

Written Submission to the Legislative Council

Panel on Commerce and Industry

Development of the exhibition industry in Hong Kong

We are the equity partner for the government-invested AsiaWorld-Expo project. In response to the invitation to speak at a meeting of the Panel on Commerce and Industry scheduled for 20 April 2010 on the captioned subject, we are of the view that it is in the public interest to lay out certain key historical facts and milestones to facilitate the discussion by Members. We have also highlighted in bold some fundamental principles and undertakings that form the foundation of and gave rise to the development of this project.

This paper outlines the important milestones and chronological developments of AsiaWorld-Expo and related issues concerning exhibition space in Hong Kong before and after its inception:

- Jan 1998 In response to the request of the Services Promotion Strategy Group (SPSG) chaired by the Financial Secretary, a Steering Committee on the Provision of Additional Convention and Exhibition Facilities (SCACF) chaired by the Secretary for ESB (then known as the Economic Services Bureau) commissioned PKF Consulting Limited to study the provision of additional convention and exhibition facilities in Hong Kong in January 1998. The membership of SPSG consisted of prominent business and community leaders and senior government officials. SCACF was comprised of senior representatives from various government and quasi-government authorities.
- June 2000 In response to industry concerns over HKTDC's market dominance, Mr Michael Sze, former Executive Director of HKTDC promised that "TDC would only organize trade fairs for competitive industries in Hong Kong. In view of limited resources, if successful fairs had been organized by private exhibition services companies for a particular industry, TDC would not organize similar trade fairs to avoid unhealthy competition. As such, if TDC was to organize new trade fairs in future, they would most likely be for the service industry or the information and technology industry." (see **Annex A**)
- Nov 2001 The Legislative Council Panel on Commerce and Industry supported the proposal to establish a new international exhibition centre, AsiaWorld-Expo (formerly known as the IEC) at Chek Lap Kok.

With the intention of promoting an open and pro-competition business environment against a backdrop of market dominance by Hong Kong Trade Development Council (HKTDC) as the largest trade show organizer in Hong Kong (with over 50% market share in 2004 while HKTDC

is also the owner of the Hong Kong Convention and Exhibition Centre (HKCEC)), the Government prohibited organizations/ companies that are involved in the management of HKCEC (including HKTDC being the owner of HKCEC) to be involved in the AsiaWorld-Expo project (see **Annex B**).

Dec 2002 On 20 December 2002, the Finance Committee approved a commitment to inject \$2 billion from the Capital Investment Fund to invest in the development of AsiaWorld-Expo (AWE), which when fully realized would provide 100,000 sqm of exhibition space in Hong Kong. AWE is a tripartite joint venture between the Government, the Airport Authority (AA) and a private consortium.

Jan 2003 On 30 January 2003 (i.e. during the AWE project tender phase) the Government issued a statement regarding its policy on further expansion of the Hong Kong Convention and Exhibition Centre (HKCEC). It included the following sentence (see Annex C):

“ The policy of the Government is that it will consider the question of support only if it is satisfied that there will be unmet demand taking into account inter alia the additional 100,000 m² exhibition space to be provided by the IEC (AsiaWorld-Expo) and the timing of its availability, and that government support is fully justified for the good of the economy.”

The Government gave this undertaking to address and respond to concerns raised by a number of bidders during the Expression of Interest stage regarding the Government’s policy on further expansion of the HKCEC.

Currently, Phase 1 of AWE consists of 70,000 sqm of rentable space. The above policy clearly envisages that AWE will be further expanded to its intended 100,000 sqm of exhibition space before the Government will consider supporting any expansion of the HKCEC.

Aug 2003 In reliance of the Government’s statement of policy, we IEC Investment Limited entered into a joint venture agreement with the Government and the AA to jointly develop AWE.

Aug 2004 HKTDC announced the HKCEC atrium link extension and submitted its plan to the Government.

June 2005 Despite the Government’s statement of policy abovementioned, the Government approved the HKCEC atrium link extension.

Dec 2005 Phase 1 of AWE opened in December 2005, offering over 70,000 sqm of rentable space.

