

香港添馬添美道二號
政府總部西翼二十二樓
商務及經濟發展局 旅遊事務署



Tourism Commission
Commerce and Economic Development Bureau
22/F West Wing,
Central Government Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong

本函檔號 Our Ref. : TC CR T4/22/17/6
來函檔號 Your Ref. : CB4/PAC/R68

電話號碼 Tel. No.: (852) 2810 2461
傳真號碼 Fax No.: (852) 2801 4458

Mr. Anthony CHU
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Complex,
1 Legislative Council Road,
Central, Hong Kong
(Fax: 2543 9197)

1 June 2017

Dear Mr Chu,

**Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 68**

Kai Tak Cruise Terminal

I refer to your letters of 18 May 2017 to the Secretary for Commerce and Economic Development and the Commissioner for Tourism on the above. I am authorised to reply on their behalf.

Please find attached our written response for the Public Accounts Committee's reference and information.

Yours sincerely,

(George Tsoi)
for Commissioner for Tourism

Encl.

c.c. Secretary for Financial Services and the Treasury (Fax No. 2147 5239)
Director of Audit (Fax No. 2583 9063)

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 68

Kai Tak Cruise Terminal

Response of Tourism Commission

1. According to paragraph 2.12, the average per-passenger spending of cruise passengers visiting Hong Kong was short of the spending assumed in the economic model used by the Government in making the estimates of expected economic benefits brought by the cruise industry. What are the reasons for the shortfall in the average per-passenger spending? Has the Administration ascertained how the shortfall will affect the achievement of the expected economic benefits?

In seeking funding approval from the Legislative Council (LegCo) in 2009 and 2010, the Government submitted that the economic benefits to be brought about by the whole cruise industry in Hong Kong following the construction of the Kai Tak Cruise Terminal (KTCT) would range from \$1.5 billion to \$2.6 billion per annum by 2023. The estimate was based on an economic model developed by the consultant engaged by the Government and updated in 2008 which took into account, among others, the number of ship calls, cruise passenger throughput and average cruise passenger spending. The key parameters of the economic model are presented in paragraph 2.8 of the Audit Report.

According to the statistics of Hong Kong Tourism Board, the average spending of turnaround cruise passengers (around 253,000 in 2015, excluding local citizens) showed a declining trend between 2014 and 2015, while that of transit cruise passengers (around 74,000 in 2015) increased by 22% during the same period. The spending of both turnaround and transit passengers in 2015 was lower than the level assumed in the economic model updated in 2008. We have discussed this phenomenon with the trade. The considered view was that it was partly due to the overall decreasing trend of the spending of cruise passengers in the international markets, and partly due to the falling hotel room rates in Hong Kong and the strong Hong Kong dollar which deterred cruise passengers from spending more on shopping in Hong Kong. Furthermore, the trade advised that some cruise lines now included shore excursions as part of their cruise packages purchased by passengers and such expenditure would not be captured in the existing figures on cruise passenger spending.

It should be noted that average cruise passenger spending is one of the parameters in the economic model for assessing the economic benefits that the cruise industry will bring to Hong Kong. Other key parameters include the number of ship calls and cruise passenger throughout.

While the average spending of turnaround cruise passengers decreased in 2014 to 2015 by 15% (from \$3,480 to \$2,950), the average spending of transit cruise passengers increased by 22% (from \$1,312 to \$1,597) and the total number of cruise visitors also increased by 15% (from 285,382 to 327,106). As a result, the total spending of cruise passengers in Hong Kong recorded a 2% increase during the same period, with corresponding increase in the economic benefits brought about by the cruise industry.

Indeed, the number of ship calls in Hong Kong (i.e. 191) in 2016 already reached the projected range of number of ship calls for 2023 (i.e. 181 to 258) in the economic model mentioned above. As regards cruise passenger throughput, the figure in 2016 (677,031) was also within the projected range for 2023 (i.e. 564,102 to 1,041,031). We are therefore on the right track in achieving the economic benefits projected for 2023.

2. According to paragraph 2.13(a), the Tourism Commission ("TC") monitored the progress made in achieving the projected economic benefits by 2023 by monitoring three of the four key parameters for the economic model of the cruise industry in Hong Kong very closely, namely the number of ship calls, passenger throughput and passenger spending. TC had reported to the Legislative Council the number of ship calls and passenger throughput from time to time. In view of the significant decrease in the average per-passenger spending of cruise vessels using Hong Kong as their turnaround port in the period from 2013 to 2015, will the Administration consider reporting the passenger spending to the Legislative Council from time to time as well?

Apart from reporting the number of ship calls and cruise passengers throughout to the Panel on Economic Development of LegCo, in the annual Policy Address and Budget from time to time, we have also provided information on average cruise passenger spending in our replies to LegCo Special Finance Committee questions. We will continue to make available information on cruise passenger spending to LegCo from time to time and are prepared to provide such information to the LegCo Panel on Economic Development regularly.

