

CHAPTER 5

**Commerce and Economic Development Bureau
Tourism Commission**

Kai Tak Cruise Terminal

**Audit Commission
Hong Kong
3 April 2017**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 68 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

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KAI TAK CRUISE TERMINAL

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KAI TAK CRUISE TERMINAL

Executive Summary

1. In October 2006, the Government informed the Legislative Council (LegCo) that the Government was committed to developing Hong Kong into a regional cruise hub. In November 2009, the Finance Committee (FC) of LegCo approved the site formation works for the new cruise terminal at Kai Tak at an estimated cost of \$2,304 million. The FC further approved in April 2010 the construction of the cruise terminal building and ancillary facilities at an estimated cost of \$5,852 million. The terminal building and the first berth of the Kai Tak Cruise Terminal (KTCT) commenced operation in June 2013. The second berth commenced operation in September 2014. In its first full year of operation in 2014, the KTCT received 28 ship calls involving 48 days of operation and passenger throughput of 130,608. The number of ship calls increased to 95 involving 105 days of operation and passenger throughput of 424,868 in 2016. As at 28 February 2017, the total actual project expenditure for the KTCT was \$6,613 million.

2. The KTCT has a total floor area of 188,952 square metres (m²). In March 2012, the Government awarded a ten-year Tenancy Agreement (TA) to a terminal operator through an open tender. The Government has leased 120,402 m² of the KTCT to the terminal operator for operation and management for ten years commencing in June 2013. Under the TA, the terminal operator is required to pay a fixed rent of \$13 million for the ten-year operation and a variable rent (ranging from 7.3% to 34% of the annual gross receipts of the operator). The communal areas, government offices and the KTCT Park have not been leased to the terminal operator. The facility management services for the communal areas and government offices are outsourced to a contractor. The KTCT Park is managed by the Leisure and Cultural Services Department. Operation and maintenance services for certain electrical and mechanical systems and equipment in various parts of the KTCT are provided by the Electrical and Mechanical Services Trading Fund (EMSTF). The Tourism Commission (TC) under the Commerce and Economic Development Bureau is responsible for monitoring the operation of the KTCT and works closely with the Advisory Committee on Cruise Industry (ACCI) in developing Hong Kong into a leading regional cruise hub. The Audit Commission (Audit) has recently conducted a review of the KTCT.

Developing Hong Kong into a leading regional cruise hub

3. *Achievement of expected economic benefits brought by the cruise industry.* In November 2008, the Government informed LegCo that the economic benefits to be brought by the cruise industry would range from \$859 million to \$1.1 billion per annum by 2013 and \$1.5 billion to \$2.5 billion per annum by 2016. In November 2009 and April 2010, the Government informed the FC in the funding applications that with the availability of the new cruise terminal facilities and appropriate market strategies, the economic benefits to be brought by the cruise industry under different growth scenarios would range from \$1.5 billion to \$2.6 billion per annum and around 5,300 to 8,900 additional jobs would be generated by 2023. 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 compared the actual number of ship calls and passenger throughput and average per-passenger spending with the estimated figures used in making the estimation. Audit found that: (a) 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 respectively. According to the TC, the average passenger carrying capacity of the cruise ships berthed at the KTCT in 2016 was larger than the capacity used in the economic model; (b) 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; and (c) the average per-passenger spending of cruise passengers visiting Hong Kong was short of the spending assumed in the economic model (paras. 2.7, 2.8 and 2.10 to 2.12).

4. *Driving ship calls to Hong Kong.* To develop Hong Kong into a leading regional cruise hub, one of the strategies adopted by the TC is to drive more ship calls to Hong Kong. The utilisation rates of the KTCT 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. Audit noted that the KTCT had the capacity to receive more cruise vessels even at the peak seasons. For the peak seasons of 2015 and 2016, the total number of days when both berths were utilised were only 5 and 14 respectively (paras. 2.17 to 2.19).

Monitoring performance of terminal operator

5. ***Vibrancy of the KTCT.*** The TA stipulates that the terminal operator shall use its best endeavours to keep the ancillary commercial area fully let or occupied. Audit noted that, as at 1 March 2017, of the 5,601 m² of ancillary commercial area, 2,695 m² (48.1%) was let and open for business. The remaining 2,906 m² (51.9%) was not open for business. Of the 2,906 m², the sub-tenancy of 2,196 m² (39.2%) was terminated and was under legal proceedings, 355 m² (6.3%) had not been leased out, and 355 m² (6.3%) was leased out in January 2017 for the first time and was currently under renovation. Audit visited the KTCT on three ship call days on 4 November 2016, 6 December 2016 and 17 January 2017, and found that the visitor traffic to the ancillary commercial area was not high. The TC informed LegCo in November 2014 that the KTCT was also used as an event venue during non-cruise days with a view to better utilising the terminal facilities and increasing number of visitors. In the period from its commissioning in June 2013 to December 2016, 38 non-cruise events (involving 67 event days and 85 days for setting up and dismantling) were held at the KTCT. The TC needs to continue to urge the terminal operator to promote the use of the KTCT as a venue for non-cruise events with a view to bringing more visitors to the KTCT (paras. 3.6, 3.7 and 3.11 to 3.13).

6. ***Performance monitoring of the terminal operator.*** The TC monitors the performance of the terminal operator through a set of service pledges and performance indicators specified in the TA. The TA stipulates that the terminal operator shall propose the service pledges for the approval of the TC, publish the approved service pledges within one month prior to the commencement date of the business, and prepare a report on compliance with the service pledges annually within two months after the end of each calendar year. Audit found that the service pledges had not been approved. The terminal operator had not published the service pledges until January 2017 and had not submitted annual reports on compliance with the service pledges for 2013, 2014 and 2015 until 30 December 2016. Furthermore, Audit reviewed the existing service pledges and found room for improvement. The TC may consider expanding the coverage of the service pledges to include, for example, satisfaction of cruise passengers, embarkation and disembarkation arrangements for turnaround call passengers, and baggage handling process. Service pledges should be reviewed periodically to ensure that they are challenging. The terminal operator had met and exceeded all the service pledges since 2013. For instance, one of the service pledges is that disembarking port-of-call passengers should spend less than 20 minutes to traverse the distance

Executive Summary

from shipside to kerbside, but the actual time spent by passengers in 2013 to 2015 was only 4.5 minutes. Audit also found that the terminal operator had not fulfilled four TA requirements related to market consultation forum, operation and maintenance reports submission, written report on ancillary commercial area submission and information dissemination on website (paras. 3.16 to 3.18 and 3.20 to 3.22).

Administrative issues

7. **Transport connectivity.** Audit found that there was room for improvement for transport connectivity. The number of malls providing free shuttle bus services connecting the KTCT to the malls near Mass Transit Railway stations in Kowloon East had decreased from three in 2013 to two in 2015. It was likely that the free shuttle bus service provided by a mall in Diamond Hill might not be able to sustain in the long run. The franchised buses departing from the KTCT with stops at Mass Transit Railway Ngau Tau Kok Station and Kwun Tong were not equipped with luggage storage facilities and the patronage was not high. Audit made a site visit to the KTCT on 17 January 2017 and observed that while there were a large number of cruise passengers waiting for taxi, there were also many taxis waiting for passengers at the taxi queuing spaces. Only 6 of the 18 taxi pick-up points were available for boarding. The TC needs to review whether more pick-up points can be made available during peak hours. Under the TA, the terminal operator is required to submit a traffic management plan to the Government for approval. The terminal operator informed the TC that prior to the opening of the second berth, the traffic management plan would be updated. However, the terminal operator had not submitted the updated traffic management plan for the TC's approval until 27 February 2017 (paras. 4.3, 4.4 and 4.6).

8. **Usage of KTCT facilities.** There is a video wall (measuring 60 metres by 3.7 metres) installed on the external wall of the terminal building for displaying messages and advertisements. Since the commissioning of the KTCT in 2013, the video wall has not been let out and has not generated any income. Moreover, Audit conducted site visits on 4 November 2016 and 17 January 2017 and found that the video wall was not functioning properly. Two plant rooms (occupying a total area of 1,100 m²) are reserved at the KTCT for setting up the on-shore power supply system. In June 2015, the installation of the system was put on hold. The plant rooms have been used temporarily by the EMSTF since 2015. There is a need to review the optimal use of the two rooms (paras. 4.11 to 4.15).

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9. ***Monitoring performance of contractor on facility management services.***

According to the contracts, the TC may carry out joint site inspections with the contractor to inspect the quality of services provided. Audit noted that no joint site inspections were carried out under the first contract. The first joint site inspection under the current contract (commencing June 2015) was carried out in February 2016. Audit review of the joint site inspection records revealed that during the inspections, only the attendance of contractor staff was checked instead of the quality of services. Furthermore, the TC had not issued any guidelines or checklists for site inspections to ensure that the site inspections are carried out effectively and consistently to monitor the quality of the services provided by the contractor (para. 4.22).

10. ***Maintenance of KTCT facilities.*** The TC and the EMSTF signed a service level agreement for ten years from 1 June 2013. According to the agreement, the EMSTF is required to submit half-yearly performance reports on the actual performance of the engineering systems compared with the specified targets. However, the EMSTF had only submitted five reports for the seven half-yearly periods from 1 June 2013 to 31 December 2016. There were 256 maintenance cases reported to the Architectural Services Department and the EMSTF during the period from January 2015 to December 2016 relating to water leakage/seepage, representing 22% of all maintenance cases. Audit analysed 83 water leakage/seepage cases reported by the terminal operator in 2016 and noted that 67 locations were involved. For 12 of the 67 locations, water leakage/seepage occurred more than once and for 3 of the 12 locations, water leakage/seepage occurred more than twice. Audit analysed the 98 fault cases of lifts/escalators reported in 2015 and 2016 and noted that fault cases had been reported for 21 (27%) of the 78 lifts/escalators, although many were caused by improper operation. Of the 78 lifts/escalators, 7 (9%) had fault cases more than 5 times. One of them had fault cases 17 times during the period (paras. 4.25 to 4.27 and 4.29 to 4.31).

11. ***Attendance at ACCI meetings.*** The ACCI advises the Government on measures to enhance the development of Hong Kong as a regional cruise hub. Audit examination of the attendance records up to February 2017 of the 12 current ACCI members during their tenures revealed that the attendance rates of some members were on the low side. Three members had average attendance rates below 50%. Audit also noted that the two members with the lowest attendance rates had each been reappointed twice despite their low attendance rates in their previous terms (paras. 4.36 to 4.38).

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12. ***Strategic planning.*** A structured strategic planning process could be a useful means of soliciting advice and securing support from key stakeholders in the cruise and tourism industry. From time to time, the TC analysed the situations of the cruise industry and the possible strategic directions for developing Hong Kong into a leading regional cruise hub. There is merit for the TC to produce a document in the form of a Strategic Plan, incorporating all the elements of strategic planning (paras. 4.43 and 4.44).