Mar 2009 The Government announced the building of the Hong Kong-Zhuhai-Macao Bridge along with the proposed Hong Kong-Shenzhen Airport Link which will connect with Hong Kong International Airport, adjacent to AsiaWorld-Expo, and form part

of the overall plan to further integrate Hong Kong with the Pan-Pearl River Delta region of the Mainland. AWE is prepared and well positioned to lead the growth of the local exhibition and conference market by providing a two-way springboard for easy access to both the Mainland market and the global marketplace.

Apr 2009 The HKCEC atrium link extension opened in Apr 2009 with detrimental effect on the business of AWE resulting in tangible losses to AWE. In the same year active discussions were widely publicized regarding further expansion of the HKCEC and the Government's consideration of and preparations for a public consultation regarding HKCEC Phase 3 despite the above-mentioned undertaking made by the Government.

Any consideration or support by the Government of further expansion of HKCEC would not only compound the irreparable damage already caused to the government funded AWE as a result of the opening of the HKCEC atrium link expansion, but also undermine the credibility and integrity of the written undertaking made by the Government to the private sector.

In developing the exhibition industry in Hong Kong, the Government's support for the expansion of AsiaWorld-Expo should be paramount before any governmental support is considered for HKCEC Phase 3 in order to:-

- 1). Realise the original policy intent and objective behind the AWE project of opening up, developing and promoting competition in the exhibition industry in Hong Kong. Failing to fully realise AWE as envisaged and approved is not only a matter of AWE's very survival but would also be a significant signal to both the local and international exhibition industry that Hong Kong is reverting back to a monopolistic environment;
- 2). Honour and uphold both the integrity of the Government undertaking made in 2003 upon which the private sector relied upon in making its investment decision as well as the basis upon which LegCo approved the Government's \$2billion commitment; and
- 3). Optimise/capitalise on the vast opportunities offered by the Hong Kong-Zhuhai-Macao Bridge as well as the Hong Kong-Shenzhen Airport Link for AWE to lead the growth of the local exhibition and conference market in the Pan-Pearl River Delta region.

IEC Investments Limited

April 2010

LC Paper No. CB(1)2114/99-00
立法會 CB(1)2114/99-00 號文件

**Extract of minutes of meeting of the
Panel on Trade and Industry held on 8 June 2000**

2000 年 6 月 8 日貿易及工業事務委員會會議紀要節錄

III Policy and charging arrangement of the Hong Kong Trade Development Council in the organization of trade exhibitions

- (LC Paper No. CB(1)1563/99-00 - Letter from Hon MA Fung-kwok enclosing the complaint by the Hong Kong Exhibition and Convention Organisers' and Suppliers' Association (Chinese version only); and
LC Paper No. CB(1)1762/99-00(03) - Information paper provided by the Administration)

4. The Chairman welcomed the representatives from the Hong Kong Trade Development Council (TDC), the Hong Kong Convention and Exhibition Centre (Management) Limited (HKCEC Management Ltd) and the Hong Kong Exhibition and Convention Organisers' and Suppliers' Association (HKECOSA).

Views of HKECOSA

5. The Chairman advised that in addition to its written representation submitted earlier on via Hon MA Fung-kok (LC Paper No. CB(1)1563/99-00 refers), HKECOSA had just presented a further submission to the Panel, stating its views on the Government's policy and mandate for TDC.

(Post-meeting note: HKECOSA's submission was tabled at the meeting and subsequently issued to members vide LC Paper No. CB(1)1813/99-00(01).)

