

No.1 in the World

The Future for Hong Kong's Trade Fairs

To be Top of the League – A foreword by Peter Woo

What a triumph if Hong Kong's largest trade fairs could be number one in the world. This is not a distant aspiration. Hong Kong, Asia's trade fair capital, is close to achieving it now – and capturing the greater rewards our larger fairs bring.

Seven fairs organised by the Trade Development Council (TDC) are already the largest in Asia or among the top three in the world. A number of fairs staged by private organisers in Hong Kong are also in the top league.

With global demand rising for Chinese-made products – and China opening up as a market for foreign products – conditions are ripe for Hong Kong's trade fairs to grow exponentially.

And grow they must, for the trade fair business is about building critical mass and gravity in your marketplace. It is about creating a one-stop shop and merchandise exchange that pulls in the greatest number of players faster than competitors can. The more exhibitors, buyers, products and transactions you have, the more you attract and the more your shows dominate. It is a zero sum game in which the first mover takes all.

Physical constraints

So what is stopping Hong Kong's mega fairs from being number one in the world? The Hong Kong Convention and Exhibition Centre (CEC), home to these strategic shows, is running out of space. During peak seasons, every possible square metre is filled with booths, including meeting rooms and convention halls.

Thousands of exhibitors are on waiting lists for fairs organised by TDC and others. Meanwhile, competition is mounting from cities outside Hong Kong that have large exhibition facilities, new hotels and expanding international air links.

This is not a simple problem for Hong Kong to solve. The exhibition facility now under construction at the airport will be great for attracting new shows, especially for heavy goods. The TDC's mega shows,

on the other hand, are for light consumer products that are Hong Kong's core export business. They serve visitors already sold on the convenience of the CEC's downtown location. Equally, it is not easy to persuade waiting-list exhibitors to give up Wanchai for Chek Lap Kok.

The search for solutions

TDC's original solution was for a Phase III development of the CEC (the centre opened in 1988 and was extended by Phase II in 1997). We submitted our Phase III proposal to the Government 18 months ago. However, this was affected by a judicial review that halted Government's development plan for Wanchai North.

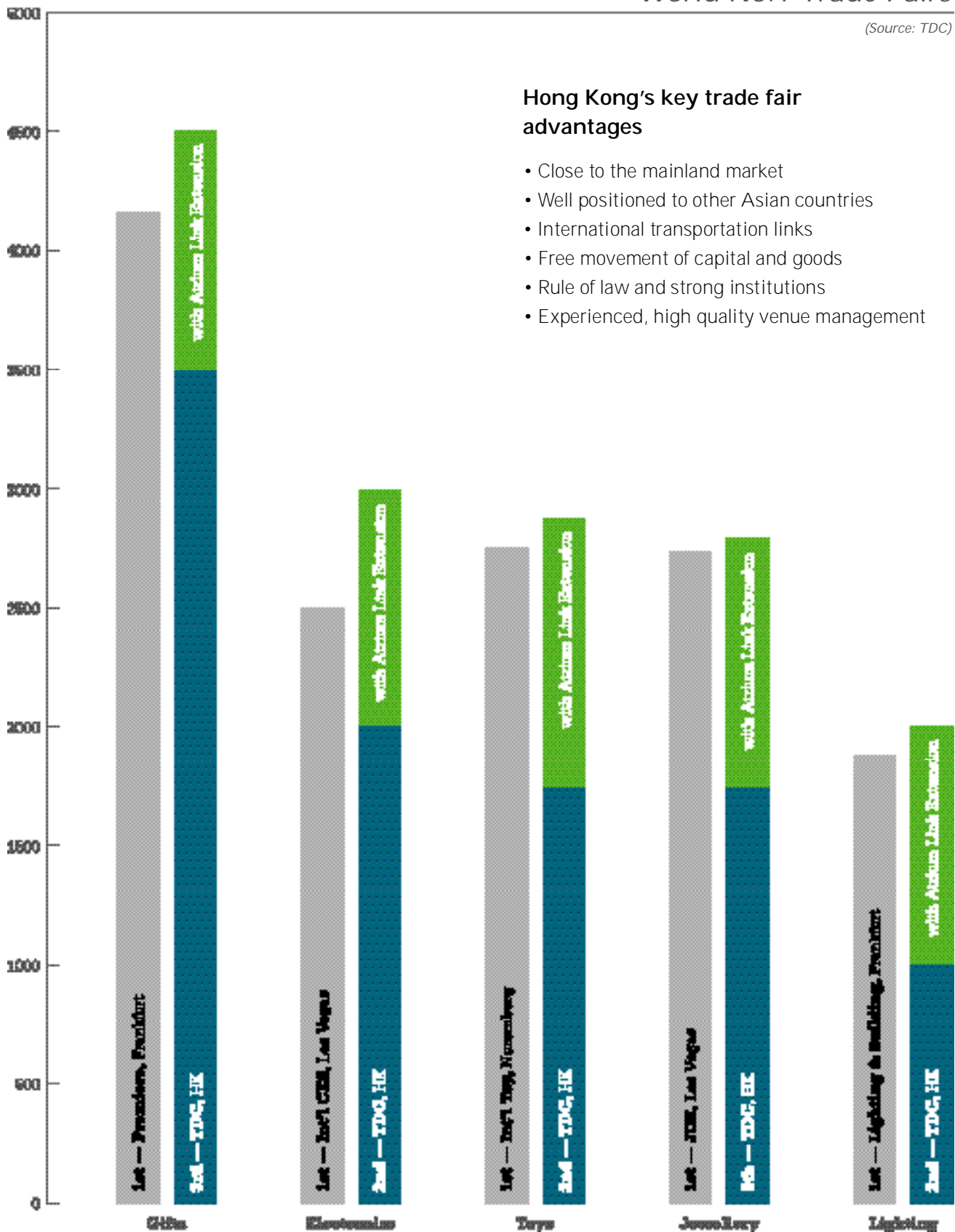
Phase III, to be developed in a format acceptable to the community, remains TDC's long-term vision and solution. However, we believe Asia's trade fair capital simply cannot afford to wait. So far, Hong Kong owns these shows. But the first mover advantage and critical mass we enjoy now can quickly vanish if we do not respond positively to market forces. Venues are fixed, but trade shows can – and do – move to cities able to give them more space, taking business and



With unmet demand and rising external competition, expanding the exhibition capacity of the CEC is a "must" for Hong Kong.

(Source: TDC)

No. of exhibitors



Hong Kong's key trade fair advantages

- Close to the mainland market
- Well positioned to other Asian countries
- International transportation links
- Free movement of capital and goods
- Rule of law and strong institutions
- Experienced, high quality venue management

With additional space from the Atrium Link Extension five TDC trade fairs could be the largest in the world for their industries.



jobs away. Once they leave, there is little hope of getting such events back.