3. According to paragraph 2.13(d), it is TC's plan to conduct a mid-term assessment on the progress in achieving the expected economic benefits of the whole cruise industry in Hong Kong by 2023 at a suitable juncture, say around 2018, after gaining sufficient operational experience. Does the Administration have a plan and a timetable for conducting the mid-term assessment? Will the Administration consider conducting the mid-term assessment earlier so that timely improvements can be made?

We are well-gearred for the mid-term assessment scheduled for 2018 on the progress in achieving the expected economic benefits of the whole cruise industry in Hong Kong by 2023. We consider it an appropriate timing because while KTCT was commissioned in mid-2013, it was only fully operational in 2016 with the completion of the planned dredging works in end 2015 to enable its two berths to accommodate the world's largest cruise vessels simultaneously. In fact, the number of occasions on which the two berths of KTCT were in use simultaneously also started to grow, with 16 days in 2016 and expecting to grow to 60 days in 2017, representing an increase of 275%.

KTCT is the Government's long-term investment in promoting the development of cruise tourism in Hong Kong. Any assessment of the economic benefits brought about by the whole cruise tourism industry in the initial years of the commissioning of KTCT would unlikely be as adequate and representative, given the short duration since KTCT has become fully operational (about one and a half year as of now).

Furthermore, an important parameter in the economic model, namely, the economic multiplier, has a time lag of about two years and the latest available multipliers are only up to 2014 because it involves collection and collation of data by the Census and Statistics Department, and further estimation work with the data by the Government Economist. Hence, we consider it appropriate to conduct the mid-term assessment in 2018 after obtaining sufficient operational experience and with sufficient data.

Notwithstanding the above, we would continue to monitor closely the key parameters of the economic model, namely, the number of ship calls, cruise passenger throughput and cruise passenger spending, on an on-going basis. While we will commence the preparatory work of the mid-term assessment early next year, we will continue to step up our promotional work of cruise tourism and

review and streamline the operation of KTCT to further drive the economic benefits that the cruise tourism will bring to Hong Kong.

4. According to paragraphs 2.18(b) and 2.19, the utilization rates of the Kai Tak Cruise Terminal ("KTCT") (i.e. percentage of days with a cruise vessel at one or both of the two berths) for the peak seasons (i.e. January to March and October to December) of 2014 to 2016 were 18.1%, 22.5% and 38.3% respectively, and for the peak seasons of 2015 and 2016, the total number of days when both berths were utilized were only 5 and 14 respectively. For non-peak seasons (April to September) of 2015 and 2016, the total number of days with a ship at one or both of the two berths were only 29 and 35 respectively, representing very low utilization rates of 15.8% and 19.1% respectively. According to paragraphs 2.21(f), 3.14(d) and 3.15(d), Commissioner for Tourism has agreed to introduce new initiatives to drive more ship calls and passenger throughput to Hong Kong and urge the terminal operator to promote the use of KTCT for more non-cruise events. What new initiatives have been introduced by the Administration and/or the terminal operator? Are they effective?

Cruise terminal operation around the world generally has clear seasonality with peak season and non-peak season. For KTCT, its peak season is from January to March and October to December each year, while the rest of the year is regarded as non-peak season. In 2016, the utilisation rate of KTCT during peak season is 38.3%, which is comparable with that of the Marina Bay Cruise Centre Singapore (45%) which was commissioned a year earlier than KTCT. For 2017, it is expected that the utilisation rate of KTCT during peak season would further increase to 49%. Many cruise terminals around the world (e.g. St. Petersburg, Melbourne and Copenhagen) would close during non-peak seasons and with no cruise ship at berth in some of the calendar months. For KTCT, we are open every day and since 2015, we have had cruise ships at berth every calendar month.

The Government is committed to continuing the strengthening of strategic planning for developing Hong Kong into a leading cruise hub. We have clear strategic directions and plan and have turned the strategic directions and plan into strategic initiatives as promulgated every year in the Government's Policy Addresses, Policy Agendas as well as Budget Speeches. We have also deployed adequate resources in the promotion of cruise tourism. Specifically our strategic initiatives and facilitations include –

- (i) in 2014, the Asia Cruise Fund was established to encourage regional cooperation among neighbouring ports and incentivise cruise lines to

include Hong Kong and the participating ports in their cruise itineraries. In 2016, the partnership with the participating ports further elevated through the launch of Asia Cruise Cooperation to promote the tourism infrastructure and facilities, as well as the unique appeals of the participating ports to cruise lines through joint promotion and participation in large-scale industry events with a view to synergising the efforts, so as to encourage cruise lines to include the ports concerned in their itineraries;

- (ii) in 2015, further relaxation on the visa arrangements for Mainland cruise passengers coming to Hong Kong to take cruises with itineraries covering both Japan and Korea after visiting Taiwan was implemented; and
- (iii) in 2016, the “fly-cruise” tour programme was launched to diversify the source markets of cruise passengers and to further develop the source markets other than Southern China.