Audit recommendations

13. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in the Executive Summary. Audit has *recommended* that the Commissioner for Tourism should:**

Developing Hong Kong into a leading regional cruise hub

- (a) **as soon as the KTCT has gathered sufficient operational experience, conduct a mid-term assessment on the progress made by the cruise industry in achieving the expected economic benefits and the prospect of realising the expected benefits by 2023 (para. 2.15(a));**
- (b) **take further measures to drive more ship calls to the KTCT (para. 2.20(a));**

Monitoring performance of terminal operator

- (c) **urge the terminal operator to continue its efforts to lease out the unlet ancillary commercial area at the KTCT (para. 3.14(a));**
- (d) **continue to urge the terminal operator to promote the use of the KTCT as a venue for non-cruise events (para. 3.14(d));**
- (e) **ensure that the service pledges on the performance of the terminal operator are approved by the TC (para. 3.23(a));**

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- (f) ensure that the terminal operator complies with all the requirements under the TA (para. 3.23(b));
- (g) ensure that comprehensive service pledges covering all major areas of operation and management of the KTCT are set to facilitate the monitoring of the performance of the terminal operator (para. 3.23(c));
- (h) review the service pledges on the performance of the terminal operator periodically to ensure that they are meaningful, challenging and achievable (para. 3.23(d));

Administrative issues

- (i) in collaboration with the terminal operator, continue to critically review the overall transport arrangement to ensure that effective and efficient transport services are provided (para. 4.8(g));
- (j) ensure that the traffic management plan is updated regularly by the terminal operator and is approved by the TC (para. 4.8(f));
- (k) urge the terminal operator to endeavour to let out the video wall (para. 4.16(a));
- (l) monitor the proper functioning of the video wall regularly and ensure that repair work for the video wall is carried out in a timely manner (para. 4.16(c));
- (m) review whether the current temporary use of the two spare on-shore power supply system plant rooms by the EMSTF represents the optimal use (para. 4.16(d));
- (n) ensure that joint site inspections are carried out in a way that is effective in monitoring the quality of the services provided by the contractor (para. 4.23(c));

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- (o) ensure that the EMSTF submits half-yearly performance reports in a timely manner, and include in the reports the actual performance (para. 4.32(a));
- (p) in collaboration with the Architectural Services Department, take effective measures to address the water leakage and seepage problem (para. 4.32(b));
- (q) in collaboration with the EMSTF, take effective measures to address the problem of lifts/escalators fault cases (para. 4.32(d));
- (r) take measures to improve the attendance rates of ACCI members with low attendance records and in future give due consideration to the attendance records of members when considering their reappointments (para. 4.40);
- (s) develop a Strategic Plan incorporating elements such as strategic objectives, strategic directions and strategic actions (para. 4.45(b)); and
- (t) review and update the Strategic Plan periodically to take into account changes in the cruise industry (para. 4.45(c)).

Response from the Government

14. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The development of a new cruise terminal in Hong Kong was first mooted in 1999. Studies commissioned by the Tourism Commission (TC) and the Hong Kong Tourism Board (HKTB) in the 2000's found that:

- (a) the cruise industry was one of the fastest growing segments of the worldwide travel and leisure industry;
- (b) Hong Kong was well placed to become a regional cruise hub because of its world-class infrastructure and tourism facilities; and
- (c) the berthing facilities at the Ocean Terminal were inadequate to meet the growing demand, in particular during peak seasons and in accommodating cruise vessels with displacement tonnage over 50,000, which could not be berthed at the Ocean Terminal because of their sizes.

The studies concluded that Hong Kong would require an additional berth between 2009 and 2015, and one to two further berths beyond 2015 to sustain its development as a regional cruise hub.

1.3 In October 2006, the Government informed the Legislative Council (LegCo) that:

- (a) the Government was committed to developing Hong Kong into a regional cruise hub;
- (b) a new cruise terminal would be developed on the 7.6 hectares of land at the southern end of the former runway at Kai Tak Development through an open land tender;

Introduction

- (c) the new cruise terminal facilities 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; and
- (d) with the availability of the new cruise terminal facilities and appropriate marketing strategies, it was estimated in a consultancy study commissioned by the Government that under different growth scenarios, the economic benefits would be \$1.4 billion to \$2.2 billion per annum by 2020, and some 6,900 to 10,900 employment opportunities would be generated by 2020.

1.4 In November 2007, the Government issued an open land tender requiring that the successful tenderer would, at its own cost, form the site as well as design, build and operate the berths, ancillary facilities and commercial areas of the new cruise terminal. Since none of the tender submissions fully conformed with the tender requirements, the Government subsequently cancelled the tender.

1.5 On the grounds that the requirement for the successful tenderer to fund the site formation works, the Government facilities and the landscaped deck would undermine the business viability of the project, the Government decided in September 2008 to fund, design and build the new cruise terminal and lease it to a terminal operator after completion.

1.6 In November 2009, the Finance Committee (FC) of LegCo approved the site formation works for the new cruise terminal at Kai Tak at an estimated cost of \$2,304 million. The FC further approved in April 2010 the construction of the cruise terminal building and ancillary facilities at an estimated cost of \$5,852 million. In October 2012, the new cruise terminal development was officially named Kai Tak Cruise Terminal (KTCT — see Photograph 1). The terminal building and the first berth commenced operation in June 2013. The second berth commenced operation in September 2014. To accommodate the world's largest cruise vessels in both berths simultaneously, further dredging works for the second berth commenced in March 2015 and were completed in December 2015. As at 28 February 2017, the total actual project expenditure of the KTCT was \$6,613 million (see Table 1), and the actual recurrent expenditure for 2015-16 was about \$130 million.

Photograph 1

KTCT



Source: TC records

Table 1

Development and construction costs of the KTCT
(28 February 2017)

Works	Date of FC approval	Approved expenditure (\$ million)	Actual expenditure (\$ million)
Site formation	20 November 2009	2,304	1,360
Cruise terminal building and ancillary facilities	30 April 2010	5,852	5,253
Total		8,156	6,613

Source: TC records

Remarks: As at 28 February 2017, the project accounts for the site formation works and the cruise terminal building and ancillary facilities works had not been finalised pending the completion of settlement of claims and variation orders.

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Facilities at the KTCT

1.7 The KTCT has a total floor area of 188,952 square metres (m²) shared among the following facilities:

Managed by the terminal operator (120,402 m²)

- (a) ***Apron area (28,263 m²).*** The apron area (see Photograph 2) is part of the berthing facilities to facilitate embarkation and disembarkation of cruise passengers, loading and unloading of cruise supplies and provision, and provision of other supporting services. Facilities installed thereon include passenger boarding bridges, apron lighting system, on-shore fresh water supply and on-shore sewage collection systems. Two plant rooms are reserved for installation of on-shore power supply system;

Photograph 2

Apron area



Source: Photograph taken by Audit Commission on 4 November 2016

- (b) ***Terminal operation area (30,685 m²).*** The terminal operation area (see Photograph 3) accommodates the supporting facilities such as security screening, baggage handling, ticketing, check-in, passenger waiting and queuing areas, and concourse;

Photograph 3

Passenger waiting area at terminal operation area



Source: TC records

Introduction

- (c) *Ancillary commercial area (5,601 m²).* Facilities at the ancillary commercial area (see Photograph 4) are retail shops, a money exchange shop, the visitor information services counter of the HKTB, and a Chinese restaurant and other eateries;

Photograph 4

An eatery at the ancillary commercial area

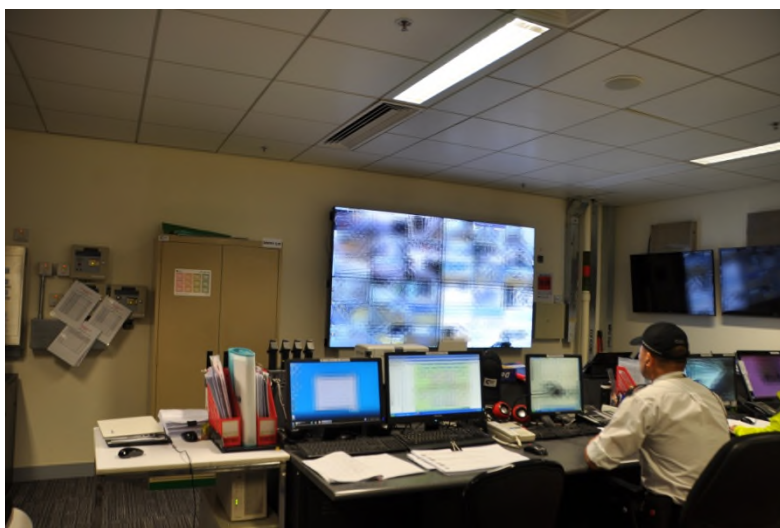


Source: Photograph taken by Audit Commission on 4 November 2016

- (d) *Ancillary office area (843 m²).* The ancillary office area (see Photograph 5) is used for office ancillary to cruise terminal operation, security operations centres, maintenance office, stevedores' offices and equipment room;

Photograph 5

Office of the terminal operator at ancillary office area



Source: Photograph taken by Audit Commission on 4 November 2016

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- (e) *Transportation area (50,215 m²).* The transportation area (see Photograph 6) includes the driveways, spaces for circulation and queuing, as well as pick-up and drop-off areas for various types of vehicles;

Photograph 6

Waiting area for taxi at transportation area



Source: Photograph taken by Audit Commission on 4 November 2016

- (f) ***Parking area (4,795 m²).*** There are 132 parking spaces and 11 loading/unloading spaces in the parking area (see Photograph 7);

Photograph 7

Parking spaces at parking area



Source: TC records

Introduction

Managed by the Government (68,550 m²)

- (g) **Communal area (36,570 m²).** The communal area mainly comprises space for the public and for circulation (e.g. podium gardens (see Photograph 8), public colonnade, etc.);

Photograph 8

Communal area



Source: TC records

- (h) ***Government offices (8,980 m²).*** They include the Customs, Immigration, Quarantine and Police facilities (see Photograph 9) for the cruise terminal operation and the offices of the Immigration Department, the Customs and Excise Department, the Hong Kong Police Force, the Department of Health, the Marine Department and the Leisure and Cultural Services Department (LCSD); and

Photograph 9

Office of Department of Health for body temperature check



Source: Photograph taken by Audit Commission on 4 November 2016

Introduction

- (i) ***KTCT Park (23,000 m²).*** The KTCT Park (see Photograph 10) is a landscaped deck with passive amenities. It is located on the roof of the terminal building. The KTCT Park is managed by the LCSD. It is equipped with various amenity facilities including a central lawn, a viewing platform, a water garden and a fountain plaza.

Photograph 10

KTCT Park



Source: Photograph taken by Audit Commission on 4 November 2016

Operation and management of the KTCT

1.8 The Government originally planned to adopt a design, build and operate approach for the development of the KTCT. Under this approach, the successful tenderer was expected to design, build and operate the new cruise terminal for 50 years. However, on the grounds that this would undermine the business viability of the project, the Government decided in September 2008 to fund, design and build the new cruise terminal and lease it to a terminal operator after completion (see paras. 1.4 and 1.5).

1.9 In March 2012, the Government awarded a ten-year Tenancy Agreement (TA) to a terminal operator through an open tender. About 70% of the area of the KTCT (Note 1) has been leased to the terminal operator for operation and management for ten years commencing in June 2013. Under the TA, the Government has the rights to extend the tenancy for another five years, subject to the operator's satisfactory performance, and to terminate the TA for any breach or non-performance of the tenancy. The terminal operator is required to pay a fixed rent of \$13 million for the ten-year operation and a variable rent (ranging from 7.3% to 34% of the annual gross receipts of the operator — see Appendix A). For the period from June 2014 to May 2015 and June 2015 to May 2016, the total rental income from the KTCT was \$4.6 million and \$9.6 million respectively. The Government monitors the performance of the terminal operator through, among others, a set of service pledges. A Management Committee, comprising representatives from the Government (Note 2) and the terminal operator, was established to monitor the performance of the operator.