The art of the possible

Hong Kong must not let this happen. That is why TDC is unveiling a separate solution for the medium term. Pragmatic, reclamation free and at nil burden to taxpayers, it represents the art of the possible.

Our proposal is to expand the steel and glass Atrium linking the CEC's Phase I and Phase II buildings. The existing structure would be completely rebuilt, creating 42 per cent more dedicated exhibition space at the CEC in two giant halls. Details of TDC's proposed Atrium Link Extension are provided in this booklet.

We achieve extraordinary leveraging of Hong Kong's previous investment in the CEC by proceeding on the basis of existing space and infrastructure. This creates even greater productivity and efficiency and, as an engineering proposition, offers excellent value for money. If construction starts in 2006, the additional space can come on stream in the first half of 2009. There is not a moment to lose!

It is intended that the estimated HK\$1.2 billion cost of the expansion be borne jointly by TDC (from our own resources, plus bank loans) and the CEC operator. TDC would repay the loans through a combination of future income generated by the expanded facilities, reserves in the Council's CEC Fund and entitlements

from the trade declaration charge that the Government collects from the business community.

In the interim, TDC proposes to rent the Tamar site from the Government for two months each year to satisfy demand on the waiting list until the expanded facility is ready. As a temporary annex nearby, Tamar would take the overflow from our gift and electronics shows in April and October.

A call for action

TDC seeks your support so we may move ahead with this logical next step and elegant solution – and place it on the fast track. By not acting, Hong Kong risks double jeopardy: forfeiting billions of dollars of additional economic benefit from the expansion and losing billions more if existing trade fairs spiral down.

We hope an acceptable way can ultimately be found for TDC to proceed with Phase III, which we firmly believe to be in Hong Kong's best interests, long term. What we propose now, however, should cover Hong Kong in the medium term. And our mega fairs could soon be number one in the world.

Peter Woo, GBS, JP
Chairman

Hong Kong Trade Development Council



Going for Growth

Hong Kong's mega trade fairs have the potential to be number one in the world, generating even more business for our city. A chronic shortage of exhibition space at the Hong Kong Convention and Exhibition Centre (CEC), especially during peak seasons, is preventing this.

This booklet sets out a proposal by the Trade Development Council (TDC) to create additional space at the CEC within the existing site. It would solve the problem in the medium term by:

- *Creating additional space within the existing CEC site*
- *Satisfying current unmet demand from exhibitors*
- *Giving Hong Kong's major fairs essential room to grow*
- *Ensuring Hong Kong retains high-value trade fairs*

In the interim, TDC is proposing to rent the nearby Tamar site from the Government each April and October as a temporary annex for our largest shows, so that waiting-list exhibitors can be accommodated immediately. The Council's Tamar application is now with the Government.

TDC's search for a solution has been driven by the growth needs of the fairs. In proposing the Atrium Link Extension of the CEC, we have borne four key considerations in mind:

- *No reclamation*
- *No burden on taxpayers*
- *No adverse impact on traffic in the area*
- *Minimal architectural impact on the landmark CEC*

The Story So Far



Phase I of the CEC opened in 1988 to provide a permanent home for Hong Kong's major trade fairs, which previously led a nomadic existence in hotels and halls across town. Phase II opened in 1997, more than doubling the venue's designated exhibition capacity to a total of 46,296 sq m. TDC spearheaded both developments.

The CEC's five exhibition halls already operate beyond capacity during peak seasons. Mega shows spill into conference halls, meeting rooms, hallways and even loading areas. Convention business, potentially very lucrative for Hong Kong, has to be sacrificed or even turned away.

In April last year, TDC submitted a plan to the Government for a Phase III extension that would be fully integrated with the existing complex. But this was overtaken by the judicial review of the Government's reclamation plans for Wanchai North.

TDC believes our Phase III concept can be reworked

in a way that is acceptable to the community. However, the Wanchai North review makes it unlikely we can move forward any time soon. Meanwhile, competition is rising from exhibition venues outside Hong Kong. Time is running out.

While Phase III remains TDC's vision and ultimate solution, the in situ CEC expansion we now propose could be ready in a little over four years, providing room for our mega fairs to grow in the medium term.

We have taken into consideration Hong Kong's new exhibition facility, to open next year at the airport. It will be excellent for attracting new types of exhibitions to Hong Kong, especially those that require heavy floor loading. However, the Chek Lap Kok venue cannot solve the shortage of space for mega fairs at the CEC. Part of the pulling power of these events, which are for light consumer goods, is their downtown convenience. The distance between the two venues is simply too great for successfully splitting the location of mega shows.

Pillars of the Economy

A solution is essential because trade fairs are pillars of Hong Kong's economy. They bring business and players to Hong Kong's service platform. The bigger trade fairs are, the faster they grow and the more competitive they become. As noted by TDC Chairman Peter Woo in his foreword, the name of the game is to build critical mass – and the first mover takes all.

Trade fairs are particularly valuable to thousands of local small and medium-sized enterprises (SMEs) that have neither budgets nor staff to travel the world in search of business orders. Trade fairs bring large numbers of the world's serious buyers to them, cost efficiently. The high quality of fairs at the CEC and of the venue's management is another plus.¹ In the 16 years since the CEC opened, Hong Kong has become the undisputed trade fair capital of Asia.

Trade fairs are highly effective tools for promoting Hong Kong's leading export industries. In the past year, TDC's 19 trade fairs, alone, attracted:

- 14,000 exhibitors
- 170,000 local buyers
- 150,000 buyers from outside Hong Kong

TDC is only one player in a flourishing local trade fair industry. More than 60 recurring international trade fairs are held at the CEC, 70 per cent of which are staged by private organisers.