The above strategic initiatives have delivered results, with the total number of ship calls in Hong Kong increased by 115% and total cruise passenger throughput by 254% from 2013 to 2016. Also, the cruise vessels calling at KTCT have also become more diversified, with the number of international cruise brands doubled from 9 in 2015 to 18 in 2016.

In 2017-18, TC has mapped out further strategic initiatives to enhance the competitiveness of Hong Kong in cruise tourism development. An additional \$16 million of funding is, as a result, allocated by the Government to the Hong Kong Tourism Board to carry out these strategic initiatives. These initiatives, as set out in the 2017-18 Budget, include the following -

- (i) \$3 million for penetrating deeper into the source markets in Southern China. This is intended to maintain Hong Kong’s competitive edge in these markets with the increasing competition posed by the ports in Southern China. Our plan is to attract more high-yield and family visitors for these markets so as to differentiate ourselves from the nearby ports;
- (ii) \$10 million for continuation of the “fly-cruise” promotion programme to encourage more cruise passengers to fly to Hong Kong to take cruise, so

as to further diversify and fortify the source markets outside Southern China; and

- (iii) \$3 million for development of shore excursion programmes so as to encourage travel agencies and cruise lines to develop more varied and value-for-money itineraries for cruise passengers. This is intended as one of the means to stimulate spending by cruise passengers.

As regards non-cruise events, with the terminal operator gaining more experience in hosting such events and the positive feedback of event organisers, we have further urged the terminal operator to leverage on KTCT's reputation now established as a good event venue and to step up efforts to attract more non-cruise events. Firstly, in April 2017, we have suggested to the terminal operator to formulate a comprehensive marketing strategy to promote KTCT as an event venue, in addition to its on-going ad-hoc marketing efforts and participation in trade events both locally and internationally. Secondly, with the increasing number of ship calls at KTCT, the available windows for hosting non-cruise events will naturally reduce. That notwithstanding, with the experience that the terminal operator has gained over the years, TC has taken the initiatives to discuss with and solicit the consents of relevant Government departments (including Immigration Department and Customs and Excise Department) in early 2017 to enable cruise operations and non-cruise events to take place simultaneously at the apron. This will maximise the opportunities for hosting non-cruise events at KTCT.

5. According to paragraph 3.3, under the tenancy agreement, the terminal operator was required to pay a fixed rent of \$13 million for the ten-year operation and a variable rent. After deducting the above rent paid by terminal operator, what is the annual operating cost of KTCT borne by the Administration?

KTCT is an important infrastructure for promoting the development of cruise tourism in Hong Kong. Equipped with two berths capable of accommodating the largest vessels in the world simultaneously, KTCT has enabled Hong Kong to capture the growth of the cruise industry in the Asia Pacific region and sustain its development as a regional cruise hub.

Given that the number of ship calls in Hong Kong in 2016 (i.e. 191) already reached the projected range of number of ship calls for 2023 (i.e. 181 to 258) and that the cruise passenger throughput in 2016 (i.e. 677,031) was also within the projected range of passenger throughput for 2023 (i.e. 564,102 to 1,041,031), we are therefore on the right track in achieving the economic benefits projected for 2023 from \$1.5 billion to \$2.6 billion. On the other hand, the annual operating cost of KTCT borne by the Government in 2016-17 was about \$137 million, which mainly included the maintenance cost of the electrical and mechanical systems and equipment, the structural maintenance of the premises, management of the communal areas and the KTCT Park for the use of the general public, and the staff cost of Government departments (including the manpower for immigration and customs clearance).

6. According to paragraph 3.7(a), as at 1 March 2017, one shop on the rooftop with an area of 355 m² had not been leased out and had been left vacant since its handover to the terminal operator. According to paragraph 3.15(c), Commissioner for Tourism has agreed to urge the terminal operator to lease out the shops to merchants that can bring more visitors to KTCT. Is the shop on the rooftop leased out now? What measures have been taken and what is the progress?

The ancillary commercial area of KTCT is about 5,600 m². As at 1 May 2017, of the seven shops at KTCT, six of them (86%), occupying over 93% of the floor area, have been leased out and are contributing variable rent to the Government.

TC has been in close liaison with the terminal operator and reminded the terminal operator to lease out the ancillary commercial areas with best endeavours. The terminal operator has been trying in earnest to do so and ever since 2013, the terminal operator has been arranging site visits with potential sub-tenants when the project was still at the construction stage. As at December 2014, all but two shops at the rooftop were leased out. In 2015, we again urged the terminal operator to lease out the vacant shops (two at that time) and to conduct a “request for proposal” exercise, which the terminal operator did so in December 2015. In June 2016, we requested and the terminal operator conducted another “request for proposal” exercise for the vacant shops (two at that time) and the one on 2/F which had ceased operation. It should be noted that other than these “request for proposal” exercises, the terminal operator has also pro-actively approached potential sub-tenants and arranged many site visits with them.