1.10 The remaining 30% of the area (see para. 1.7(g) and (h)) of the KTCT comprises communal areas and government offices that are not leased to the terminal operator. The facility management services for the communal areas (see para. 1.7(g)) and government offices (see para. 1.7(h)) are outsourced to a contractor. Operation and maintenance services for certain electrical and mechanical systems and equipment in various parts of the KTCT are provided by the Electrical and Mechanical Services Trading Fund (EMSTF). The KTCT Park (see para. 1.7(i)) is under the purview of the LCSD.

Note 1: *The total area leased to the terminal operator was 120,402 m² (see para. 1.7(a) to (f)), around 70% of the total area of the KTCT, excluding the KTCT Park which is under the management of the LCSD (i.e. 165,952 m² (188,952 m² - 23,000 m²)).*

Note 2: *The representatives from the Government are those from the TC, Customs and Excise Department, Department of Health, Hong Kong Police Force, Immigration Department, Marine Department, LCSD, Transport Department, Architectural Services Department, Civil Engineering and Development Department and Electrical and Mechanical Services Department.*

Introduction

Tourism Commission

1.11 The TC was established in May 1999. It is under the Commerce, Industry and Tourism Branch of the Commerce and Economic Development Bureau. The Controlling Officer for the expenditure of the TC is the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism). The TC is headed by the Commissioner for Tourism, who is tasked to map out the Government's tourism development policy and strategy, to provide a focal point for liaison with the tourism industry and to enhance coordination in developing tourism. The Cruise Team (Note 3) of the TC, headed by an Assistant Commissioner for Tourism, is responsible for monitoring the operation of the KTCT and works closely with the Advisory Committee on Cruise Industry (ACCI — see para. 1.12) in developing Hong Kong into a leading regional cruise hub. An organisation chart of the Cruise Team of the TC as at 31 December 2016 is shown at Appendix B.

ACCI

1.12 The ACCI was established in January 2008 to advise the Government on measures to enhance the development of Hong Kong as a regional cruise hub. Members of the ACCI are appointed by the Secretary for Commerce and Economic Development. The membership of the ACCI for 2016-18 comprises the Commissioner for Tourism as the Chairman and 12 members from the cruise market, tourism industry and the HKTb. The ACCI defined its matters of priorities as:

- (a) developing cruise tourism in Hong Kong and the region;
- (b) fostering cooperation with neighbouring coastal ports in the Mainland and in Asia for cruise itinerary development;
- (c) driving market demand for cruise tourism and expanding Hong Kong's cruise passenger source markets; and
- (d) enhancing manpower supply to cater for the needs of the cruise market.

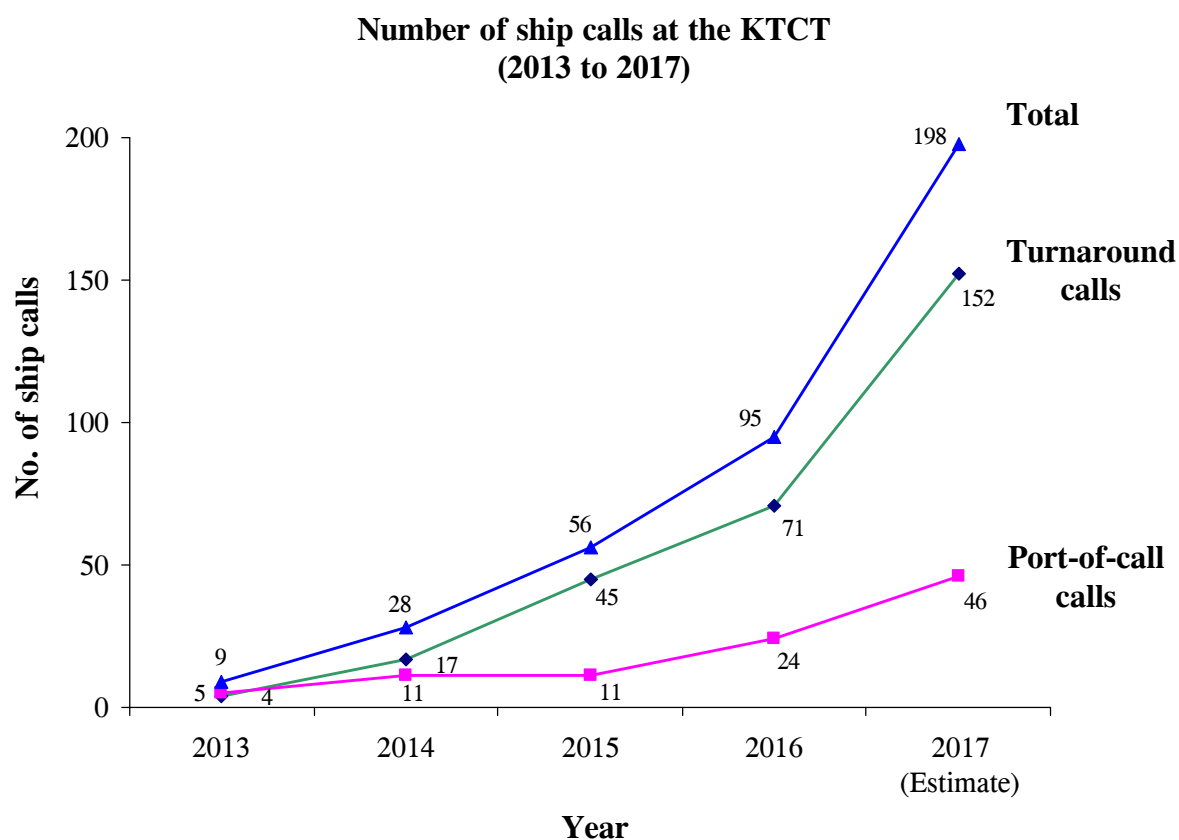
Note 3: *As at 31 December 2016, the Cruise Team of the TC had a staff establishment of 11 (9 civil service posts and 2 non-civil service contract posts). In 2015-16, the recurrent expenditure (including costs of maintenance of electrical and mechanical facilities of the terminal, property management services for communal areas, public utility charges and staff cost) incurred by the TC relating to the KTCT was \$71 million.*

Utilisation of the KTCT

1.13 Figure 1 and Figure 2 show the number of ship calls (Note 4) and the passenger throughput of the KTCT in the period from the commencement of operation in June 2013 to December 2016. In its first full year of operation in 2014, the KTCT received 28 ship calls involving 48 days of operation and passenger throughput of 130,608. The number of ship calls increased to 95 involving 105 days of operation and passenger throughput of 424,868 in 2016. According to the latest booking situation (as at 8 February 2017), the number of ship calls in 2017 is estimated to be 198 (an increase of 108% over 2016), involving 158 days of operation (an increase of 50% over 2016).

Note 4: *The number of ship calls is the sum of the number of turnaround calls and that of port-of-call calls. A turnaround port is the port where a cruise begins and/or ends. For turnaround calls with cruise itineraries that begin and end at Hong Kong, they are also homeport calls at Hong Kong. A port-of-call is one of the several intermediate ports visited by a cruise for a period from a few hours to a few days.*

Figure 1

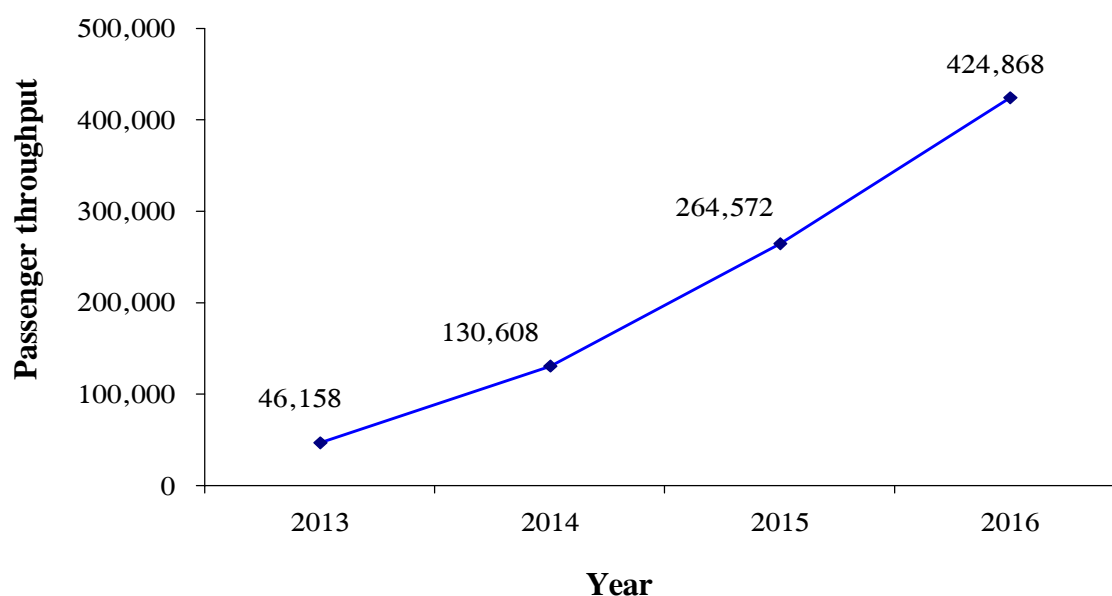


Source: TC records

- Remarks:
1. The KTCT commenced its operation in June 2013.
 2. The number of ship calls for 2017 is based on the booking situation as at 8 February 2017.
 3. The total number of ship calls for Hong Kong (including the other cruise terminal in Tsim Sha Tsui) were 89, 140, 142 and 191 for the period from 2013 to 2016. The estimated number for 2017 is not available.

Figure 2

**Passenger throughput of the KTCT
(2013 to 2016)**



Source: TC records

Remarks: 1. The KTCT commenced its operation in June 2013.

2. The total passenger throughput for Hong Kong (including the other cruise terminal in Tsim Sha Tsui) were 191,062, 366,981, 452,768 and 677,031 for the period from 2013 to 2016.

Audit review

1.14 In October 2016, the Audit Commission (Audit) commenced a review of the KTCT. The audit has focused on the following areas:

- (a) developing Hong Kong into a leading regional cruise hub (PART 2);
- (b) monitoring performance of terminal operator (PART 3); and
- (c) administrative issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the full co-operation of the staff of the TC during the course of the audit review.

PART 2: DEVELOPING HONG KONG INTO A LEADING REGIONAL CRUISE HUB

2.1 This PART examines the progress of developing Hong Kong into a leading regional cruise hub, focusing on the following areas:

- (a) achievement of expected economic benefits brought by the cruise industry (paras. 2.7 to 2.16); and
- (b) driving ship calls to Hong Kong (paras. 2.17 to 2.21).