The exhibitions industry brings many benefits to Hong Kong:

- The contribution to Hong Kong's economy in a year is more than HK\$7 billion²
- Every person employed by the industry generates HK\$1.16 million of revenues directly – 1.5 times more than his or her average counterpart across the economy³
- Each spring and autumn, Hong Kong's mega fairs fill 70 per cent of Hong Kong's hotel rooms for weeks at a time
- On average, exhibition visitors stay almost five

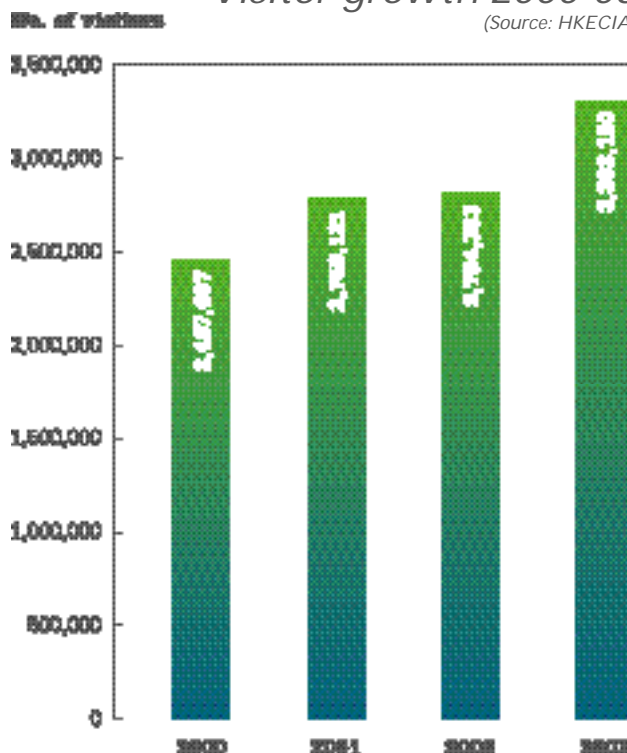
nights, one more than regular tourists, and spend about twice as much⁴

- Local businesses benefit across the board. Apart from hotels, shops and restaurants, they include banks, insurance companies, freight forwarders, transportation firms and, of course, taxis



Visitor growth 2000-03

(Source: HKECIA)



Continued growth in the number of trade fair visitors has helped consolidate Hong Kong's position as the trade fair capital of Asia.

¹ 15 Hong Kong trade fairs held at the CEC are approved by the Paris-based Global Association of the Exhibition Industry (UFI), the industry's leading quality appraiser

² 'The Economic Impact of Hong Kong's Exhibitions Industry 2002', a study conducted for the Hong Kong Exhibition and Convention Industry Association, formerly known as 'ECOSA'

³ Ibid

⁴ Ibid

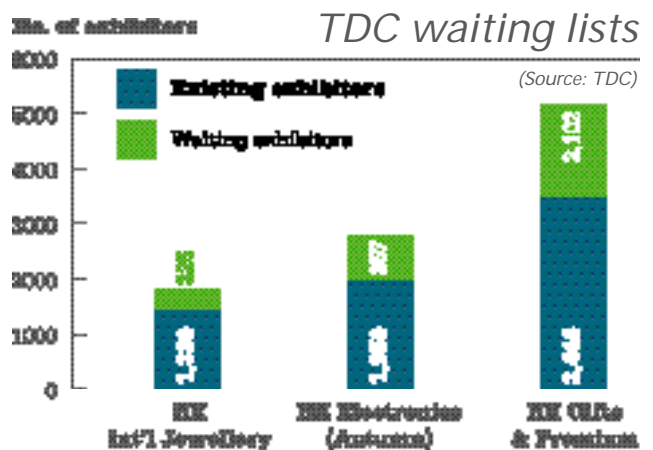
Unmet Demand

Pressure is mounting on TDC and other mega fair organisers for bigger events. The reasons are clear:

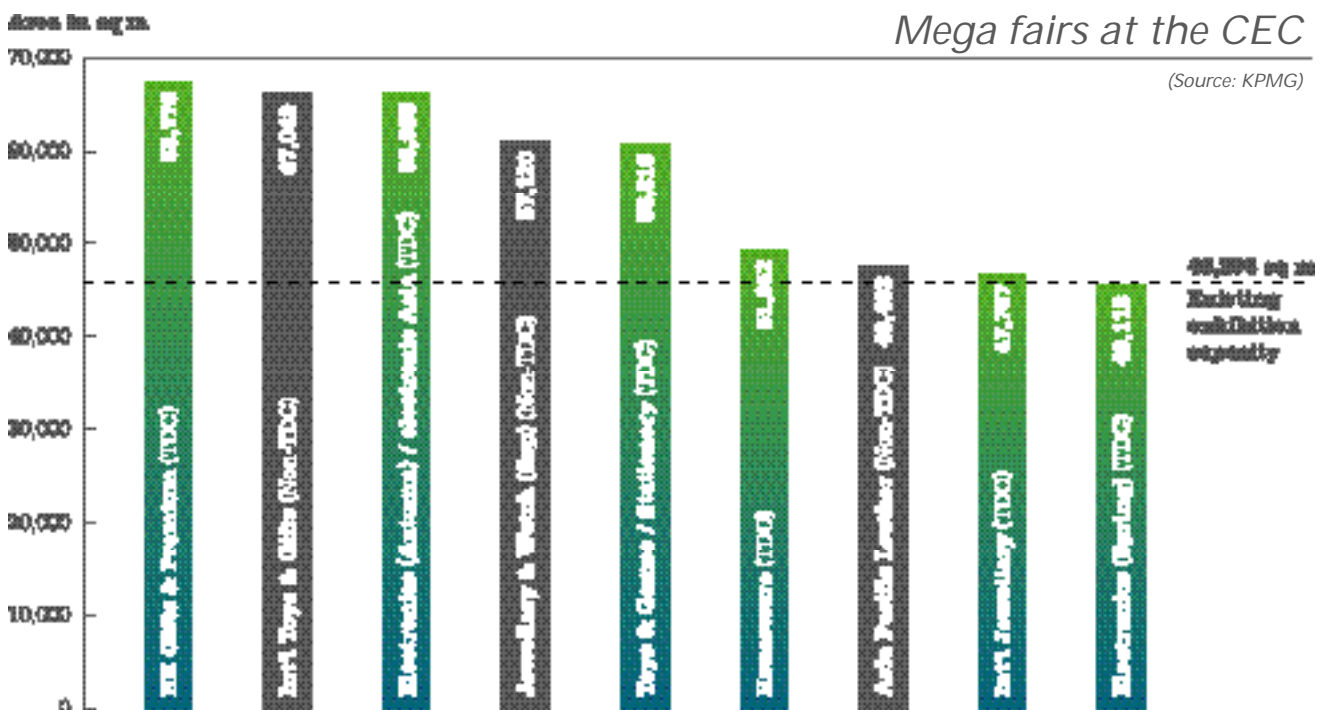
- There are some 3,300 companies on TDC's waiting list, alone
- Exhibitor repeat rates of up to 90 per cent for TDC mega shows mean the chances of getting off the waiting list are slim
- Requests from existing exhibitors for additional booth space cannot be entertained
- Six TDC and three non-TDC shows already have demand that exceeds all available space, including convention halls and meeting rooms
- Few time slots remain at the CEC for spinning off strong sections into separate shows, as TDC earlier did with gifts and houseware

For an up-to-the-minute assessment of market demand, TDC recently surveyed exhibitors. More than 90 per cent of respondents who are waitlisted for TDC's mega fairs said they would join these events if the CEC expanded. More than 50 per cent of existing exhibitors said they would expand their presence if space became available.