As at May 2017, the terminal operator has successfully identified prospective sub-tenant which planned to run food and beverages business there. The terminal operator is now in the process of preparing the leasing documents for the prospective sub-tenant’s confirmation in leasing the only remaining vacant shop at the rooftop.

7. According to paragraph 3.7(b), the sub-tenancy of the two shops on the second floor with a total area of 2 196 m² was terminated. The terminal operator was not able to recover the vacant possession of the two shops pending the outcome of the legal proceedings. According to paragraph 3.15(b), TC had already urged the terminal operator to expedite the recovery of vacant possession of the premises for re-letting as soon as practicable. What is the latest position?

In respect of the two shops which had ceased operation, the terminal operator commenced legal action against the sub-tenant concerned by issuing a Writ of Summons to the Court of First Instance (Action No. 1157 of 2016) in 2016. Separately, there were numerous winding-up petitions against the sub-tenant as filed by its other creditors (other than the terminal operator). As the legal proceedings are still on-going, the terminal operator is therefore not yet able to recover the vacant possession of the shops concerned.

That notwithstanding, the legal dispute between the terminal operator and the sub-tenant does not affect the variable rent paid by the terminal operator to the Government, because the variable rent is calculated according to the rent receivable rather than actual rent received.

Although the date of availability of the shops concerned remains uncertain due to the ongoing legal proceedings, the terminal operator has already included the shops that are yet to be recovered in the “request for proposal” exercise in June 2016 with a view to expediting the process of identifying a new sub-tenant and facilitating the early use of the shops once available. Meanwhile, the terminal operator would be on the alert in looking for suitable sub-tenant for the shops concerned and has also pro-actively approached potential sub-tenants for the shops.

8. Further to Questions 6 and 7 above, Audit considers that TC needs to continue to urge the terminal operator to endeavor to lease out the remaining vacant shop on the rooftop. Some commercial operators had shown interests in leasing the rooftop shops for operating bars and seafood restaurants. However, the initiative was not actively followed up by the terminal operator and thus was eventually not pursued. Is TC or the Commerce and Economic Development Bureau aware of the above initiative? What follow-up actions have been taken? If not, the reasons why not?

The terminal operator received a proposal submitted by the *Hong Kong Bar & Club Association* for operating bars and restaurants at the rooftop of KTCT in August 2014. That proposal, among others, required the turning of part of the KTCT Park (managed by Leisure and Cultural Services Department) into commercial areas. The proposal was received after the Vice Chairman of *the Association*'s visit to the then vacant shops at the rooftop arranged by the terminal operator in March 2014.

In response to the above proposal, representatives of Commerce and Economic Development Bureau (CEDB) and TC met with the Vice Chairman of *Hong Kong Bar & Club Association* on 18 September 2014 and explained the issues involved in converting part of the leisure areas for commercial uses. It was agreed at the meeting that *Hong Kong Bar & Club Association* should consider pursuing the proposal of operating bars and restaurants at the then two vacant shops at the rooftop of KTCT. The terminal operator has been in close dialogue with *the Association* since, including inviting members of *the Association* for submitting proposals for leasing the then vacant shops at the rooftop of KTCT.

In the "request for proposal" exercise conducted in December 2015, the terminal operator pro-actively approached *the Association* again to invite it to inform its members about the exercise. Furthermore, the terminal operator arranged a dedicated visit to the then vacant shops for the Vice Chairman and a few members of *the Association* on 23 January 2016 and encouraged their submission of proposal in the "request for proposal" exercise. Up to now, the terminal operator has yet to receive any proposal from *the Association* or its members. The terminal operator would be happy to further liaise with *the Association* and its members should they continue to be interested in renting the available shops in KTCT.

9. According to paragraph 3.18, the terminal operator had not submitted the reports on compliance with the service pledges for 2013, 2014 and 2015 until 30 December 2016. What actions have been taken (e.g. sending written reminders to the terminal operator)? How did the Administration monitor the performance of the terminal operator in the absence of such reports?

Upon our reminder, the terminal operator submitted its report on compliance with the service pledges for 2016 before the end of February 2017 as required under the Tenancy Agreement. We fully agree with the Audit's recommendation that the terminal operator should submit annual reports on compliance with service pledges in a timely manner. We will therefore make it a practice to discuss the report on compliance with the service pledges, at the first Management Committee meeting in the first half of each calendar year, to ensure the timely submission of the report and to further improve the performance management of the terminal operator.

Indeed, the Government has been monitoring the performance of the terminal operator in meeting the operational and customers' needs very closely. In particular, the terminal operator makes regular reports to the quarterly Management Committee meetings which are attended by all Government departments involved in the operation of KTCT.