6. At the Chairman's invitation, Mr Louis CHENG, Chairman of HKECOSA, briefed members on the salient points of HKECOSA's submission. He said that HKECOSA fully supported the goal of developing Hong Kong into the "trade fair capital of Asia" and was keen to help making it a success. However, as the only trade association representing the exhibition services industry, HKECOSA had identified a number of problems in the existing policies of TDC which would seriously hinder the development of the whole industry. The main concerns of HKECOSA were as follows:

- (a) A role conflict was caused by the continuous expansion of TDC's Exhibition Services Unit (ESU) and as a result, TDC had departed from its statutory functions;
- (b) As the owner of Hong Kong's largest exhibition centre, Hong Kong's largest exhibition organizer and exhibition contractor and one of Hong Kong's largest trade publishers, TDC commanded a dominant market position which was not conducive to the growth of small and medium-sized private exhibition services companies in Hong Kong;
- (c) Although the statutory functions of TDC were to promote, assist and develop Hong Kong's overseas trade, neither the Government nor TDC had indicated clearly the amount of resources earmarked for the

promotion of the exhibition services industry every year and no specific plan was put forward. As the Government had failed to monitor TDC's operation effectively, TDC had spent \$48 million to set up ESU facilities in Yuen Long and another \$180 million from its reserve was used to build a new Exhibition Services and Logistics Centre in Tseung Kwan O. Public resources were wasted on these projects; and

- (d) The policy to manage and operate the Hong Kong Convention and Exhibition Centre (HKCEC) as a private enterprise had led to high rental rates, posing formidable barriers for fledgling private exhibition services companies as well as those companies seeking to host new exhibition items.

7. Mr CHENG further said that in view of the above problems, ten recommendations had been proposed for the consideration of the Government and TDC as follows:

- (a) The Government should conduct a major review on TDC's existing policies;
- (b) TDC should allocate a fixed amount of resources to promote the exhibition services industry specifically;
- (c) In view of keen competition from other Asia-Pacific countries, the Government should address the problem of high rental of HKCEC as soon as possible and build a new exhibition venue to stimulate the growth of the exhibition services industry;
- (d) The Government should take action by ordering TDC to stop any practices that were anti-competitive and strictly monitor TDC's compliance;
- (e) The Government should encourage TDC to outsource the management of TDC fairs to qualified private exhibition services companies; and
- (f) In the longer term, the Government should encourage TDC to privatize ESU and to clearly separate its business operations from the functions on trade promotion so as to streamline the structure of its various departments and enhance the transparency of its accounts. In this way, the industry's perception that TDC had role conflicts would be changed.

Responses of the Administration and TDC

8. At the Chairman's invitation, the Acting Secretary for Trade and Industry (S/TI (Atg)) took members through the Government's responses to the concerns raised by HKECOSA (details of which were set out in LC Paper No. CB(1)1762/99-00(03)). Mr Michael SZE, the Executive Director of TDC, then gave an overall response to the

issues raised by HKECOSA. As for clarifications on details, he invited members to refer to the supplementary information paper tabled at the meeting.

(*Post-meeting note:* TDC's supplementary information paper was subsequently issued to members vide LC Paper No. CB(1)1813/99-00(02).)

TDC's role conflict and departure from its statutory functions

9. S/TI (Atg) pointed out that TDC was a statutory body established under the Trade Development Council Ordinance (Cap. 1114) where its functions were clearly stipulated. The Administration took the view that organizing trade fairs was beneficial to the growth of Hong Kong's overseas trade. Such activities were therefore consistent with TDC's statutory function of promoting Hong Kong's overseas trade. Mr SZE supplemented that TDC had been making its best endeavour to fulfil its statutory function of promoting Hong Kong's export trade. Judging from past experience, organizing trade fairs was the most effective means to promote Hong Kong's trade. For example, a total of 7 000 local companies would participate in the 20 trade fairs organized by TDC every year, attracting more than 100 000 overseas buyers. Judging from these figures, the organization of trade fairs had indeed facilitated Hong Kong's overseas trade. Any request for TDC to stop organizing trade fairs or to privatize its ESU would not be beneficial to the development of Hong Kong's industrial and commercial sectors.

