripartite partnership involving the Government, a private developer/operator consortium, and the AA to build an International Exhibition Centre (IEC) in its Airport City development within the North Commercial District. In April 2001, an inter-departmental steering group under the Chairmanship of the Director-General of Investment Promotion was formed to coordinate the Government's consideration of the AA's proposal.

8. Having conducted reality checks on the key assumptions underlying the findings of the consultancy study and the AA's subsequent proposal, the Government is satisfied that:

- (a) there is a need for a new exhibition centre, and CLK is superior to other possible sites, and in any case is the only site that can meet the 2005 target opening date;
- (b) the proposed new exhibition centre would bring significant economic benefits for the economy at large; and
- (c) while the centre could cover its operating costs, the investment return would be below the cost of capital. Hence, the project would not be viable from the investment standpoint and a degree of government support is required for it to proceed.

9. In relation to (a) above, the occupancy rate of the exhibition halls of the Hong Kong Convention and Exhibition Centre (HKCEC) is expected to reach 70%, normally regarded as the saturation point, by year 2006. At the moment, certain types of exhibitions, e.g. super heavy machinery and boat exhibitions could not be held at the HKCEC. It is considered that the new IEC should aim to cater for new events as well as those that the HKCEC could not accommodate, so as to allow differentiation between the two facilities.

10. In relation to (c) above, government support for major exhibition and convention facilities is not uncommon. The construction of the two phases of the HKCEC was subsidised. The old wing was paid for by giving to the Hong Kong Trade Development Council land at nil premium and allowing extensive commercial development including hotels, with the convention and exhibition centre being only part of the overall package. The construction cost of the extension (about \$4.8 billion) was borne by the Government. Internationally the position is the same. In Singapore and Kuala Lumpur, similar facilities are fully funded by the respective governments.

Proposal

11. Having had several rounds of negotiations, the Government and the AA have agreed on the following development parameters in respect of the proposed IEC:

- (A) The Government and the AA will enter into a joint venture, and will select a third party, by way of open international tender, to develop and operate the IEC.
- (B) Based on consultants' estimates, the construction cost of the new exhibition centre is estimated to be about \$4 billion, assuming an initial commitment to build a 50,000 m² facility either in one go or in two separate phases of development, i.e. 30,000 m² in Phase I and the balance in Phase II. The bidders will be asked to indicate which option they prefer.
- (C) The Government and the selected developer/operator consortium will jointly provide equity funding to finance the construction cost of the IEC.
- (D) The AA, in return for a 10% equity shareholding, will:
 - (i) contribute the land required, including reserve, in the first 10 years of the IEC's operation, land for ultimate expansion to a total net usable area of 80,000m²;
 - (ii) share with the Government, on a pro rata basis, the reversionary value of the facility up to June 2047;
 - (iii) forgo revaluation of the land during subsequent development phases of the IEC and upon expiry of the initial 25-year term;
 - (iv) lead the entire development process from inception through to

- completion;
- (v) plan for and secure the necessary infrastructure and transportation facilities to tie in with the commencement of the IEC's operation in 2005; and
 - (vi) cooperate with the management of the IEC to ensure successful operation of the new facility in attracting more new exhibitions to Hong Kong.
- (E) The developer/operator will be a single consortium selected by open international tender using the following evaluation criteria:
- (i) proposed rate of preferred return;
 - (ii) experience in operating world class exhibition centre;
 - (iii) track record in attracting new exhibition business;
 - (iv) robustness and quality of business plan, including demonstrated commitment to Hong Kong; and
 - (v) financial capability of the consortium members.
- (F) The selected consortium will obtain a preferred return on its investment as specified in the open tender. Any surplus of income over the preferred return will be distributed among the three parties according to their equity contribution ratio, but the consortium will have to re-distribute half of its share in this second slice to the Government and AA on the basis of their relative equity contribution ratio.

12. In addition, to promote competition in the provision of exhibition space, we consider that the management and operation of the IEC should be independent of that of the HKCEC. Such an arrangement should be conducive to the further growth of the local exhibition industry as a whole, through the provision of responsive service and competitive pricing. In this connection, we propose that the organisation / companies that are involved in the management of the HKCEC should be explicitly excluded from the tender exercise. However in assessing bidders' business plans, we will have regard to the extent to which they complement the services of the HKCEC in attracting more new exhibitions to Hong Kong.

Way forward

13. Subsequent to the announcement by the Chief Executive in his Policy Address, the proposal has received a welcoming response from the

business sector, key members of the HKECOSA, airlines, etc.

14. We plan to seek the Finance Committee's approval of the proposed government investment in December. We will collaborate with the AA and maintain dialogue with the exhibition industry in working to the following timetable:

2002	1 st Quarter	AA to conduct international road show.
	2 nd Quarter	AA to conduct tender exercise.
	end-year	Finalise the partnership agreement among the Government, AA and the private sector consortium.
2003	early-year	Start construction works.
2005	mid-year	New centre to open.

Commerce and Industry Bureau / Invest Hong Kong
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