Without a solution, the frustration of exhibitors will only get worse. They cannot be expected to wait forever. A constant concern for local organisers is that competing trade fair cities will steal Hong Kong's waiting-list exhibitors. The next few years are crucial.



Despite long waiting lists, demand for TDC's mega shows continues to grow.



Six TDC and three non-TDC fairs have demand that exceeds available space, according to a KPMG study commissioned by TDC.

Rising Competition

Other cities in the region, with large exhibition venues already operating or expanding, are hungry for business.

As a package, Hong Kong's trade fair advantages (see page 2) will always be hard to beat in Asia. However, point-by-point, other cities are catching up fast. TDC commissioned KPMG to do a competitive study of venues in the Pearl River Delta. It concluded that the

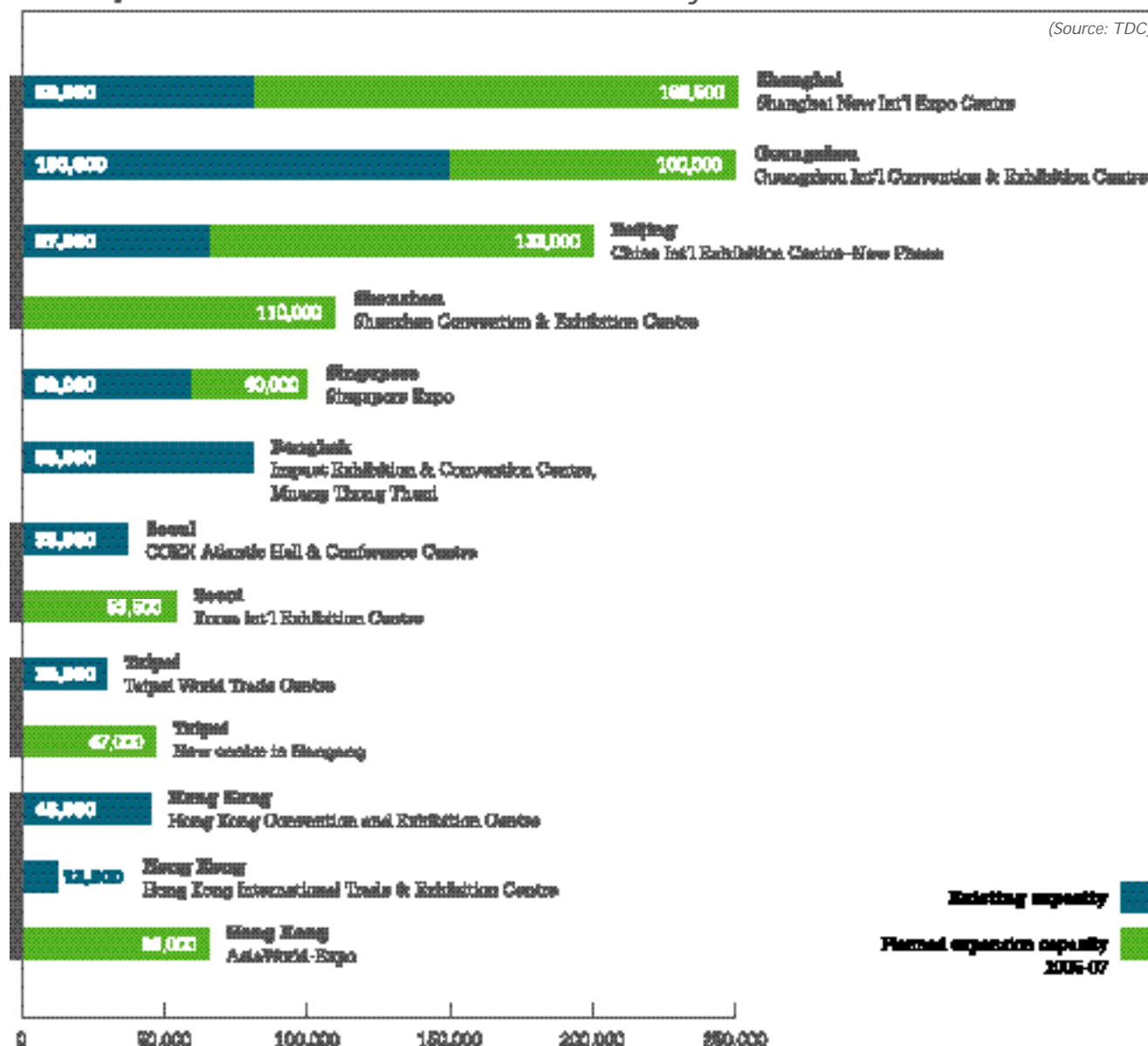
growing exhibitions industry across the boundary would pose a threat to Hong Kong within five to ten years.

If Hong Kong's mega trade fairs cannot grow, competition in neighbouring cities will be harder to beat. To pre-empt this, we must increase the supply of space at the CEC. And soon.

Area in sq m

Major exhibition venues in Asia

(Source: TDC)



A Solution for the Medium Term

TDC's proposal is to expand the physical link between Phases I and II by rebuilding the existing Atrium. It will create an additional 19,400 sq m of exhibition space, boosting total dedicated exhibition space at the CEC by 42 per cent.

This increase is achieved with an increase of only 14 per cent in gross floor area. It thus represents excellent leveraging of the CEC's existing space and infrastructure.

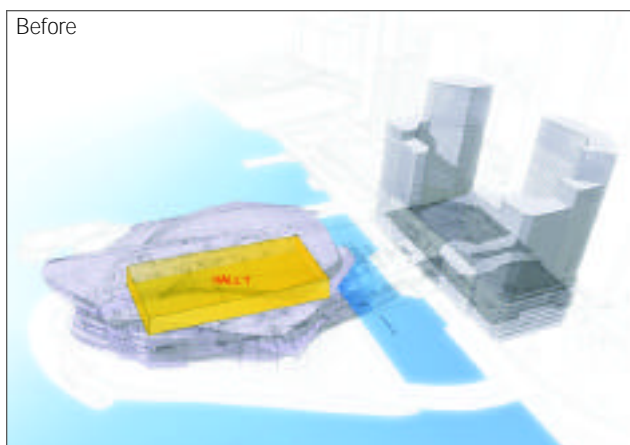
Expanded in this way, the CEC will have two huge halls that, together, can accommodate about 1,000 additional standard booths in a unified exhibition experience. This would be a boon for fairs currently scattered across the facility.