TDC's ESU in violation of the principle of fair competition

10. As for the allegation that TDC was involved in anti-competitive practices by organizing trade fairs, S/TI (Atg) pointed out that HKECOSA had previously lodged a complaint with the Competition Policy Advisory Group (the Group) chaired by the Financial Secretary (FS) last May. After objective consideration, the Group did not find any conclusive evidence to show that the operation of ESU was anti-competitive. Moreover, ESU was primarily engaged in providing services for exhibitions organized by TDC. This had not caused any restriction to market accessibility or contestability of other exhibition services companies. Taking HKCEC as an example, among the 105 trade fairs held therein in 1999/2000, only 20 were organized by TDC. As such, there was no evidence to show that ESU had monopolized the market. In fact, since the establishment of TDC, the number of exhibition services companies in Hong Kong had been on the rise, from a dozen or so in 1998 to over 140 at present.

11. Mr Michael SZE further said that the trade fairs organized by TDC were aimed at promoting the more competitive and successful industries in Hong Kong, such as electronics, toys, clothing and gifts. As a matter of fact, ESU only had 34 staff and they were responsible for co-ordinating and overseeing the 20 trade fairs organized by TDC. With the actual building works contracted out to private firms, the exhibition services industry was placed with contracts worth about \$125 million every year. Therefore, ESU could not be said to have monopolized the market.

Lack of Government monitoring leading to public money being misused

12. On the issue of monitoring, S/TI (Atg) stressed that TDC's day to day operation was monitored by its Council and its estimates of expenditure had to be forwarded to FS for approval. In addition, TDC had to table its annual report to LegCo. It was the Government's responsibility to ensure that the operation of TDC was in compliance with the law and its resources were used effectively to promote Hong Kong's trade. She reiterated that TDC had not used Government subvention to cover ESU's recurrent expenditure and TDC had maintained a separate account for ESU's income and expenditure. There was no question of TDC using public money to subsidize ESU. Mr SZE also pointed out that since 1996, Government subvention to TDC from trade declaration charges had fallen by 45%, from \$588 million to \$320 million. Notwithstanding the tight resources, TDC had managed to use the surplus generated from its commercial activities to subsidize other non-profit-making services, such as trade enquiry service. With a view to repaying its clients' support, TDC had frozen the participation fees for its trade fairs for three years and the fees of local trade fairs would be lowered further from April next year.

Discussion with members

13. Before discussion, Mr Philip WONG and Mr Kenneth TING declared interests as TDC's Council members.

14. Mr Philip WONG stated that he fully agreed with the responses given by S/TI (Atg) and Mr Michael SZE in respect of HKECOSA's concerns.

TDC's role conflict and departure from its statutory functions

15. Mrs Sophia LEUNG said that HKECOSA had made some very serious allegations which warranted attention. However, based on the facts presented, the complaints seemed to be unsubstantiated. She asked whether the Administration had thoroughly discussed the issues involved with the exhibition services industry and whether explanations regarding TDC's operation had been given. S/TI (Atg) replied that HKECOSA was always welcome to raise its concerns and exchange its views with the Trade and Industry Bureau (TIB). In addition, TIB had tried its best to explain the Government's position in the matter during meetings with HKECOSA's representatives and through mutual correspondences. However, she stressed that the different views held by the Government should not be regarded as a lack of initiative or sincerity on the Government's part to deal with the matter. Mr Michael SZE advised that due to the fundamental differences in viewpoints, it was difficult for the two parties to reach a consensus. In order to fulfil its statutory functions of promoting Hong Kong's overseas trade, it would not be possible for TDC to accede to HKECOSA's request and stop organizing trade fairs and providing exhibition services.

16. Mrs Sophia LEUNG opined that in such case, the Panel might have to discuss the issue from the perspective of the overall economy of the society and see whether the roles performed by TDC, such as in organizing trade fairs, should be changed or

maintained so that a comprehensive response could be given to HKECOSA. The Chairman however pointed out that it might not be necessary for the Panel to reach a consensus view on the issue. Members could express their views on the facts put forward by the parties concerned so that reference could be made to such views when further discussions were held by the Administration with TDC and the industry in future.