The cruise industry is changing rapidly

2.2 *The cruise industry in Asia is growing rapidly.* According to the studies published in 2014 and 2016 by an international cruise trade association:

- (a) the cruise passenger capacity in Asia increased by 78% from 1.81 million in 2014 to 3.23 million in 2016;
- (b) the number of Asian cruise calls increased by 46% from 3,814 in 2014 to 5,570 in 2016; and
- (c) Hong Kong had benefited from the growing cruise market. The number of ship calls to Hong Kong had increased by 36% from 140 in 2014 to 191 in 2016, while the passenger throughput in Hong Kong had increased by 23% from 366,981 in 2014 to 452,768 in 2015 (see Tables 2 and 3).

Developing Hong Kong into a leading regional cruise hub

Table 2

**Number of ship calls to Hong Kong and
major neighbouring ports in Asia
(2014 and 2016)**

Port	2014 (No.)	2016 (No.)	Increase (%)
Jeju	218	460	111.0%
Baoshan, Shanghai	254	437	72.0%
Hong Kong	140	191	36.4%
Kee Lung	147	199	35.4%
Singapore	335	391	16.7%

Source: Cruise Lines International Association 2014 Asia Cruise Trends Report, Cruise Lines International Association 2016 Asia Cruise Trends Report and TC records

Table 3

**Passenger throughput of Hong Kong and
major neighbouring ports in Asia
(2014 and 2015)**

Port	2014 (No.)	2015 (No.)	Increase (%)
Baoshan, Shanghai	1,110,000	1,500,000	35.1%
Kee Lung	448,839	558,080	24.3%
Hong Kong	366,981	452,768	23.4%
Singapore	890,000	1,017,048	14.3%
Jeju	590,400	622,068	5.4%

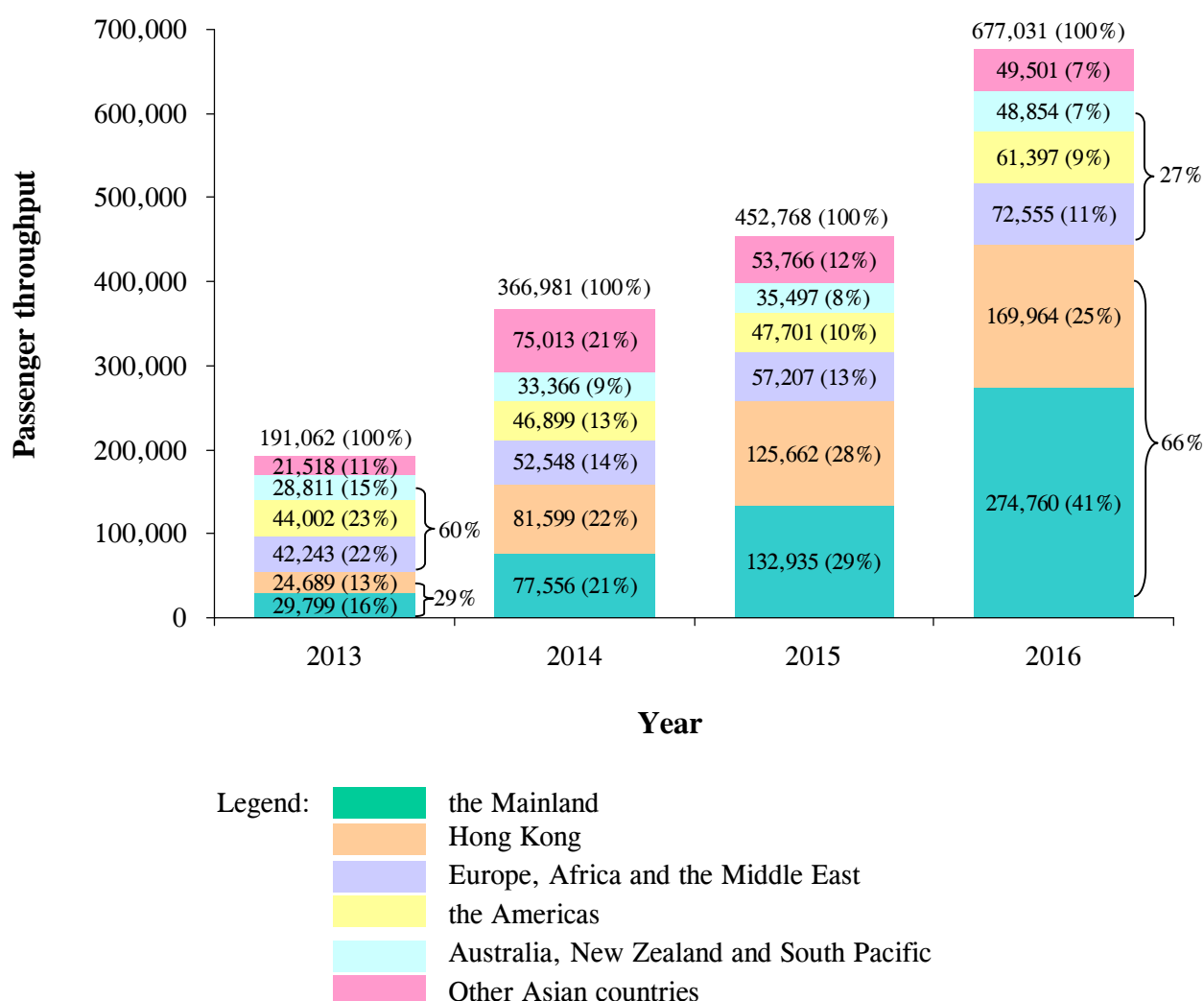
Source: Cruise Industry News 2016-17 Annual Report and TC records

Remarks: Passenger throughput for 2016 was not available for the ports other than Hong Kong. The 2016 passenger throughput for Hong Kong was 677,031 (a 50% increase over 2015 passenger throughput).

2.3 **Changing passenger mix.** Audit noted that since the commissioning of the KTCT in 2013, while the total number of cruise passenger throughput in Hong Kong had increased by 254% from 191,062 in 2013 to 677,031 in 2016, the mix of cruise passengers visiting Hong Kong had changed significantly. For instance, in 2013, 29% of the cruise passengers were from the Mainland and Hong Kong. The percentage increased to 66% in 2016 (see Figure 3). In the same period, the share of passengers from Europe, Africa and the Middle East, the Americas, Australia, New Zealand and South Pacific decreased from 60% to 27%, although the total number of passengers from these areas had increased from 115,056 in 2013 to 182,806 in 2016.

Figure 3

**Analysis of mix of cruise passenger throughput in Hong Kong
(2013 to 2016)**



Source: Audit analysis of TC records

Developing Hong Kong into a leading regional cruise hub

2.4 *Turnaround port/port-of-call consideration.* The findings of a study conducted by the Research Office of LegCo in 2015 indicated that:

- (a) Hong Kong appeared to be more popular as a turnaround port for a round-trip itinerary to Taiwan, and as a turnaround port for a cruise trip departing from Hong Kong to Vietnam, Thailand and Singapore;
- (b) for longer itineraries with more visit points from Southeast Asia to Northeast Asia (or vice versa), Hong Kong was more likely a port-of-call visited by cruise passengers; and
- (c) a well-developed cruise turnaround port should be equipped with dedicated infrastructures and facilities and easily accessible to an international airport. A port-of-call would require passenger-friendly land transportation.

The positioning of Hong Kong as turnaround port or port-of-call is important for the future development of ancillary and supporting facilities at the KTCT and for the formulation of strategies for developing Hong Kong into a leading regional cruise hub. Audit analysed the number of ship calls at the KTCT in the period from 2014 to 2017 (see Table 4) and noted that the majority of ship calls were turnaround calls. In 2016, 75% of ship calls at the KTCT were turnaround calls while 25% were port-of-calls.

Table 4

**Analysis of ship calls at KTCT
(2014 to 2017)**

Ship call	2014 (No.)	2015 (No.)	2016 (No.)	2017 (Estimate) (No.)
Turnaround	17 (61%)	45 (80%)	71 (75%)	152 (77%)
Port-of-call	11 (39%)	11 (20%)	24 (25%)	46 (23%)
Total	28 (100%)	56 (100%)	95 (100%)	198 (100%)

Source: Audit analysis of TC records

2.5 *Developments of new cruise terminal facilities at neighbouring ports.*

There have been recent developments of new cruise terminal facilities at neighbouring ports. In particular, the cruise terminal at Shenzhen Shekou Port commenced operation in November 2016, and the Guangzhou Nansha Port is undergoing expansion with the construction of two new berths with target completion in 2019. While these neighbouring ports will pose competition to the terminal facilities in Hong Kong, they may give rise to the development of new itineraries and attract more cruise passengers to Hong Kong.

2.6 *Recent promotion efforts.* Audit noted that the Government and the HKTb had made various efforts to promote the cruise industry of Hong Kong. For instance:

- (a) in 2014, with the funding support of the Government, the HKTb and the tourism authority of Taiwan set up the Asia Cruise Fund to promote co-operation among ports in the region; and
- (b) in 2015, with a view to diversifying the source markets of the cruise industry, the Government allocated \$10 million to the HKTb in the 2016-17 Budget for launching the “fly-cruise” initiative. In 2017, to further support the development of the cruise industry, the Government has allocated \$16 million to the HKTb to implement a series of initiatives. These include the continuation of “fly-cruise”, and new initiatives to cultivate source markets in Southern China and encourage development of on-shore excursion products.

Achievement of expected economic benefits brought by the cruise industry

2.7 At the meeting of LegCo Panel on Economic Development held in October 2008 regarding the Government’s plan to fund, design and build a new cruise terminal at Kai Tak, members asked for details of the economic benefits brought by the cruise industry. In response, the Government informed the Panel in November 2008 that the economic benefits to be brought by the cruise industry would range from \$859 million to \$1.1 billion per annum by 2013 and \$1.5 billion to \$2.5 billion per annum by 2016. In November 2009 and April 2010, the Government informed the FC in the funding applications for the development of the KTCT that with the availability of the new cruise terminal facilities and appropriate

Developing Hong Kong into a leading regional cruise hub

market strategies, the economic benefits to be brought by the cruise industry under different growth scenarios would range from \$1.5 billion to \$2.6 billion per annum and around 5,300 to 8,900 additional jobs would be generated by 2023.

2.8 According to the TC, the economic benefits under different growth scenarios to be brought by the cruise industry were estimated by an economic model taking into account various factors, including:

- (a) estimated number of ship calls and passenger throughput; and
- (b) estimated spending by cruise passengers and cruise operators, and the multiplier effect on the spending (Note 5).

Table 5 shows the estimated economic benefits brought by the cruise industry and the related assumptions.

Note 5: *The multiplier effect refers to the effect in economics in which an increase in spending may produce an increase in national income and consumption greater than the initial amount spent. For example, money spent by a tourist in a hotel creates jobs directly in that hotel and also creates jobs indirectly elsewhere in the economy. The total benefits to the economy so generated, in terms of value added to the economy, may be greater than the initial value added that the sum spent by the tourist brought to the economy.*

Table 5

**Estimated economic benefits to be brought by
the cruise industry and the related assumptions
(2013, 2016 and 2023)**

Year	Average spending per passenger (\$)	Low growth scenario			High growth scenario		
		Ship calls (No.)	Passenger throughput (No.)	Economic benefits (\$ million)	Ship calls (No.)	Passenger throughput (No.)	Economic benefits (\$ million)
2013	1,712 to 20,155 (Note)	162	387,800	859	175	522,480	1,094
2016		201	541,702	1,462	278	1,018,630	2,537
2023		181	564,102	1,517	258	1,041,031	2,562

Source: TC records

Note: The range represented the average spending of different categories of passengers. The turnaround call international passengers had the highest average spending of \$20,155. Their spending included \$7,860 for cruise package. The port-of-call international passengers had the lowest average spending of \$1,712. They had no spending on cruise package because they bought their packages not in Hong Kong.