CEC's exhibition hall capacity

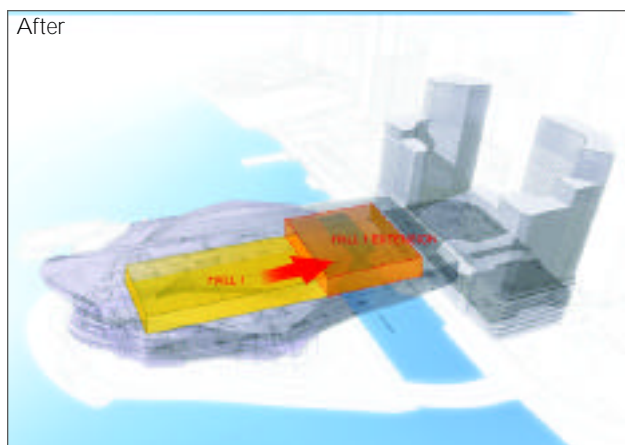
| | | Net capacity (sq m) | Sub-total (sq m) |
|---|------------------|------------------------|---------------------|
| Phase I | Hall 5 | 8,917 | 17,834 |
| | Hall 7 | 8,917 | |
| Phase II | Hall 1 | 12,636 | 28,462 |
| | Hall 2 | 7,728 | |
| | Hall 3 | 8,098 | |
| Phase I + Phase II | | | = 46,296 |
| Proposed expansion | Hall 1 Extension | 9,700 | 19,400 |
| | Hall 2 Extension | 9,700 | |
| Phase I + Phase II + proposed expansion | | | = 65,696 (+42%) |



A computer-generated image of the CEC after completion of the proposed Atrium Link Extension. There is minimal impact on the exterior appearance of the CEC.



An architect's drawing of the CEC before, and after, the proposed expansion of the existing Hall 1.



Key features

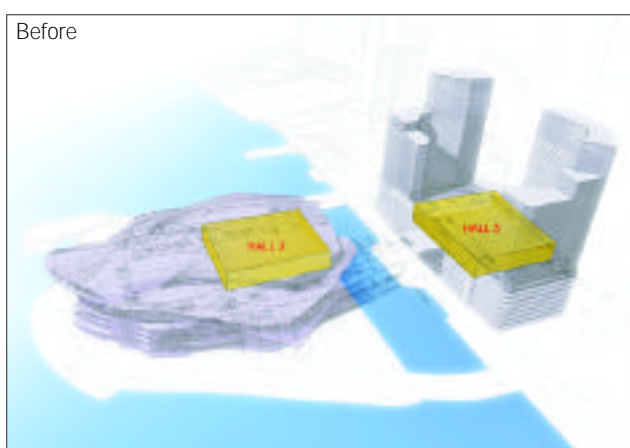
- The existing Hall 1 will expand from 12,600 sq m to 22,300 sq m
- The existing Hall 2 will expand from 7,700 sq m to 17,400 sq m
- The expanded halls will be serviced by extensions to loading docks on the east side of Phase II
- There will be no reclamation (as noted earlier)
- The CEC will retain its landmark architectural features
- The new structure will not block harbour views from nearby buildings (it is within the width and rooflines of Phases I and II)

Construction timetable and costs

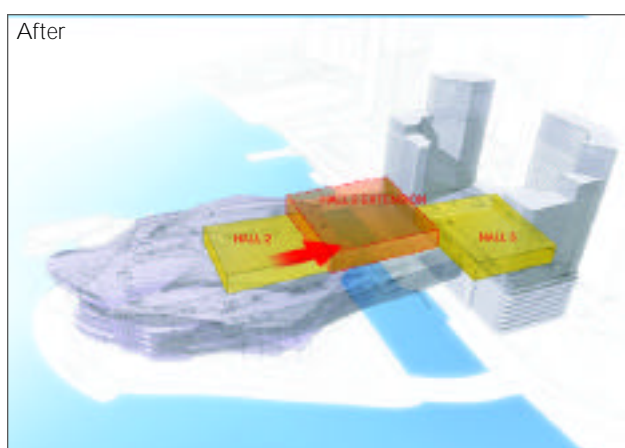
- Subject to planning approvals, construction will begin in January 2006
- Anticipated completion will be in the first half of 2009
- Development costs are estimated at HK\$1.2 billion, including professional fees