TDC's ESU in violation of the principle of fair competition

17. Responding to the Chairman's enquiry, Mr Denny YUNG, the Deputy Chairman of HKECOSA advised that in calculating the market share, the number of trade fairs should not be the only factor taken into account. Although TDC only organized 20 trade fairs each year, it could still constitute a monopolistic situation because of the large scale of these trade fairs and the large number of exhibitors participated, and the trade fairs organized by TDC might have several thousand booths. In response to Mr MA Fung-kwok's question, Mr YUNG advised that due to resource constraints, HKECOSA was not able to conduct any survey on TDC's exact market share. However, he pointed out that the industry generally felt that TDC enjoyed a substantial advantage in booking trade fair venues, thus making it difficult for private exhibition services suppliers to get prime time slots. As such, private exhibition services suppliers were unable to develop new exhibition items. Hampered by a restricted scope of development, the gap between the private sector and TDC was getting larger. He remarked that in order to achieve the goal of developing Hong Kong into the "trade fair capital of Asia", another large-scale exhibition venue should be built to meet the industry's needs.

18. While concurring with HKECOSA that efforts should be made to develop Hong Kong into the "trade fair capital of Asia", Mrs Sophia LEUNG pointed out that exhibition time slots had always been allocated on the principle of according priority to previous exhibitors. As such, she requested the Government to conduct more research on this issue by drawing reference from overseas countries, such as the arrangement to allocate a separate venue for budding industries to organize trade fairs.

19. As a related question, Prof NG Ching-fai enquired about the criteria for allocating exhibition time slots. Mr Cliff WALLACE, the Managing Director of HKCEC Management Ltd, explained that exhibition time slots had to be allocated according to the policy laid down in the management contract and the underlying principle was on a "first-come-first-served" basis. In addition, under certain circumstances, consideration might also be given to according priority to previous exhibitors, who had held trade fairs using the same time slots several years in a row, with some even dated back to 1988 when HKCEC was first opened. In that case, the exhibitor concerned would have priority in booking the same time slot. If that time slot was given up, it would be re-allocated on a "first-come-first-served" basis in accordance with the order on the waiting list. He also pointed out that there were still quite a number of time slots available in HKCEC. In order to encourage exhibitors to re-schedule their exhibition period so as to reduce costs, as well as to increase the utilization of vacant time slots, rental rates for non-peak periods had been reduced by

40%. Responding to a further question from Prof NG, Mr WALLACE said that under the existing policy, no penalty would be incurred for cancellation of venue bookings unless it had been specified in the contract.

20. Regarding the allocation of exhibition time slots, S/TI (Atg) pointed out that even exhibitions organized by the Government had to face the same tough competition for time slots in HKCEC. As such, the problem raised by HKECOSA could not be resolved simply by the provision of another exhibition venue. Mr Michael SZE also said that the allocation procedures were drawn up in consultation with the Independent Commission Against Corruption. Since HKCEC was not under the management of TDC, TDC had to face the same problem of not being able to book suitable time slots. As far as the exhibition services industry was concerned, exhibition time slot was one of the most important assets and TDC would not give up the time slots it had secured.

Lack of Government monitoring leading to public money being misused

21. Mr MA Fung-kwok was concerned about the industry's complaint against TDC not making enough efforts to promote Hong Kong's exhibition services industry. In this connection, he enquired about TDC's views on the industry and what promotional work had been done by its overseas and Mainland offices. S/TI (Atg) responded that as stated by the Chief Executive in his Policy Address, Hong Kong would be developed into the "trade fair capital of Asia" and the exhibition services industry was certainly one of the major industries targeted by TDC in recent years. Other relevant organizations such as the Hong Kong Tourist Association would also provide assistance in different respects. Her views were shared by Mr Michael SZE who referred members to the details of TDC's promotional activities as set out in paragraph 25 of Annex A to the paper provided by the Administration. He pointed out that apart from actively encouraging the participation of new companies, TDC also played the role of main contractor by sub-contracting the actual building works of its exhibitions to smaller companies and lending out equipment, so that those companies could play a part without making huge investments. In the long run, with China's accession to the World Trade Organization and the opening up of its exhibition services industry, Hong Kong's exhibition services contractors would have increased opportunities to enter the Mainland market. Mr SZE also added that TDC was willing to further communicate with the industry through HKECOSA so as to reduce disputes and foster mutual co-operation in achieving the common goal of promoting Hong Kong's exhibition services industry.