Apart from the quarterly Management Committee meetings mentioned above, TC has, since the commissioning of KTCT in 2013, put in place the following additional measures -

- (i) to conduct monthly operational meetings with the terminal operator and the building management services contractor to discuss the detailed operational issues, including the services delivered by the terminal operator;
- (ii) to attend joint site inspections with relevant Government departments, the terminal operator and cruise lines / event organisers to plan for the actual operation;
- (iii) to attend meetings to discuss special cruise operations (e.g. maiden calls by cruise ships, double-berthing operations or berthing of mega cruise ships) to ensure that the terminal operator can deliver the services as stipulated in the service pledges;

- (iv) to attend conference calls with the terminal operator;
- (v) to request the terminal operator to submit different types of reports (e.g. cruise passenger profiles of arriving cruise vessels, traffic arrangement plans, etc) almost every week; and
- (vi) to conduct on-site inspection and surveys in order to monitor the performance of the terminal operator effectively.

Taking 2015 and 2016 as examples, TC had up to 113 meetings and site walks etc. with the terminal operator.

The above additional arrangements, as initiated by TC on top of the report on compliance with the service pledges as set out in the Tenancy Agreement, ensure that timely information that facilitated TC's daily supervision of the terminal operator's performance can be made available. Where necessary, suitable advice can be provided to the terminal operator instantly and that remedial measures can be put in place as soon as possible.

A recent example is that due to the very last minute booking of a cruise line, the disembarkation time of a cruise ship clashed with a pre-planned event at the Kai Tak areas on 8 January 2017 during which road closure of the access road leading to KTCT was required. Disembarked cruise passengers therefore could only leave KTCT by sea. Such a challenging situation was brought up and discussed at the Management Committee and several other operational meetings in December 2016 and January 2017. It was with the early discussion at our regular meetings and the concerted efforts of all Government departments, the terminal operator and the cruise line concerned that we managed to resolve all operational issues under such a challenging situation swiftly and that the operation was eventually successful.

The above example shows that apart from the annual submission of reports on the performance of the terminal operator, we have put in place suitable arrangements to monitor the performance of the terminal operator on a day-to-day basis.

10. According to paragraph 4.3(a), the total number of shopping malls providing free mall shuttle bus services on a regular basis had decreased from three in 2013 to two in 2015. According to paragraphs 4.8 and 4.9, Commissioner for Tourism has agreed to urge the terminal operator to explore with shopping malls to provide mall shuttle bus services to KTCT, prepare necessary contingency in the event of discontinuation of mall shuttle bus services, as well as update the traffic management plan annually to ensure proper transport arrangements are in place. TC will also discuss with the Transport Department to improve the franchised bus service. What has been achieved so far?

General transport services enhancements

TC has been working closely with Transport Department (TD) and the terminal operator in improving the transport services provided at KTCT. For the transportation for cruise passengers during cruise days, there are free mall shuttle bus services and paid shuttle bus services arranged by the terminal operator, coaches for shore excursion programmes arranged by cruise lines, as well as taxis and other privately-arranged transportation such as limousines.

Separately, there are also franchised bus services, mini bus services and ferry services for local citizens going to and from KTCT. At the request of TC, these public transportation services have been strengthened to provide daily services since 2016. The ferry service was made available after the completion of TC's initiative of refurbishing of an ex-fire boat pier near KTCT in March 2016. TD is monitoring the current service level of the mini bus services and see if further strengthened service should be provided. Other specific enhancements to the public transport services are also set out in the following paragraphs.

Free mall shuttle bus services

The number of shopping malls providing free shuttle bus services decreased from three to two in 2015, but the services provided by the remaining two malls were strengthened, so that the carrying capacity has remained the same. At present, cruise passengers do not have to wait before boarding the free mall shuttle bus for most of the time, indicating that there is an adequate supply of the services. In May 2017, TC has already requested the terminal operator to explore with other shopping malls to provide free mall shuttle bus services to KTCT. We have also

requested the terminal operator to discuss with the mall which might have problems in continuing with the provision of the said services due to the complaints from nearby residents on the drop-off locations and see if the problems still existed and whether they could be resolved. According to the terminal operator, it meets with the management of the shopping malls providing the services regularly and the two shopping malls remain keen to continue to operate the services. This notwithstanding, we have urged the terminal operator to make contingency plan in the event of discontinuation of mall shuttle services and submit draft plan for TC's consideration by July 2017.

Traffic management plan

The terminal operator submitted an updated traffic management plan taking into account the latest development of transport services provided at KTCT and the refinements to the traffic arrangements in the light of the experience gained in the past few years of operation. The updated traffic management plan, with comments from all Government departments incorporated, was approved in May 2017. TC requested, and the terminal operator agreed, at the Management Committee meeting in May 2017 that it would update the traffic management plan on an annual basis before the end of each calendar year to ensure effective and efficient traffic management measures would be in place. In addition to the traffic management plan, the terminal operator has been requested to continue with its practice of providing dedicated traffic plans for special occasions to ensure that proper transport arrangements would be implemented for such occasions.