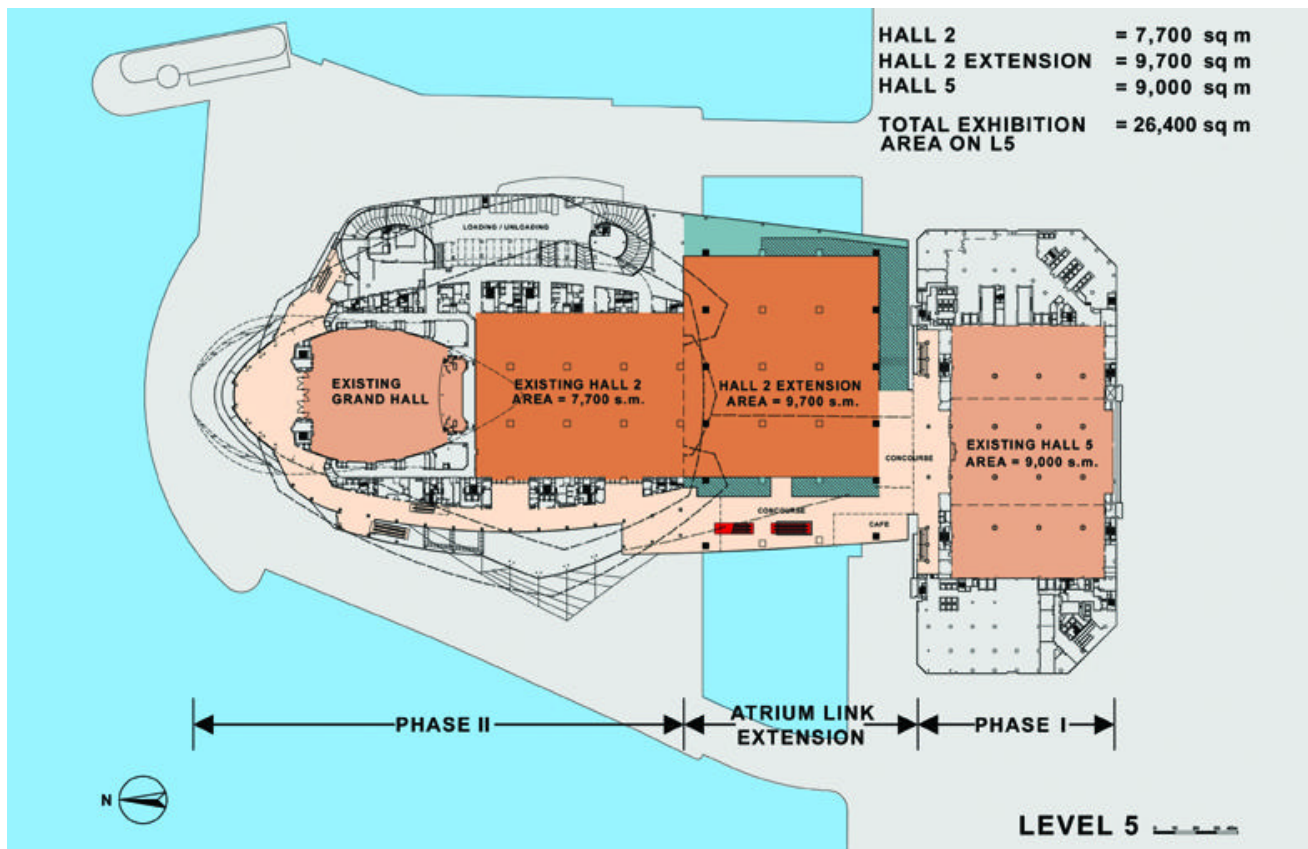
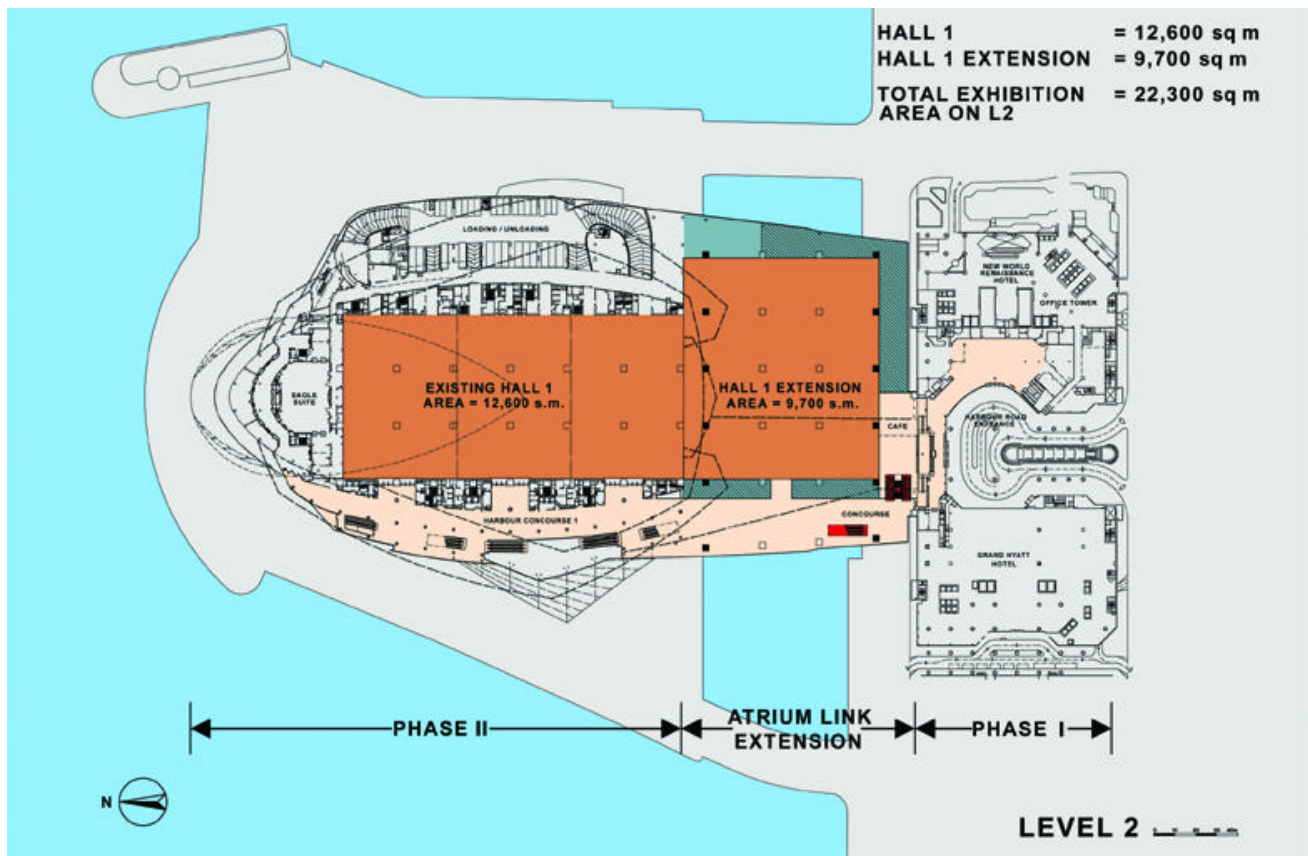
Environmental and other considerations

- Large steel girders will span the existing water channel between Phases I and II, obviating any need for marine foundations
- Steel from the existing atrium link will be re-used or recycled