Need to monitor expected economic benefits

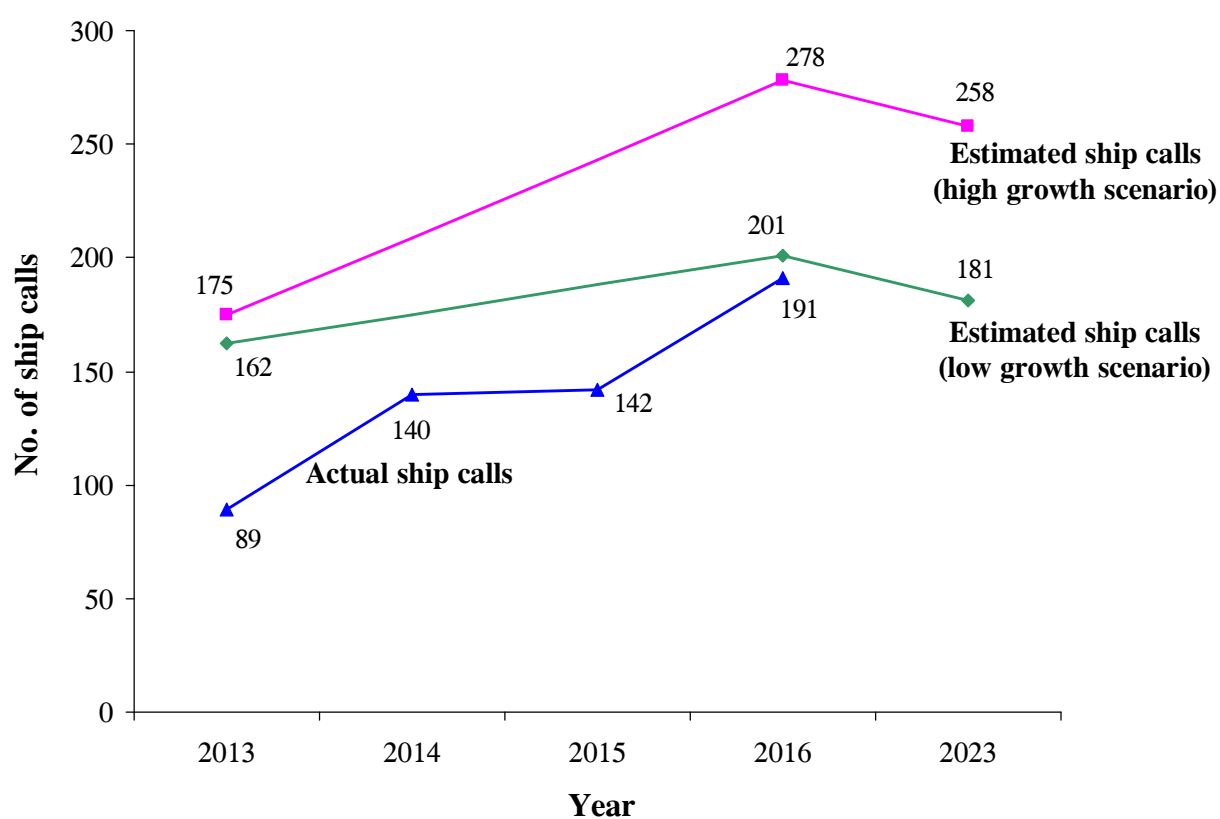
2.9 To support the funding applications for the development of the KTCT, the Government informed the FC that the development of the KTCT was critical to the development of Hong Kong into a leading cruise hub in the region thereby capturing economic benefits from the cruise industry. Audit noted that the Government had monitored and reported to LegCo from time to time some of the key parameters of the economic model, namely the number of ship calls, passenger throughput and passenger spending. So far, the TC had not assessed the progress made in achieving the projected economic benefits and the prospect of realising the expected benefits in the years to come. The assessment would require information on passenger spending and the multiplier effect of their spending.

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2.10 To ascertain the progress made in achieving the expected economic benefits, Audit compared the actual number of ship calls and passenger throughput with the estimated figures used by the consultant in making the estimation (see Table 5 in para. 2.8). The results are shown in Figure 4 and Figure 5.

Figure 4

Estimated and actual ship calls to Hong Kong (2013 to 2023)

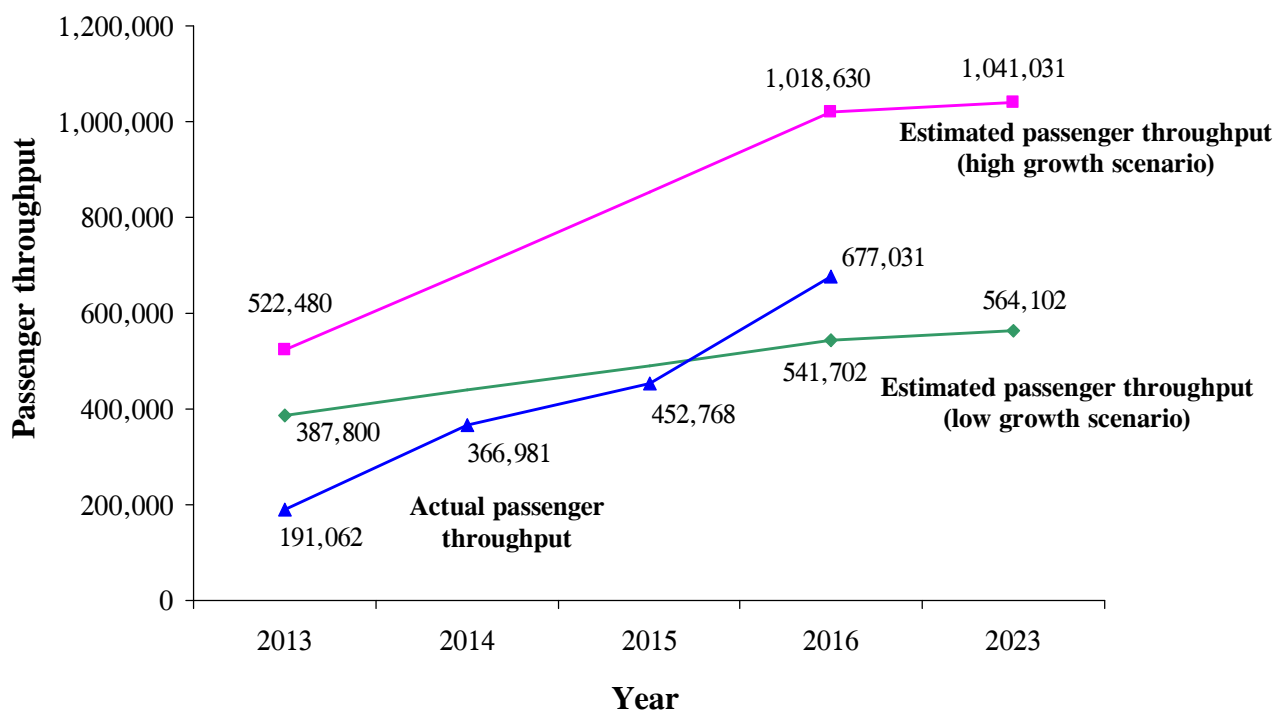


Source: Audit analysis of TC records

Remarks: The KTCT commenced its operation in June 2013.

Figure 5

**Estimated and actual passenger throughput in Hong Kong
(2013 to 2023)**



Source: Audit analysis of TC records

Remarks: The KTCT commenced its operation in June 2013.

2.11 Figures 4 and 5 show that:

- (a) the actual number of ship calls showed a growing trend. However, the 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 respectively. According to the TC, the average passenger carrying capacity of the cruise ships berthed at the KTCT in 2016 was larger than the capacity used in the economic model; and
- (b) the actual passenger throughput showed a growing trend. The actual passenger throughput of 677,031 in 2016 was within the projected range. It was higher than the estimated throughput of 541,702 under the low

Developing Hong Kong into a leading regional cruise hub

growth scenario by 135,329 (25%) and was lower than the estimate of 1,018,630 under the high growth scenario by 341,599 (33.5%).

2.12 In the economic model used by the Government in making the estimates of expected economic benefits, it was assumed that the average spending of different categories of passengers (excluding cruise packages) ranged from \$1,712 to \$12,295 (\$20,155 – \$7,860 = \$12,295) (see Note to Table 5 in para. 2.8). Audit examination of the TC records revealed that the average per-passenger spending of cruise passengers visiting Hong Kong was 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% (see Table 6).

Table 6

**Comparison of average spending of cruise passengers
and the related assumptions in the economic model
(2013 to 2015)**

Ship call	Average spending of cruise passenger assumed in the economic model (a) (\$)	Average spending of cruise passenger			
		2013 (b) (\$)	2014 (c) (\$)	2015 (d) (\$)	Increase (+) /Decrease (–) from 2013 to 2015 (e) = (d) – (b) (\$)
Turnaround	6,985 to 12,295	4,699	3,480	2,950	-1,749 (-37%)
Port-of-call	1,712	1,545	1,312	1,597	+52 (+3%)

Source: Audit analysis of TC records

Remarks: According to the TC, the amounts in this Table did not include the spending on cruise packages.

2.13 In response to Audit's enquiry, the TC informed Audit in March 2017 that:

- (a) the 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. The TC had reported to LegCo the number of ship calls and passenger throughput from time to time;
- (b) the fourth key parameter (i.e. the economic multipliers) has a time lag of about two years because it involved collection and collation of data by the Census and Statistics Department, and further estimation work with the data by the Government Economist. The latest available multipliers were only up to 2014. Hence in the absence of all relevant information, the TC could not assess the progress made in achieving the projected economic benefits by 2023 in money terms by using the economic model;
- (c) the KTCT was opened in mid-2013 and that it was the cruise trade's practice to schedule major deployments only after the actual commissioning of a cruise terminal as they had to know for certain the operational readiness of the terminal before making deployments. Moreover, they normally need two years to plan for major deployments. Hence, the KTCT started to receive major deployments in 2015, two years after its commissioning in mid-2013. In the circumstance, an assessment of the economic benefits brought by the whole cruise tourism industry in the initial years of the commissioning of the KTCT (i.e. from mid-2015 to now) would unlikely be as adequate and representative as they should be, given the short duration (less than two years) since the KTCT became fully operational; and

- (d) the KTCT is a relatively young cruise terminal (first berth and second berth opened in June 2013 and September 2014 respectively). It is the 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. During the process, the projected number of ship calls and passenger throughput in 2013 and 2016 would be used as tracking reference.

2.14 In Audit's view, with the experience gained in the performance of the KTCT since its commencement of operation in 2013, the TC needs to assess whether the cruise industry is making good progress in achieving the expected economic benefits and the prospect of realising the expected benefits.