22. Regarding the refund of \$48 million to TDC by ESU as mentioned in paragraph 10 of the paper, Mr HUI Cheung-ching enquired about the details of the refund arrangements and whether ESU was under pressure to do so. S/TI (Atg) replied that the subvention of \$48 million would be restored to TDC general revenues over the next five years beginning from 2000/01. As for the reason of such refund, she stated that ESU was not under any pressure to do so. Besides, she also advised that as a statutory body, TDC's activities were governed by the law and unless it had violated any legal provisions, the Government had no right to order TDC to make any decisions. Hence, the Administration could not accede to HKECOSA's request by ordering TDC

to adopt certain measures or to stop certain activities. Mr Michael SZE added that notwithstanding a reduction in Government subvention, TDC's actual expenditure had increased in response to greater public expectation, and ESU had decided to refund the subvention so as to supplement TDC's income.

High rental rates

23. Mr Kenneth TING welcomed TDC's initiative to assist local businesses amidst the economic downturn by reducing exhibition venue rental rates starting from next year. He enquired about the effect the Exhibition and Logistics Centre in Tseung Kwan O had on the organization of trade fairs. Mr Frederick LAM, the Deputy Executive Director of TDC, advised that the centre was set up to reduce the time for constructing and demolishing exhibition booths during trade fairs in HKCEC so as to achieve savings. According to preliminary assessment, the centre did serve its purpose. Therefore, TDC had announced a lower rate for next year to repay the exhibitors in view of the savings achieved.

24. Mrs Sophia LEUNG asked for a comparison between the charges of TDC and private exhibition services companies. Mr Frederick LAM replied that survey results indicated that charges of trade fairs organized by TDC were generally lower. With surpluses generated from some of its successful trade fairs, TDC was able to set a lower charge.

25. Mr James TIEN said that according to the views of some trade associations, the charges for participating in trade fairs in Hong Kong were higher than in countries like Singapore and Europe and he asked about the reasons for that. Mr Michael SZE replied that the rental rates of HKCEC were indeed higher than those of other countries. However, as far as the trade fairs organized by TDC were concerned, the participation fees paid by Hong Kong companies were definitely lower than those paid by overseas companies. As for trade associations which had a long history of participating in TDC's trade fairs, a higher discount rate would be offered. Hence, from his personal point of view, the level of charges was by no means absolute.

26. Given that the trade associations were asking for a reduction in trade fair participation fees and TDC took the view that the charges of its trade fairs were lower than those organized by the exhibition services industry, while HKECOSA was complaining about TDC's monopoly in the market, Mr TIEN asked whether a proper balance could be achieved so that the number of trade fairs to be organized by TDC would be kept to an optimum to the interests of all parties concerned. Mr Michael SZE replied that TDC would only organize trade fairs for competitive industries in Hong Kong. In view of limited resources, if successful fairs had been organized by private exhibition services companies for a particular industry, TDC would not organize similar trade fairs to avoid unhealthy competition. As such, if TDC was to organize new trade fairs in future, they would most likely be for the service industry or the information and technology industry. S/TL (Atg) further said that as TDC was a statutory body, the Government could not interfere with its day to day operation arbitrarily. As the ex-officio member of the Council of TDC, the

Secretary for Trade and Industry would do his best to ensure that TDC would use its resources and fulfil its statutory functions properly. While acknowledging the concerns of members and the industry on TDC's charges, she believed that market forces would bring about suitable adjustments.