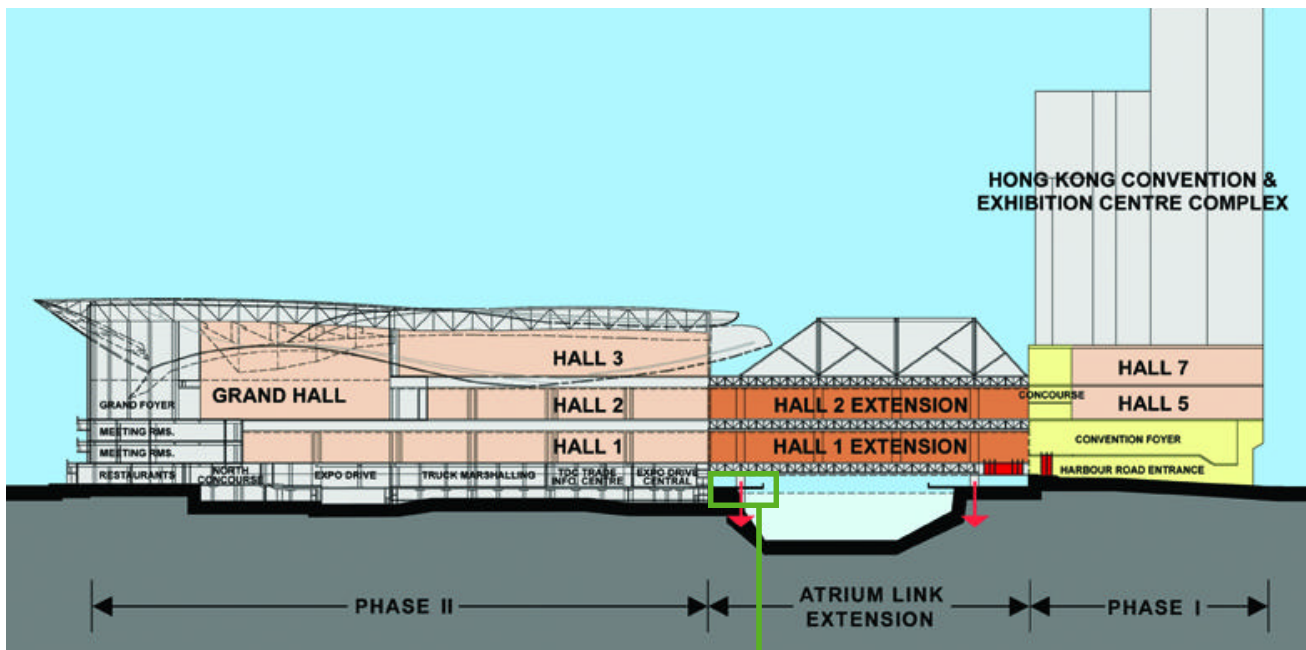


An architect's drawing of the CEC before, and after, the proposed expansion of the existing Hall 2.





Floor plans for the Atrium Link Extension.



A cross-section view of the Atrium Link Extension.

- The choice of steel for the structural framework minimises use of timber and concrete
- The main structure will arrive pre-fabricated, mitigating on-site construction time, noise and waste
- It will be transported to the site by marine vessels, reducing road congestion and traffic pollutants
- Glass surfaces will be coated to reduce heat penetration without sacrificing natural light
- The new structure will be fully integrated with the CEC's electrical and mechanical systems
- Contractors will be required to follow government and industry best practices for safety procedures, noise and waste reduction

Traffic management

During construction:

- The use of marine vessels to transport equipment and construction materials will mitigate the impact on the surrounding road and pedestrian networks
- The eastern road bridge linking Phases I and II will act as a construction platform and will thus be closed to road traffic



Two more lanes alongside Phase II (highlighted in green), plus re-routing of traffic at the CEC island, will accommodate additional vehicular traffic during trade fairs. With other traffic management measures, these would further improve the efficiency of loading activities and minimise the impact on public roads.⁵

- Additional traffic management schemes will be implemented to mitigate any impact on the road and pedestrian network

On completion:

- Two lanes will be added to the existing road system around Phase II (see diagram above). This will increase vehicle marshalling capacity by more than 50 per cent

⁵ Source: MVA Hong Kong Ltd, a consultant commissioned by TDC to

Additional Economic Benefits

TDC commissioned consultants to study additional economic benefits to Hong Kong that are likely to arise from the expansion.⁶

In the first year of operation, alone, the additional space is anticipated to yield 76,500 more exhibition-related visitors and HK\$1.46 billion more expenditure in the economy. This exceeds the total cost of construction.

Cumulatively, the additional economic benefit for Hong Kong between 2009 and 2025 is estimated to be:

- HK\$40 billion in additional expenditure
- 92,000 more jobs

Billions more dollars will be generated in direct business orders for exhibitors at events in the expanded facility. Meanwhile, the catalytic value of increasing Hong Kong's competitiveness as a business and tourism centre is inestimable.



Summary of economic benefits

| Economic benefit | 2009 | 2015 | 2020 | 2025 | Cumulative benefits (2009-25) |
|--|--------|--------|---------|---------|----------------------------------|
| Net additional exhibition-related visitors | 76,500 | 95,600 | 130,600 | 154,700 | 1,908,000 |
| Net expenditure benefit (HK\$ million) | 1,460 | 1,820 | 2,470 | 2,950 | 39,490 |
| Net jobs created | 3,630 | 4,540 | 6,170 | 7,340 | 91,700 |

In addition to the permanent benefits generated by the proposed expansion, the construction period will create an estimated 1,130 jobs (KPMG study).

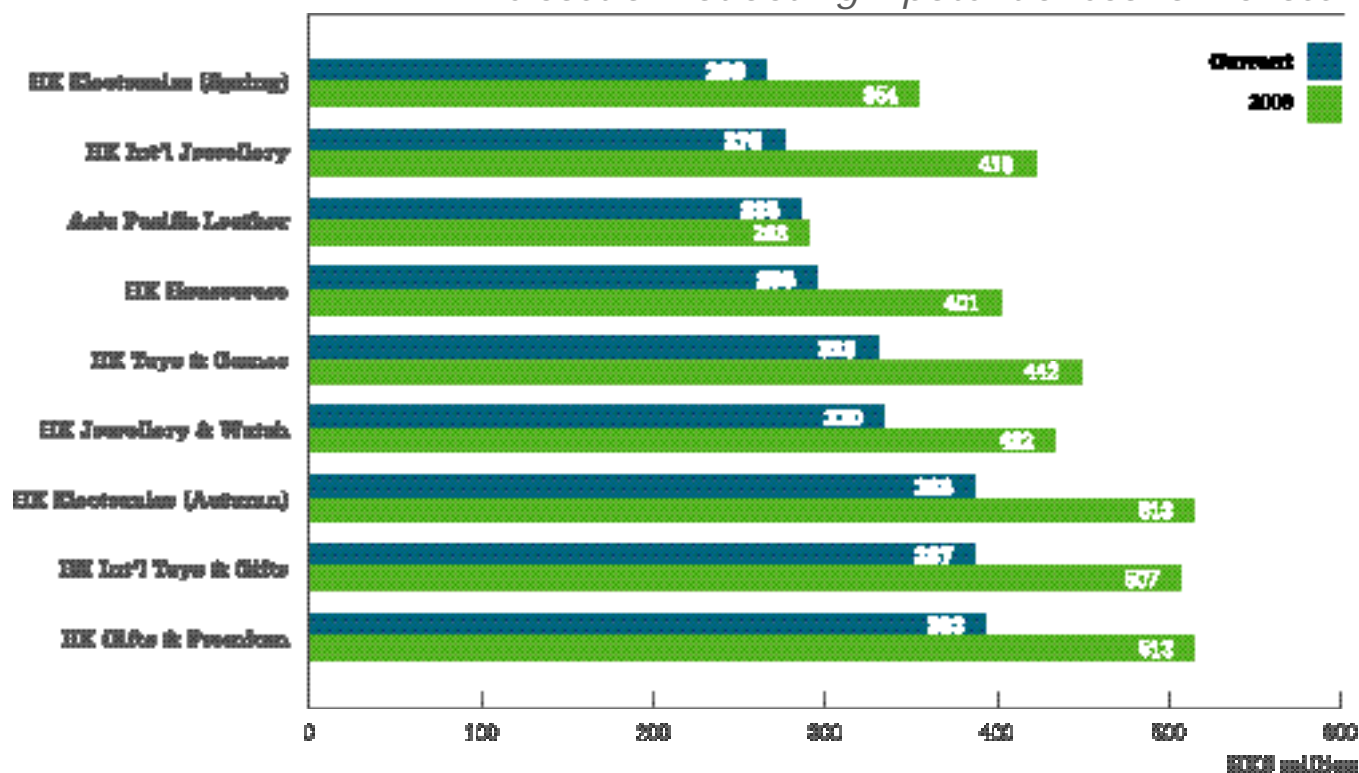
Not acting will be costly

Conversely, there will be a significant negative economic impact if Hong Kong fails to act (see chart over page). By not expanding the CEC, Hong Kong risks losing exhibitors to external competitors. Once gone, trade fairs are near impossible to recapture. If

just one mega fair were to leave Hong Kong tomorrow, the potential loss to the city would be close to HK\$400 million in expenditure and 1,000 jobs. Meanwhile, the loss to local industries in terms of missed business orders would be potentially disastrous.