Audit recommendations

2.15 **Audit has *recommended* that the Commissioner for Tourism should:**

- (a) **as soon as the KTCT has gathered sufficient operational experience, conduct a mid-term assessment on the progress made by the cruise industry in achieving the expected economic benefits and the prospect of realising the expected benefits by 2023; and**
- (b) **submit the results of the mid-term assessment of the economic benefits to LegCo when ready.**

Response from the Government

2.16 The Commissioner for Tourism agrees with the audit recommendations. She has said that the TC has been closely monitoring the number of ship calls, passenger throughput and passenger spending in Hong Kong. The TC notes that the total cruise passenger throughput in Hong Kong in 2016 was 677,031, which has reached the projected range of throughput for 2023. The TC will continue to make available the key parameters on the performance of the cruise industry to LegCo from time to time, and will share the outcome of the mid-term assessment with LegCo once ready.

Driving ship calls to Hong Kong

Need to drive more ship calls to the KTCT

2.17 To develop Hong Kong into a leading regional cruise hub, one of the strategies adopted by the TC is to drive more ship calls to Hong Kong.

2.18 According to the TC:

- (a) many international leading cruise hubs have many berths. For instance, Everglades in Florida has 9, Shanghai, Miami in Florida and St. Petersburg each has 7, New York has 6 and Southampton has 5. All these ports aim at creating capacity for their peak seasons. During their peak seasons, some berths can be in full use, while they are not in full use or are left idle at off-peak seasons; and
- (b) the utilisation rates of the KTCT (i.e. percentage of days with a cruise vessel at one or both of the two berths) 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 (see Table 7).

Table 7

**Utilisation rate of KTCT during peak seasons
(2014 to 2016)**

Month	No. of days with a ship at one or both of the two berths	Utilisation rate of KTCT (Note) (%)
January 2014	3	9.7%
February 2014	7	25.0%
March 2014	7	22.6%
October 2014	5	16.1%
November 2014	8	26.7%
December 2014	3	9.7%
Overall	33	18.1%
January 2015	2	6.5%
February 2015	6	21.4%
March 2015	15	48.4%
October 2015	7	22.6%
November 2015	6	20.0%
December 2015	5	16.1%
Overall	41	22.5%
January 2016	3	9.7%
February 2016	12	41.4%
March 2016	18	58.1%
October 2016	10	32.3%
November 2016	13	43.3%
December 2016	14	45.2%
Overall	70	38.3%

Source: TC records

Note: The utilisation rate was calculated by dividing the number of days with a ship at one or both of the two berths by the number of days in a month. For example, the utilisation rate of December 2016 was 45.2% (i.e. 14 days ÷ 31 days × 100%).

Remarks: According to the reservation requests received up to 8 February 2017, there will be 198 ship calls involving 158 days of operation in 2017. The average utilisation rate during the peak season (i.e. January to March and October to December) in 2017 will be 49%.

2.19 The utilisation rate of the KTCT calculated by the TC was based on the number of days when at least one of the two berths were utilised. Audit examination of TC records revealed that the KTCT had the capacity to receive more cruise vessels:

- (a) for the peak seasons (January to March and October to December) of 2015 and 2016, the total number of days when both berths were utilised were only 5 and 14 respectively; and
- (b) 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 29 and 35 respectively, representing utilisation rates of 15.8% and 19.1% respectively.

Audit considers that the TC needs to drive more ship calls to the KTCT.

Audit recommendations

2.20 **Audit has *recommended* that the Commissioner for Tourism should:**

- (a) **take further measures to drive more ship calls to the KTCT; and**
- (b) **monitor the effectiveness of the measures taken and step up the TC's efforts to drive more ship calls to the KTCT where necessary.**

Response from the Government

2.21 The Commissioner for Tourism agrees with the audit recommendations. She has said that:

- (a) the TC is committed to and has been making proactive efforts in getting more ship calls to Hong Kong. The TC formulates the strategic directions and initiatives for developing Hong Kong into a leading cruise hub. The Government has launched new initiatives to drive cruise tourism and has allocated increased funding to the HKTb for promotion. Examples of the Government's initiatives include the setting up of the Asia Cruise Fund, streamlining immigration arrangements for Mainland cruise passengers, launching "fly-cruise" programmes to diversify source markets outside the Mainland, and initiatives to deepen market penetration in Southern China and to encourage more spending by cruise passengers;
- (b) with the introduction of new initiatives, the number of ship calls at the KTCT increased by 239% from 28 in 2014 to 95 in 2016, bringing the total number of ship calls to Hong Kong to 191. This is a record high figure which has reached the projected range of ship calls to Hong Kong for 2023 (i.e. 181 to 258) under the economic model. The number of ship calls at the KTCT alone in 2017 is expected to go further up to 198 (an increase of 108% over 2016);
- (c) the average number of passengers per ship in 2016 was 3,545, which is higher than the average number of 2,695 in the low growth scenario of the economic model. This shows that Hong Kong has been moving fast towards accommodating ships with larger capacity as envisaged in the model by 2023. This also explains why the number of ship calls in 2016 is slightly below that estimated by the model;
- (d) the cruise passenger throughput in Hong Kong in 2016 was 677,031, which has reached the projected range for 2023 (i.e. 564,102 to 1,041,031) under the economic model. It has also exceeded the estimated throughput of 541,702 in 2016 in the low growth scenario by around 25%;

- (e) the second berth of the KTCT was not available for use from March to December 2015 because of the dredging works carried out in the period. In 2016, there were 16 days on which both berths were occupied. This is comparable to 18 days in 2016 for the Marina Bay Cruise Centre Singapore (which also has two berths) although the KTCT was commissioned one year later than its Singapore counterpart. It is expected that there will be 60 days in 2017 with more than one cruise ship at berth, representing an increase of 275% over 2016; and
- (f) the TC is committed to continuing to strengthen Hong Kong's competitive edge through regular reviews of its strategic directions and introducing new initiatives where necessary in collaboration with the trade to drive more ship calls and passenger throughput to Hong Kong.

PART 3: MONITORING PERFORMANCE OF TERMINAL OPERATOR

3.1 This PART examines the TC's monitoring of the performance of the terminal operator, focusing on the following areas:

- (a) vibrancy of the KTCT (paras. 3.6 to 3.15); and
- (b) performance monitoring of the terminal operator (paras. 3.16 to 3.24).

Operation and management of the KTCT

3.2 In March 2012, the Government, through an open tender exercise, awarded a ten-year TA to a terminal operator for the operation and management of the KTCT. The TA provides the rights to the Government to extend the TA for another five years, subject to the operator's satisfactory performance, and to terminate the TA for any breach or non-performance of the tenancy.

3.3 Under the TA, the terminal operator is required to pay a fixed rent of \$13 million for the ten-year operation and a variable rent (based on the annual gross receipts from terminal operation, the rates of variable rents ranged from 7.3% to 34% — see Appendix A).

3.4 According to the TA, the responsibility of the terminal operator includes:

- (a) arranging the berthing of cruise vessels as well as embarkation and disembarkation of passengers;
- (b) letting of the ancillary commercial area;
- (c) managing traffic and security matters;
- (d) attracting the deployment of cruise vessels to the KTCT; and

Monitoring performance of terminal operator

- (e) engaging the industry (i.e. organising and conducting a market consultation forum as well as attending and participating in the ACCI) and promoting Hong Kong as a leading regional cruise hub.

3.5 The TC is responsible for monitoring the operation of the KTCT and the performance of the terminal operator. A Management Committee, comprising representatives from the Government and the terminal operator, was established to monitor the performance of the operator (see para. 1.9). To facilitate the TC's monitoring of the KTCT operation, the terminal operator is required to submit:

- (a) a set of service pledges within 12 months after the signing of the TA (i.e. before the commencement of the KTCT operation); and
- (b) an annual operation and maintenance report on various aspects of the KTCT operation, including the business performance, fulfilment of the service pledges, etc.

Vibrancy of the KTCT

Need to endeavour to fully lease out the ancillary commercial area

3.6 According to the TA, the terminal operator is responsible for the letting of the ancillary commercial area of the KTCT. The TA stipulates that:

- (a) the terminal operator shall use its best endeavours to keep the ancillary commercial area fully let or occupied; and
- (b) the ancillary commercial area shall not be used for any purpose other than retail shops, banks, restaurants, money exchange shops, tourist information centre and other purposes as may be approved by the Government.

Monitoring performance of terminal operator

3.7 *Ancillary commercial area not fully let.* The total area of the ancillary commercial area of the KTCT was 5,601 m². Audit noted that as at 1 March 2017, 2,695 m² (48.1%) was let and open for business. The remaining 2,906 m² (51.9%) was not open for business. Details are as follows:

- (a) two shops on the rooftop (see Photographs 11 and 12) with a total area of 709 m² (12.7% of the ancillary commercial area) had not been able to be leased out and had been left vacant since their handover to the terminal operator in March and April 2014 respectively. According to the TC, the terminal operator had been actively promoting the shops available for sublease, including through sales calls. Also, newspaper advertisements for subletting the two rooftop shops had been made periodically since the commissioning of the KTCT. The terminal operator had also posted advertisements on its website to sublet the two rooftop shops. One shop (355 m²) was leased out in January 2017 (see para. 3.9). Up to 1 March 2017, the shop was under renovation and the other shop had not been sublet; and

Photograph 11

A vacant shop on rooftop of KTCT



Source: Photograph taken by Audit on 4 November 2016

Photograph 12

Interior of a vacant shop on rooftop of the KTCT



Source: TC records

- (b) two shops on the second floor (see Photographs 13 and 14) with a total area of 2,196 m² (39.2% of the ancillary commercial area) had been leased out and operated as a retail outlet since October 2013. The sub-tenant had failed to pay its rent since March 2015. Thereafter, the terminal operator had followed up with the sub-tenant and entered into legal disputes with the sub-tenant on the outstanding rents and recovery of possession of the shops after the terminal operator terminated the sub-tenancy in April 2016. Subsequently, the shops ceased operation from June 2016 onwards. Meanwhile, the other creditors (other than the terminal operator) of the sub-tenant filed winding-up petitions against the sub-tenant, and the terminal operator was not able to recover the vacant possession of the two shops pending the outcome of the legal proceedings (Note 6).

Note 6: *The rent default did not affect the variable rent paid by the terminal operator to the Government because the variable rent was calculated according to the rent receivable rather than rent received. Although the dates of availability of the two shops are still uncertain, the terminal operator advertised the letting of the two shops on the second floor in June 2016.*

Photograph 13

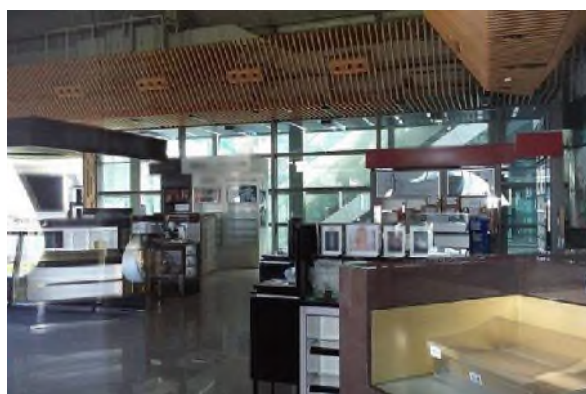
A shop on 2/F which had ceased operation since June 2016



Source: Photograph taken by Audit on 4 November 2016

Photograph 14

Interior of a shop on 2/F which had ceased operation since June 2016



Source: TC records

3.8 Audit considers that the TC needs to continue to urge the terminal operator to endeavour to lease out the remaining vacant shop on the rooftop, and keep in view the development of the legal proceedings with a view to recovering the vacant possession of the two shops on the second floor and leasing them out as soon as possible.