27. Mr SIN Chung-kai opined that when compared with other countries in the Asia-Pacific Region, the cost of holding trade fairs in Hong Kong was on the high side and this might be a cause of complaint of the industry. In this connection, he asked about the Administration's long-term plans to provide large-scale exhibition venues. S/TI (Atg) replied that a consultancy study was commissioned by the Economic Services Bureau (ESB) in 1998 to examine whether additional exhibition venues were needed in Hong Kong. According to the findings of the study which was completed in the end of last year, exhibition venues in Hong Kong would reach their full capacity around 2007, and thus, it would be necessary to build a multi-function exhibition venue in 2005 or 2006 with an area of about 50 000 m². The consultancy report also mentioned that a suitable location for the exhibition venue would be near the new airport. In November last year, ESB had submitted the consultancy report to the Task Force on Services Promotion (Task Force) led by FS for consideration and the report was subsequently referred to the Airport Authority (AA) upon the recommendation of the Task Force. As far as she knew, a further consultancy study had been commissioned by AA to examine the proposal. In response to Mr SIN's further enquiry about the financial arrangements, S/TI (Atg) advised that it was still too early to say given that a final decision on the proposal had yet to be made. However, as the new exhibition venue was required by 2005 to 2006, planning for the project would commence in the next one or two years.

28. Mr James TIEN sought the views of the industry on the specific requirements of the new exhibition venue. Mr Denny YUNG responded that it was a pity that ESB had failed to consult HKECOSA in the course of the study. As Hong Kong was lagging behind China and other Southeast Asian countries such as Singapore in developing the exhibition services industry, there should be no delay in the building of a new exhibition venue. HKECOSA took the view that the new exhibition centre should have at least 20 000 m² of exhibition area for staging large-scale exhibitions. In addition, the location should be within 10 minutes' walk from stations of mass transport systems. He explained that for the new exhibition venue to serve its purpose, it had to be large enough to accommodate large scale exhibitions. If the new venue was not large enough, such as the International Trademart in Kowloon Bay which was only 6 000 m² in area, it could only accommodate small-scale exhibitions. Furthermore, Mr YUNG stressed that the new exhibition centre should not follow HKCEC's existing mode of operation, under which its management was entrusted to a private company. Instead, it should be a public exhibition venue for rent to private exhibition services companies so that the rental rates could be lowered.

29. In concluding the discussion, the Chairman said that he hoped further discussions could be held among the industry, the Administration and TDC to explore ways to address the industry's concerns, thereby promoting a continuous development of the exhibition services industry.

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
6 November 2001

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30 January 2003

Government Position on Further Expansion of the Hong Kong Convention and Exhibition Centre

We understand that some of the consortia shortlisted for the tender exercise on the International Exhibition Centre (IEC) project in Chek Lap Kok have requested the Government to set out its position on a proposal to further expand the Hong Kong Convention and Exhibition Centre (HKCEC).

It is the Government's policy to ensure that Hong Kong has sufficient quality exhibition facilities to stage a wide range of exhibitions, so as to stay competitive in capturing the growing exhibition market in the region, and to retain Hong Kong's leadership position as a hub for international exhibitions in Asia. International trade fairs bring significant economic benefits to the local exhibition industry and other related sectors, and help reinforce Hong Kong's position as a leading global trading platform and business centre. In line with this policy, the Government has committed to invest \$2 billion in the IEC, having regard to the potential unmet demand for exhibition space in the years to come.

According to the Hong Kong Trade Development Council (TDC)'s analysis, the utilisation rate of the HKCEC will peak in a few years' time, even taking account of the additional exhibition space to be provided by IEC. For this reason, TDC is proposing to further expand the HKCEC, in a project now termed as HKCEC Development 3. TDC's preliminary thinking is to provide about 30,000 m² exhibition space in this proposed project. TDC has not yet formally submitted a proposal to the Government, but is expected to do so quite soon. TDC has informally advised that its target is to complete the HKCEC Development 3 in 2009.

The Government will carefully consider TDC's proposal on the HKCEC Development 3 when we have received it. It is too early in the process to say whether the Government will provide any form of support to the project. The policy of the Government is that it will consider the question of support only if it is satisfied that there will be unmet demand taking into account inter alia the additional 100,000 m² exhibition space to be provided by the IEC and the timing of its availability, and that government support is fully justified for the good of the economy. In any such consideration, due regard will also be given to the Government's interest as a shareholder in the IEC and to the private sector's investment.