Franchised bus services

The franchised bus service is mainly for local citizens, including park users. At the request of TC through TD, the service has been strengthened to provide daily service since August 2016. To address the anticipated demand of cruise passengers on some special operational situations (e.g. simultaneous berthing of two mega cruise ships with passengers from both cruise ships disembarking at almost the same time), TC has, on a need basis, requested the franchised bus operator through TD to extend its service to help disperse cruise passengers from time to time. For instance, on 19 March 2017, we requested the service provider to extend the service to start before the usual service hour of 11:00am when passengers from two cruise ships disembarked concurrently. We note that around 20 cruise passengers, out of a total of 4,710 disembarked, used the service. That notwithstanding, since April 2017, the franchised bus operator has, at the request

of TC made through TD, advanced the service hours of Route 5R to cover the period between around 7:00 am and 11:00 am on every Sunday morning on a trial basis to dovetail with the disembarkation time of passengers of a cruise ship which calls at Hong Kong regularly every Sunday. Although the number of cruise passengers using the extended service on Sunday was very low (less than 20 passengers each morning), the franchised bus operator has agreed to continue to provide the service on a trial basis and will review the situation in mid-2017.

Separately, a new bus route connecting KTCT and Kowloon Tong is planned to be introduced in 2018. Consultation with relevant district councils was commenced in April 2017.

Potential cross-boundary ferry services

In addition to strengthening local transport connectivity, TC has also been facilitating the terminal operator in actively exploring the proposal of operating cross-boundary ferry services at KTCT for its cruise passengers. Subject to the detailed arrangements to be discussed among the terminal operator, cruise lines and the appointed cross-boundary ferry services provider, cruise passengers from the Mainland may take cross-boundary ferry to KTCT direct and complete immigration and customs clearance thereat before commencing their cruise journeys. We understand that there are cruise lines that are interested in arranging such service for their passengers and there are chances that the services will be available in the coming months.

11. The Administration reported to the Legislative Council Panel on Economic Development in 2014 that the recurrent expenditure for operating KTCT would be \$220 million per year. Apart from the operation and maintenance costs charged by the Electrical and Mechanical Services Trading Fund as listed in Table 9 in paragraph 4.25, please provide a breakdown for the recurrent expenditure for operating KTCT per year.

The recurrent expenditure of \$220 million for operating KTCT was estimated and provided to LegCo in 2009 to 2010 when we sought LegCo's funding approval for the KTCT project. This estimate was also included in the paper prepared by LegCo Secretariat in December 2014.

The annual operating cost of KTCT borne by the Government mainly includes the maintenance cost of the electrical and mechanical systems and equipment, the structural maintenance of the premises, management of the communal areas and the KTCT Park for the use of the general public, and the staff cost of Government departments (including the manpower for immigration and customs clearance). The actual expenditure in 2016-17 was about \$137 million, and the breakdown is as follows –

Department	Actual Expenses in 2017-18 (\$ million)
Customs & Excise Department	9.22
Department of Health	3.31
Hong Kong Police Force	5.14
Immigration Department	39.44
Leisure and Cultural Services Department	5.04
Architectural Services Department	0.17
Tourism Commission <i>(including the service level agreement for management and maintenance of electrical and mechanical systems and equipment)</i>	73.10
Civil Engineering and Development Department	1.31
Total	136.73

12. As mentioned in paragraphs 4.11 and 4.12, the video wall installed on the external wall of the terminal building facing the Hong Kong Island could be let to outside parties for income which forms part of the gross receipt of the terminal operator in the calculation of the variable rent payable to the Government. Has TC ascertained with the terminal operator why the video wall has not been let out thus has not generated any income? Has the terminal operator conducted any promotions and advertisement on the letting of the video wall?

According to the Tenancy Agreement, if the terminal operator is desirous of using the video wall for the display of advertisements and signs, it shall obtain the Landlord's prior written approval. All income generated from the video wall shall be included as part of the gross receipt of the terminal operator in the calculation of the variable rent payable to the Government.

The terminal operator has been making efforts in identifying a suitable media agent to act as its sole agent for arranging commercial advertisements using the video wall on a fixed licence fee plus variable licence fee on revenue sharing basis. The terminal operator arranged site visits with media agents as early as in April 2013. Follow-up visit with representatives of some major media agents was arranged in September 2013. Subsequently, the terminal operator conducted a "request for proposal" exercise in October 2013. However, there was no positive response from the market.

The terminal operator maintained dialogue with potential major media agents but was not successful in identifying an agent for arranging commercial advertisements using the video wall due to lukewarm market response. At the request of TC, the terminal operator conducted another "request for proposal" exercise in September 2016.

The terminal operator has recently reviewed the partnership approach in engaging a suitable media agent and is considering to engage the agent on a more flexible basis (e.g. the agent will only need to pay fees to the terminal operator whenever they use the video wall, instead of paying any fixed rent). The terminal operator is discussing with a potential media agent the detailed terms and arrangements at the moment.

Meanwhile, the video wall is functioning properly and is displaying messages to cruise passengers and during some non-cruise events or events organised by the Government.