3.9 *Ancillary commercial area leased as an office and training centre.* The TA stipulates that the ancillary commercial area shall not be used for any purposes other than retail shops, banks, restaurants, money exchange shops, tourist information centre and other purposes as may be approved by the Government. In January 2017, one of the vacant rooftop shops with an area of 355 m² (6.3% of the ancillary commercial area — see para. 3.7(a)) was leased to a cruise academy as an office and training centre for a fixed term of three years. The lease was approved by the TC in November 2016, taking into account the following:

- (a) leaving the two shops at the rooftop garden vacant was not conducive to bringing more visitors to the KTCT;
- (b) under the current condition of the retail market, the two shops were not expected to be leased out in the near future for retail of food and beverage uses; and
- (c) the training provided by the sub-tenant was very relevant to the KTCT.

3.10 The letting of the ancillary commercial area of the KTCT as an office and training centre helps improve the occupancy of the KTCT. However, the use of the shop as office and training centre would not help attract visitor flow to the KTCT very much or serve the cruise passengers. The TC needs to urge the terminal operator to endeavour to lease the shop out after the current sub-tenancy for purposes that can best attract visitors or serve the cruise passengers.

Need to bring more visitors to the KTCT

3.11 Apart from being used for berthing of cruise ships, the KTCT also provides ancillary commercial area that is open to public seven days a week all year round. Audit visited the KTCT on three ship call days on 4 November 2016, 6 December 2016 and 17 January 2017, and found that the visitor traffic to the ancillary commercial area was not high.

3.12 The TC informed LegCo in November 2014 that the KTCT was also used as an event venue during non-cruise days with a view to better utilising the terminal facilities and increasing number of visitors. In the period from its commissioning in

Monitoring performance of terminal operator

June 2013 to December 2016, 38 non-cruise events (involving 67 event days and 85 days for setting up and dismantling) were held at the KTCT (see Table 8).

Table 8

**Number of attendees for non-cruise events at the KTCT
(June 2013 to December 2016)**

No. of attendees for each event	No. of events
100 or below	3 (7.9%)
101 - 999	16 (42.1%)
1,000 - 3,999	8 (21.1%)
4,000 - 7,999	4 (10.5%)
8,000 - 11,999	1 (2.6%)
12,000 - 15,999	0 (0%)
16,000 or above	6 (15.8%)
Total	38 (100.0%)

Source: Audit analysis of TC records

3.13 The TC needs to continue to urge the terminal operator to promote the use of the KTCT as a venue for non-cruise events with a view to bringing more visitors to the KTCT.

Audit recommendations

3.14 **Audit has *recommended* that the Commissioner for Tourism should:**

- (a) **urge the terminal operator to continue its efforts to lease out the unlet ancillary commercial area at the KTCT;**
- (b) **keep in view the process of the winding-up petitions against the sub-tenant of the two shops with terminated sub-tenancy and urge the terminal operator to take action to lease out the vacant shops on the**

second floor as soon as they are available after the completion of the legal proceedings;

- (c) regarding the shop currently used as an office and training centre, urge the terminal operator to endeavour to lease it out after the current sub-tenancy for purposes that can best attract visitors or serve the cruise passengers; and
- (d) continue to urge the terminal operator to promote the use of the KTCT as a venue for non-cruise events.

Response from the Government

3.15 The Commissioner for Tourism agrees with the audit recommendations. She has said that:

- (a) the terminal operator has been making efforts in leasing out the ancillary commercial areas. Over 87% of the floor area was leased out until one merchant occupying 2,196 m² (39.2%) of the area ceased operation in June 2016;
- (b) the terminal operator is taking legal action to repossess the premises from the merchant concerned. The Government's rental income has not been affected, as the terminal operator continues to pay rent to the Government under the TA. The TC has already urged the terminal operator to expedite the recovery of vacant possession of the premises for re-letting the premises as soon as practicable;
- (c) the TC will continue to urge the terminal operator to lease out the remaining two shops to merchants that can bring more visitors to the KTCT. The TC also notes that other tenants (like restaurants and eateries) in the ancillary commercial area are popular during meal hours and that the money exchange is highly patronised by cruise passengers; and
- (d) cruise operation is always the core function of the KTCT. Unlike other cruise terminals which are usually closed during non-cruise days, the KTCT is one of the few cruise terminals in the world which is working to make available the terminal for hosting non-cruise events as long as cruise

Monitoring performance of terminal operator

operation is not affected. With the terminal operator gaining more experience in this respect and the positive feedback of event organisers, the TC will urge the terminal operator to leverage on the KTCT's reputation now established as a good event venue and step up efforts to attract more non-cruise events.

Performance monitoring of the terminal operator

Non-compliances with requirements on service pledges stipulated in TA

3.16 The TC monitors the performance of the terminal operator through a set of service pledges and performance indicators specified in the TA, such as satisfaction of cruise passengers, embarkation and disembarkation arrangements, baggage handling process, etc. The TA stipulates that the terminal operator shall:

- (a) within 12 months after the execution of the TA, propose the service pledges for the approval of the TC;
- (b) publish the approved service pledges within one month prior to the commencement date of the business; and
- (c) prepare a report on compliance with the service pledges annually within two months after the end of each calendar year.

3.17 Audit noted that the service pledges had not been approved. The first set of service pledges was submitted by the terminal operator to the TC in February 2013. The service pledges were tabled at the first Management Committee meeting held in December 2013. At the meeting, the terminal operator was asked to revise and resubmit the service pledges at the next Management Committee meeting. The terminal operator submitted the revised service pledges at the following Management Committee meeting held in May 2014. The revised service pledges were subsequently used by the TC to monitor the performance of the terminal operator.

3.18 However, Audit found that up to December 2016, the terminal operator had not published the service pledges and had not prepared annual reports on compliance with the service pledges. In early December 2016, Audit discussed this finding with the TC. On 30 December 2016 (i.e. about 3.5 years after the commissioning of the KTCT in June 2013), the terminal operator submitted operation reports to the TC for 2013, 2014 and 2015 (see para. 3.22(b)(i)), which stated that the terminal operator had met all the service pledges. The revised service pledges submitted for discussion at the second Management Committee meeting held in May 2014 (see para. 3.17) were subsequently published in January 2017.

Coverage of service pledges needs to be expanded

3.19 In January 2011, the Government informed LegCo that the terminal operator would be required to draw up a set of service pledges and performance indicators to cover major areas of the KTCT operation, for example, satisfaction of cruise passengers, embarkation and disembarkation arrangements and baggage handling process. In April 2013, the Government informed LegCo that the Government would monitor the operation of the terminal through a set of service pledges and performance indicators, such as the time taken for embarkation and disembarkation of passengers.

3.20 Audit reviewed the existing service pledges and found room for improvement in the coverage of the pledges. For instance, the TC may consider expanding the coverage of the service pledges to include:

- (a) satisfaction of cruise passengers with the facilities of the KTCT;
- (b) embarkation and disembarkation arrangements for turnaround call passengers in addition to port-of-call passengers, baggage handling process (e.g. handling at kerbside, baggage loading onto vessel and baggage claim) and stevedore deployment;
- (c) transportation arrangements for passengers; and
- (d) engagement with the tourism industry to promote Hong Kong as a leading regional cruise hub and the setting up of a market consultation forum.

Service pledges need to be periodically reviewed

3.21 Service pledges should be reviewed and revised periodically to ensure they are challenging and meaningful. Audit examination of the annual operation and maintenance reports for 2013 to 2015 submitted by the terminal operator in December 2016 (see para. 3.18) revealed that the terminal operator had met and exceeded all the service pledges since 2013. For instance, one of the service pledges is that disembarking port-of-call passengers should spend less than 20 minutes to traverse the distance from shipside to kerbside. The actual time spent by the passengers in 2013 to 2015 was only 4.5 minutes.

Departures from TA requirements

3.22 Audit noted that the terminal operator had not fulfilled the following requirements under the TA:

- (a) ***Market consultation forum not organised.*** Under the TA, the terminal operator was required to organise and conduct market consultation forum on a quarterly basis. According to the TA, the scope of the market consultation forum is to discuss the key operation and management issue related to the KTCT, consult the cruise market and tourism industry on proposed changes to arrangement for fees and charges and berthing slots allocation, and discuss cooperation efforts with the HKTb and the tourism industry for marketing the facilities and services offered by the KTCT. The first meeting of the forum should be held on or before 31 December 2012. However, up to December 2016, the terminal operator had not conducted or organised such market consultation forum. The TC informed Audit in March 2017 that the terminal operator considered that it would be more useful to engage the cruise trade through overseas sales calls and attendance at ACCI, instead of conducting local market consultation forum. A market consultation forum might not be the most effective means in engaging the trade as cruise lines were competitors. The terminal operator had made a lot of sales calls and had met the intended objectives of market consultation forum;

- (b) *Late submission of annual operation and maintenance reports.* Under the TA, the terminal operator was required to submit an annual operation and maintenance report within two calendar months after the end of each calendar year. Apart from information on compliance with the service pledges, the annual operation and maintenance report should also provide information on the change in management team, industry engagement activities, promotion of cruise tourism, terminal security and traffic management, building condition of the premises, and condition of the engineering and mechanical facilities maintained by the terminal operator, and their maintenance schedule. Instead of submitting operation and maintenance reports, the terminal operator submitted separate operation reports and maintenance reports, as follows:
- (i) the operation reports for 2013, 2014 and 2015 had not been submitted until late December 2016 in one go after Audit discussed with the TC on this issue;
 - (ii) the maintenance report for the period from the commencement of operation in June 2013 to December 2013 had not been submitted. The maintenance reports for 2014 and 2015 were submitted three and five months respectively after the year end (i.e. one and three months after the submission due dates); and
 - (iii) the terminal operator had submitted the annual operation report and maintenance report for 2016 before the deadline.

The TC informed Audit in March 2017 that in view of the need to ensure that the operations of the KTCT under different scenarios would be smooth, the terminal operator was therefore requested to submit various types of reports on its operation almost every week. These reports provided more timely information that facilitated the TC's daily supervision of the terminal operator's performance and served as a more useful tool in monitoring the performance of the terminal operator than the annual operation report. In addition, the TC held Management Committee Meetings and frequently conducted other meetings and site walks to monitor closely the performance of the terminal operator;

Monitoring performance of terminal operator

(c) ***Written report on ancillary commercial area not submitted.*** Under the TA, the terminal operator was required to ensure that:

- (i) not less than 30% of the floor area of the ancillary commercial area would be open for business within six months from the possession date of the ancillary commercial area; and
- (ii) not less than 60% of the floor area of the ancillary commercial area would be open for business within 18 months from the possession date of the ancillary commercial area.