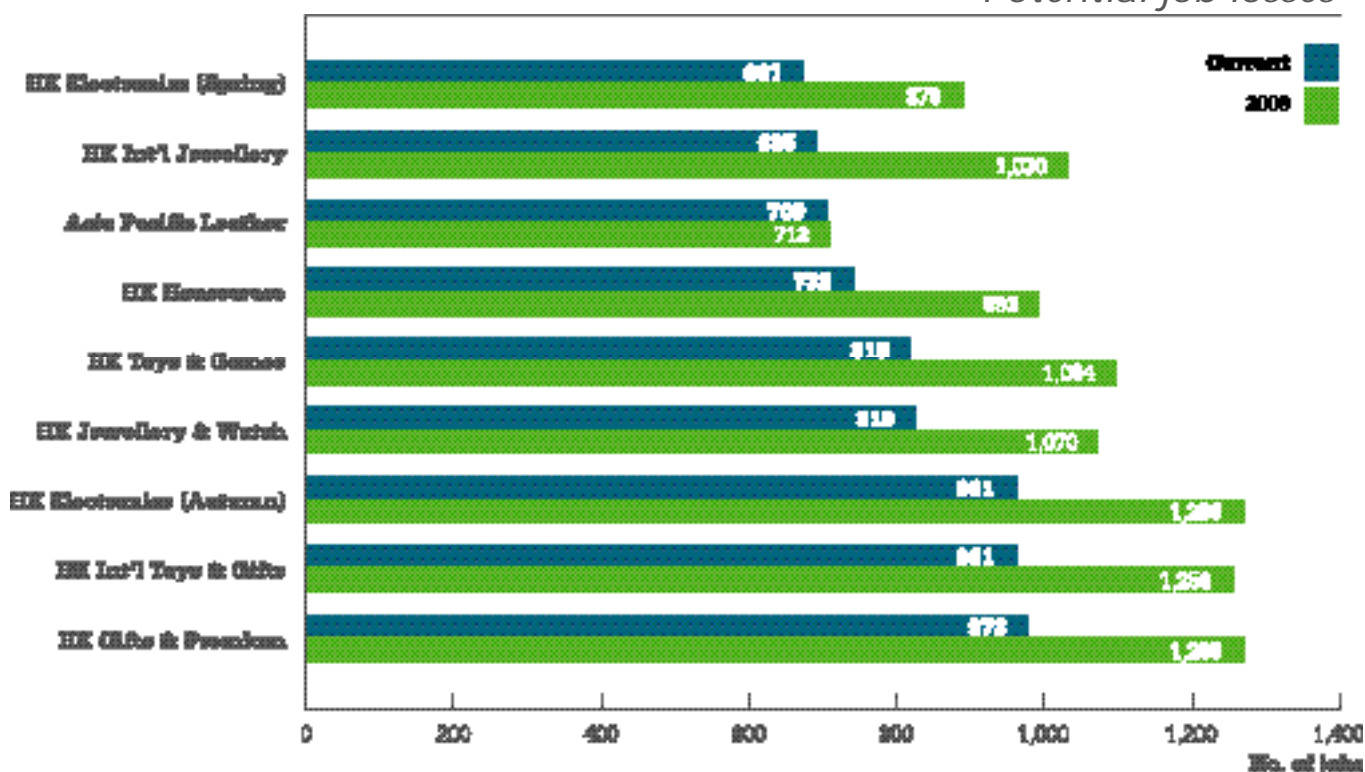
⁶ <http://www.tdc.gov.hk/eng/press/2007/07/07070701.htm>

The cost of not acting – potential economic loss



The economic loss if Hong Kong was to lose a single major trade fair, is between HK\$250-400 million in the current year, alone.

Potential job losses



Losing a single major Hong Kong trade fair would result in the loss of up to 1,000 jobs in current year terms. The losses would multiply significantly by 2009, if the CEC were not expanded.

A Sound Financing Proposal

TDC is a firm believer in the user-pay principle that has served Hong Kong well for many years. The Council thus proposes two sources of funding for the Atrium Link Extension:

- Bank loans taken out by TDC, which is the largest individual user of the CEC
- Contributions from the venue operator⁷, who is willing to contribute financially in exchange for the right to operate the expanded facilities

TDC proposes to repay the bank loans through a combination of:

- Future income generated by the expanded facilities
- Reserves in the Council's CEC Fund, and
- Entitlements from the trade declaration charge that is collected by the Government from the business community.

We believe this is reasonable, pragmatic and sound as a basis for financing the expansion project.



⁷ Hong Kong Convention and Exhibition Centre (Management) Ltd, a NWS



Above is an artist's impression of a huge hall at the expanded CEC which can accommodate about 1,000 more exhibitors at each trade fair, enabling Hong Kong's mega shows to become world leaders.



Conclusion: Backing a Winner

With the Atrium Link Extension, a total of 10,000 more exhibitors could be accommodated at the most popular trade fairs held at the CEC each year. Among them, five TDC fairs could become the largest of their kind in the world – namely, gifts, electronics, toys, jewellery and lighting. TDC's houseware show would be second in the world behind Frankfurt's giant Ambiente fair.

The additional space would allow TDC and other organisers to further improve the quality of existing shows by having greater flexibility to design exhibition layouts. TDC would introduce additional customer services and entertainment to make our shows even more efficient and enjoyable for participants.

New peak period exhibitions could be accommodated that currently cannot fit on the CEC's event calendar. The release of non-exhibition space currently occupied by exhibitions at peak periods would enable Hong Kong to host more conventions and corporate events at the CEC.

It is an exciting prospect. Hong Kong has a proven winner with the mega trade fairs held at the CEC. With room to grow, they will bring even greater riches to Hong Kong's economy and to the SMEs that drive our external trade. TDC's proposal is a logical next step towards achieving this goal – and a practicable solution. We seek your support.