13. According to paragraph 4.15, Audit commented that there was a need to review the optimal use of the two plant rooms, which had been used temporarily by the Electrical and Mechanical Services Trading Fund ("EMSTF") since 2015, with the Government Property Agency's ("GPA") assistance. In this regard,

- a) Has TC discussed with GPA regarding the optimal usage of the rooms? If yes, the details; and if no, the reasons why not.
- b) how long EMSTF would make use of the two plant rooms?
- c) Is the temporary usage of the two plant rooms by EMSTF contrary to the objective of installing an on-shore power supply ("OPS") system in KTCT, which aims to reduce air pollutants emission from cruise ships?
- d) As the number of cruise ships using KTCT will be on a rise in the future, without the installation of an OPS system, whether air pollutants emission from cruise ships will affect the air quality of nearby districts such as Kai Tak, Kwun Tong and Kowloon Bay?
- e) Has any study being conducted on the impact of air pollutants emission from cruise ships using KTCT on the air quality during the period in which the two plant rooms were temporarily used by EMSTF without the installation of an OPS system?
- f) What is the estimated expenditure of installing the OPS system? Does the two plant rooms being temporarily used by EMSTF lead to improper use of resources? Can the impact of the improper use of resources be quantified?

Development of Onshore Power Supply System

Spaces have been reserved in the KTCT project for the potential installation of Onshore Power Supply (OPS) system. In November 2013, the Environmental Protection Department (EPD) engaged EMSD to study the installation of OPS system at KTCT, including gauging the readiness of cruise terminals and cruise liners to use OPS systems. In July 2014, EMSD submitted to EPD its report which confirmed the technical feasibility of installing OPS system at KTCT. EPD and EMSD conducted follow-up survey in 2015 and concluded that (a) while the installation of OPS system at KTCT was technically feasible, OPS-capable vessels were not common worldwide; (b) no Asia cruise terminal was providing OPS system, and only a few OPS-capable cruise vessels were deployed to the Asia region; and (c) only 32 international cruise vessels were OPS-capable in 2014 and that three cruise vessels would be retrofitted with OPS equipment in 2015, and the total number of OPS-capable cruise vessels would account for 16% of the

international cruise vessels in 2015.

With the above findings, EPD reported the study and survey results to LegCo Panel on Environmental Affairs in June 2015. Having regard to the findings of the study and survey and that an increasing number of cruise vessels had been fitted with scrubbers to comply with the fuel sulphur cap set by the International Maritime Organisation, the Panel supported the EPD's recommendations to put the installation of OPS system at KTCT on hold, while keeping a close watch of the development on OPS-capable cruise vessels to review whether it would be appropriate to take forward the installation of OPS at KTCT.

Consideration in putting the spaces reserved for OPS system to gainful use

In view of the above policy decision of EPD which was supported by LegCo, TC put the spaces originally reserved for the OPS system to suitable gainful uses in June 2015.

In considering the possible uses of the OPS system, we have paid due regard to the fact that (a) the locations of the spaces are within the restricted areas of KTCT; (b) the spaces can only be accessed through the apron of KTCT which is a restricted area and cannot be accessed freely, particularly during cruise operation; (c) the spaces are semi-enclosed and not air-conditioned; and (d) the level of the spaces is lower than that of the apron and the level difference renders the moving-in and moving-out of goods and equipment frequently not without challenges (please refer to the photo at **Annex A**).

Given the limited accessibility and the specifications of the spaces, TC has identified that the use of the spaces as EMSTF's maintenance workshop for conducting maintenance and repairing works for the systems and equipment at KTCT would be a suitable gainful use. This arrangement could enable the systems and equipment are maintained in a timely and efficient manner and help reduce the time for the maintenance and repairing works, thus minimising the interruption to the operation of KTCT. Photos showing the current use are at **Annex B**.

EMSTF intends to use the spaces as its maintenance workshop for as long as they are available. That said, if it is the Government's decision to install OPS system at KTCT any time in future, EMSTF can vacate the spaces accordingly. Hence, the temporary use of the spaces by EMSTF is not contrary to the objective of

installing OPS system, nor has it involved any improper use of resources.

In the light of Audit's observation that there is a need to review the optimal use of the spaces with Government Property Agency's assistance (paragraph 4.15 of the Audit Report), we will review the use of the spaces in consultation with EPD and EMSTF, and invite Government Property Agency to explore the optimal use of the spaces having regard to their limited accessibility and the need to protect the integrity of the restricted area.

Emissions from cruise vessels and air quality of nearby districts

The proposed installation of OPS system is not the only effective way to reduce the impact of emissions from marine vessels. In recent years, the Government has actively implemented a number of measures to reduce the emission of sulphur dioxide from marine vessels. Since April 2014, the sulphur content of locally supplied marine light diesel has been capped at 0.05%. Ocean going vessels including cruise vessels have been required to switch to low sulphur marine fuel (with sulphur content not exceeding 0.5%) while at berth since July 2015. EPD is also working with the Guangdong maritime authorities to implement a Domestic Emission Control Area (DECA) in the Pearl River Delta region in January 2019 such that vessels plying within the DECA will be required to use low sulphur fuel with sulphur content not exceeding 0.5% with a view to further improving air quality in the PRD region.

