

*Kai Tak Cruise Terminal*

---

The Audit Commission ("Audit") conducted a review of the progress in developing Hong Kong into a leading regional cruise hub and the management of the Kai Tak Cruise Terminal ("KTCT").

2. The Government was committed to developing Hong Kong into a regional cruise hub. KTCT would be important for Hong Kong to capture the growth of the cruise industry in the Asia Pacific Region, and sustain its development as a regional cruise hub. The Tourism Commission ("TC") under the Commerce and Economic Development Bureau is responsible for monitoring the operation of KTCT and works closely with the Advisory Committee on Cruise Industry. As at 28 February 2017, the total actual project expenditure for KTCT was \$6,613 million. The Government had estimated that the economic benefits to be brought by the cruise industry would range from \$859 million to \$1.1 billion per annum by 2013, \$1.5 billion to \$2.5 billion by 2016, and \$1.5 billion to \$2.6 billion by 2023.

3. The Committee noted the following findings from the Director of Audit's Report:

- the economic benefits to be brought by the cruise industry were estimated by an economic model taking into account various factors, including the estimated number of ship calls and passenger throughput, and the estimated spending by cruise passengers and cruise operators. Audit found that the actual number of ship calls of 191 in 2016 was 5% and 31.3% lower than the estimated numbers under the low and high growth scenarios of the model respectively. The actual cruise passenger throughput of 677 031 in 2016 was 25% higher than the estimated throughput under the low growth scenario and was 33.5% lower than the estimate under the high growth scenario. The average per-passenger spending of cruise passengers visiting Hong Kong was also short of the spending assumed in the economic model. The average per-passenger spending of cruise vessels using Hong Kong as their turnaround port decreased by 37% from \$4,699 in 2013 to \$2,950 in 2015, whilst the average per-passenger spending of cruise vessels using Hong Kong as a port-of-call increased slightly by 3%. So far, TC had not assessed the progress made in achieving the projected economic benefits;

*Kai Tak Cruise Terminal*

---

- the utilization rates of KTCT<sup>1</sup> during 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. Audit was of the view that KTCT had the capacity to receive more cruise vessels even at the peak seasons;
- under the tenancy agreement between the Government and the terminal operator, the latter was required to pay a fixed rent of \$13 million for the ten-year operation and a variable rent, while TC was responsible for monitoring the performance of the terminal operator through a set of service pledges and performance indicators specified in the tenancy agreement. However, the terminal operator did not fully comply with the requirements under the tenancy agreement. For example, the terminal operator had not submitted the reports on compliance with the service pledges for 2013, 2014 and 2015 to TC until 30 December 2016;
- as at 1 March 2017, of the 5 601 square metres ("m<sup>2</sup>") total ancillary commercial area of KTCT, 2 906 m<sup>2</sup> (51.9%) was not open for business. As for the area that was let and open for business, one shop on the rooftop with an area of 355 m<sup>2</sup> had been left vacant since its handover to the terminal operator, and it had not been leased out as at 1 March 2017. Meanwhile, the sub-tenancy of the two shops on the second floor with a total area of 2 196 m<sup>2</sup> was terminated due to the legal disputes between the terminal operator and the sub-tenant on the outstanding rents. The terminal operator was not able to recover the vacant possession of the two shops pending the outcome of the legal proceedings;
- Audit examination of TC records discovered that there was room for improvement in transport connectivity. For instance, 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. Meanwhile, only 6 of the 18 taxi pick-up points were made available for boarding during peak hours;

---

<sup>1</sup> Percentage of days with a cruise vessel at one or both of the two berths.

*Kai Tak Cruise Terminal*

---

- the video wall installed on the external wall of the terminal building facing the Hong Kong Island had never been let out and hence had not generated any income;
- two plant rooms (occupying 1 100 m<sup>2</sup>) in KTCT were reserved for setting up an on-shore power supply system, but the installation of the system had been put on hold. The plant rooms were temporarily used by the Electrical and Mechanical Services Trading Fund. Audit considered that there was a need to review the optimal use of the plant rooms;
- in 2015 and 2016, 256 water leakage/seepage cases and 98 lifts/escalators fault cases at KTCT were reported to the Architectural Services Department and the Electrical and Mechanical Services Trading Fund; and
- TC planned 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, 2018. Meanwhile, TC would formulate the strategic directions and initiatives on cruise tourism development and consolidate a document entitled "Strategic Plan for Cruise Tourism".

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the shortfall in the average per-passenger spending, initiatives to promote the use of KTCT, the monitoring on the performance of the terminal operator, the lease situation of the commercial area and video wall of KTCT, improvement measures on the transport connectivity of KTCT, the installing of the on-shore power supply system, the usage of the two plant rooms, the maintenance of KTCT facilities, and the strategic planning for cruise development. The consolidated replies from **Secretary for Commerce and Economic Development** and **Commissioner for Tourism** are in *Appendix 21*.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.