The Kwun Tong Air Quality Monitoring Station ("AQMS") is situated in the vicinity of KTCT. The concentration of sulphur dioxide recorded thereat can be taken as an indicator of the air quality impact of KTCT. So far, the annual average concentration of sulphur dioxide recorded remains low. Despite the number of ship calls at KTCT has been increasing since its commissioning in mid-2013, the annual average sulphur dioxide concentration recorded in 2016 is 27% lower than that in 2012 (i.e. before the operation of KTCT). Furthermore, after the mandatory requirement for ocean going vessels including cruise vessels to switch to low sulphur fuel while at berth came into effect in July 2015, the average concentration of sulphur dioxide recorded at the Kwun Tong AQMS when it was downwind of KTCT has reduced by 33%. These indicated that the implementation of the above control measures has been effective in improving the air quality in the areas nearby, notwithstanding that the OPS system is yet to be installed.

According to the study conducted by EMSD in 2014, the capital cost of the OPS system at KTCT will be about \$315 million, and the annual operation and maintenance cost will be about \$14 million.

14. According to paragraph 4.33(d), TC said that EMSTF will explore ways to further improve the performance of the lifts and escalators and educate users on the proper use of lifts and escalators. What actions have been taken so far?

According to EMSTF, a majority of the fault call cases of lifts / escalators received in 2015 and 2016 were caused by improper operation mainly related to misuse of keyswitch and external influence such as by foreign objects. Equipment failure involved 12 lifts / escalators out of the total of 78 at KTCT during the two-year period.

Nonetheless, TC has worked closely with EMSTF to reduce the number of fault call cases through (i) improving the operation environment of the lifts / escalators; and (ii) educating users on the proper use of lifts and escalators.

Improving the operation environment of lifts and escalators

On improving the operation environment of the lifts and escalators, we have installed larger canopies and wind/rain shields to reduce the exposure of some of the lifts / escalators to heavy rainfall (please refer to photos at Annex C). Separately, since large pieces of luggage on wheels and baby trolleys could potentially disrupt the normal operation of escalators, passengers with these items should use the lifts instead of escalators. Against this, we have installed bollards in front of some escalators so as to avoid passengers with luggage / baby trolleys from using the escalators (please refer to photos at Annex D). Meanwhile, we are also making efforts in educating users on using the escalators properly, as elaborated in the paragraphs below.

Educating users

Given that a major reason leading to fault call cases of lifts / escalators is improper operation, EMSTF has stepped up its trainings to educate the users (including the terminal operator and building services contractors) so as to minimise the chance of improper operation such as misuse of switchboard, etc. In addition to the basic training, enhancement trainings were conducted on 9 March 2017 and 26 May 2017.

The terminal operator has also been using mobile public announcement system during peak hours to remind cruise passengers to use the escalators properly

(including asking cruise passengers carrying large pieces of luggage / baby trolleys to use the lifts instead of escalators). The terminal operator has also displayed more prominent signages to impress upon cruise passengers the importance of using the escalators properly (please refer to **Annex E**).

Latest fault call cases

With our above efforts, the number of fault call cases in the first four months of 2017 has dropped. The following table summarises the situation -

	Fault call cases		
	Equipment failure	Improper operation and other causes	Total
2015 and 2016	30	68	98
2017 (<i>January to April</i>)	3	5	8

15. According to paragraph 4.46(b), Commissioner for Tourism has agreed that in the process of formulating the strategic directions and initiatives on cruise tourism development, TC will extend its consultation to cover tourist attractions, hotels and the retail sector starting this year. Commissioner for Tourism will also formalize this engagement process and consolidate the various strategies and initiatives into a single document entitled “Strategic Plan for Cruise Tourism” for easy reference. What actions have been taken in this regard?

TC has all along formulated the strategic directions and plan for cruise tourism development regularly in consultation with the Advisory Committee on Cruise Industry (ACCI) with members comprising representatives from major stakeholders including cruise lines, travel agents, ground-handlers and port agents, etc..

In early April 2017, apart from engaging the ACCI, TC has already started to extend the consultation in relation to the formulating and updating of the strategic directions and plan for cruise tourism development to cover the Tourism Strategy Group, which comprises a wide spectrum of representatives from the travel trade, major attractions and hotels.

TC’s plan is to further extend our consultation to cover more tourist attractions, hotels and the retail sector when we formulate and update the strategic directions and plan. We will also consolidate the various strategies and initiatives into a single document entitled “Strategic Plan for Cruise Tourism” for issue in the first quarter of each year.

**Space Reserved for On-shore Power Supply System:
Level Difference with the Apron**



**Current Use of the Space Reserved for On-shore Power Supply System:
EMSTF's Maintenance Workshop**



**Improving the Operation Environment of Lifts:
Canopy and Shield**



**Improving the Operation Environment of Escalators:
Bollards in front of Some Escalators**



Educating Users of Escalators: More Signages