The terminal operator was also required to prepare and submit written reports by seven months and 19 months from the possession date (the date varied for different shops, ranging from September 2013 to April 2014) of the ancillary commercial area to certify the achievement of the above requirements. Audit noted that the requirements on opening of the ancillary commercial area for business had been met. However, no written reports on the achievement of the requirements were submitted by the terminal operator. The TC informed Audit in March 2017 that the terminal operator had submitted notices of leasing which set out the commencement dates of the sub-leases. The TC was also informed prior to the opening dates of the shops; and

(d) ***Disclosure on the website.*** The TA required the terminal operator to upload certain information onto its website and update the information on a monthly basis. Audit examination revealed that as at 31 December 2016, amongst a total of 18 items listed in the TA, the terminal operator had not uploaded the following eight items onto the website:

- (i) general safety and security arrangements;
- (ii) berth utilisation rate;
- (iii) monthly passenger throughput;
- (iv) schedules of prevailing fees and charges (including dockage fee and passenger fee);

- (v) detailed berth-allocation policies;
- (vi) compliance report on service pledges;
- (vii) accident and incident records; and
- (viii) summary of market consultation forum.

Audit recommendations

3.23 **Audit has *recommended* that the Commissioner for Tourism should:**

- (a) **ensure that the service pledges on the performance of the terminal operator are approved by the TC;**
- (b) **ensure that the terminal operator complies with all the requirements under the TA, including submitting the annual reports on compliance with the service pledges in a timely manner;**
- (c) **ensure that comprehensive service pledges covering all major areas of operation and management of the KTCT are set to facilitate the monitoring of the performance of the terminal operator; and**
- (d) **review the service pledges on the performance of the terminal operator periodically to ensure that they are meaningful, challenging and achievable.**

Response from the Government

3.24 The Commissioner for Tourism agrees with the audit recommendations. She has said that:

- (a) apart from requiring the terminal operator to submit different types of reports, the TC will continue to closely monitor the performance of the terminal operator through Management Committee meetings as well as day-to-day meetings and site walks;

Monitoring performance of terminal operator

- (b) the TC will ensure that the approval of service pledges will be explicitly documented;
- (c) of a total of over 40 obligations with which the terminal operator has to comply under the TA, the operator has complied with all of them, except the four items identified by Audit. The TC has already reminded the operator to ensure full compliance with them in future; and
- (d) the current set of service pledges has covered the fundamental areas necessary for the operation of the KTCT. The TC welcomes the suggestion on expanding the service pledges to cover passenger satisfaction, arrangements for turnaround calls, transportation arrangements and engagement with the trade, to make the service pledges even more comprehensive. The TC is committed to reviewing the service pledges periodically with the terminal operator to ensure that the KTCT will continue to meet the needs of cruise passengers and cruise operation.

PART 4: ADMINISTRATIVE ISSUES

4.1 This PART examines administrative issues, focusing on the following areas:

- (a) transport connectivity (paras. 4.2 to 4.10);
- (b) usage of KTCT facilities (paras. 4.11 to 4.19);
- (c) monitoring performance of contractor on facility management services (paras. 4.20 to 4.24);
- (d) maintenance of KTCT facilities (paras. 4.25 to 4.35);
- (e) attendance at ACCI meetings (paras. 4.36 to 4.41); and
- (f) strategic planning (paras. 4.42 to 4.46).

Transport connectivity

4.2 Cruise passengers using the KTCT may use the following transport means:

- (a) specific transport services arranged by the cruise companies, e.g. shore excursion coaches, limousine service and chartered ferry services;
- (b) free mall shuttle buses on ship call days arranged by the terminal operator and operated by the nearby shopping malls connecting the KTCT to the malls near Mass Transit Railway stations;
- (c) paid shuttle service to airport express stations as well as popular hotel areas provided by the terminal operator for turnaround calls;

Administrative issues

- (d) green minibuses (Route No. 86) operated between the KTCT and Kowloon Bay (Telford Gardens) daily from 6:30 hours to 23:00 hours at intervals of 8 minutes to 20 minutes;
- (e) franchised bus service (Route No. 5R) run between the KTCT and Mass Transit Railway Ngau Tau Kok Station from 11:00 hours to 16:00 hours on weekdays, and 11:00 hours to 19:00 hours on weekends and public holidays, at intervals of 30 minutes;
- (f) licensed ferry service run between North Point and Kwun Tong via Kai Tak Runway Park Pier (four sailings daily on weekdays, 24 sailings on Saturdays, and 26 sailings on Sundays and public holidays); and
- (g) taxi service.

The green minibuses, franchised bus service and licensed ferry service are intended mainly for passengers other than cruise passengers.

Areas for improvement

4.3 Audit examination of the TC records has revealed that there is room for improvement in the following areas:

- (a) ***Mall shuttle buses.*** Since June 2013, on every ship call day, free mall shuttle bus services have been provided by nearby shopping malls connecting the KTCT to the malls near Mass Transit Railway stations in Kowloon East. However, the number of malls providing free shuttle bus services on a regular basis had decreased from three in 2013 to two in 2015. According to the TC, the total number of shuttle buses provided remained more or less the same. In April 2016, the terminal operator informed the Management Committee that it was likely that the free shuttle bus service provided by a mall in Diamond Hill might not be able to sustain in the long run as there were frequent complaints by residents near the mall about the location of the drop-off point near the mall. According to the TC, mall shuttle bus services were popular. Around 20% to 40% of the cruise passengers took mall shuttle buses for transport to and from the KTCT. The TC needs to urge the terminal operator to encourage more shopping malls to provide mall shuttle bus services to the

KTCT. Moreover, in view of the possibility that the malls may discontinue their free shuttle bus services, the TC also needs to:

- (i) urge the terminal operator to discuss with the malls to address their problems; and
 - (ii) make contingency planning for the discontinuation of the mall shuttle bus services;
- (b) **Franchised bus service.** The bus service (Route No. 5R) is a circular route departing from the KTCT with stops at Mass Transit Railway Ngau Tau Kok Station and Kwun Tong from 11:00 hours to 16:00 hours on weekdays, and 11:00 hours to 19:00 hours on weekends and public holidays, at intervals of 30 minutes. The bus service is a recreational route to cater primarily for the transport needs of the locals commuting to and from the KTCT Park and a park near the KTCT. According to the TC, the average daily patronage of the franchised bus for 2016 was 237 (17 passengers per bus). Audit noted that the buses used for the route were not equipped with luggage storage facilities (see Photograph 15);

Photograph 15

**Luggage compartment not provided
in franchised bus route No. 5R**



Source: TC records

- (c) **Ferry service.** The licensed ferry service runs between North Point and Kwun Tong via Kai Tak Runway Park Pier. The average daily patronage as reported by the TC (i.e. 3 on weekdays and 233 on weekends and public holidays in January 2017) was low. Audit noted that one of the cruise companies using the KTCT as homeport provided chartered ferry services running between Tsim Sha Tsui and the KTCT and between Central and the KTCT for passengers of its cruise ships. According to the TC, the chartered ferry services were popular. Audit considers that the TC and the terminal operator need to encourage the other cruise companies to provide chartered ferry services; and
- (d) **Taxi service.** According to the results of surveys conducted by the TC, the taxi waiting time by cruise passengers disembarked from the KTCT between October 2016 and January 2017 ranged from 0 to 36 minutes. Audit made a site visit to the KTCT on 17 January 2017 (ship call day). Audit observed that from 9:25 am to 10:25 am, while there were a large number of cruise passengers waiting for taxi (see Photograph 16), there were also many taxis waiting for passengers at the taxi queuing spaces (see Photograph 17). However, only 6 of the 18 taxi pick-up points were made available for boarding (see Photograph 16). Audit considers that the TC needs to, in collaboration with the terminal operator, review whether more taxi pick-up points can be made available for boarding during peak hours.

Photograph 16

Taxi pick-up points



Source: Photograph taken by Audit on 17 January 2017

Photograph 17

Taxis waiting at the taxi queuing spaces



Source: Photograph taken by Audit on 17 January 2017

Traffic management plan

4.4 Under the TA, the terminal operator is required to submit a traffic management plan to the Government for approval not less than five months before the commissioning of the KTCT. The traffic management plan should include sketches/drawings showing the road layout, road marking, location of signs, queuing spaces, drop-off, pick-up, loading and unloading spaces, and all traffic and pedestrian control measures. The terminal operator is also required to implement the traffic management plan to the satisfaction of the Government, and provide sufficient personnel and equipment for carrying out all traffic measures contained in the plan.

4.5 *Departments' comments not fully reflected in the traffic management plan.* The terminal operator submitted a traffic management plan to the TC in December 2012. After incorporating the comments from related government departments, the revised plan was resubmitted to the TC in March 2013. The Immigration Department, the Civil Engineering and Development Department and the Hong Kong Police Force made comments (which were mainly suggestions on improving the presentation of the plan and on including further details on routings) on the revised plan. However, their comments were not incorporated. Furthermore, although the TC said that the plan was accepted and had been put into practice, there was no documentary evidence showing that the plan was approved by the TC.

4.6 *Traffic management plan not updated in a timely manner.* The traffic management plan submitted by the terminal operator in 2012 was prepared by referring to the experience of ship crew and ship agents, observations at the Ocean Terminal and Kwai Chung Cargo Container facilities and data from a consultancy study conducted by the TC. The terminal operator informed the TC that prior to the opening of the second berth, the plan would be updated. In May 2014, the TC asked the terminal operator to review and update the traffic management plan based on the experience in managing traffic at the KTCT. The second berth commenced operation in September 2014. Notwithstanding this, the terminal operator had not updated the plan. In December 2016, the TC told the terminal operator that as the mode of transport at the KTCT had changed with the improvement in water connectivity around the KTCT, it should, with the experiences gained in the past few years, prepare and submit an updated traffic management plan for the TC's approval in three months' time. Eventually, the

terminal operator submitted the updated traffic management plan for the TC's approval on 27 February 2017.

4.7 ***Need to review overall traffic management.*** According to the TC, the number of ship calls is expected to increase to 198 in 2017 and the annual passenger throughput, including the crew, can be as high as 1,400,000. Audit considers that the TC needs to, in collaboration with the terminal operator, critically review the overall transport arrangement to ensure that effective and efficient transport services are provided.

Audit recommendations

4.8 **Audit has recommended that the Commissioner for Tourism should:**

- (a) **urge the terminal operator to:**
 - (i) **discuss with the shopping malls near Mass Transit Railway stations to encourage more malls to provide mall shuttle bus services to the KTCT; and**
 - (ii) **discuss with the shopping mall that is encountering problems in providing shuttle bus services in order to help maintain their services as far as possible;**
- (b) **in consultation with the Transport Department and the terminal operator, make contingency planning for the discontinuation of the mall shuttle bus services;**
- (c) **discuss with the Transport Department to improve the franchised bus service;**
- (d) **urge the terminal operator to encourage the other cruise companies to provide chartered ferry services;**
- (e) **in collaboration with the terminal operator, review whether more taxi pick-up points can be made available for boarding during peak hours;**

- (f) **ensure that the traffic management plan is updated regularly by the terminal operator and is approved by the TC; and**
- (g) **in collaboration with the terminal operator, continue to critically review the overall transport arrangement to ensure that effective and efficient transport services are provided.**

Response from the Government

4.9 The Commissioner for Tourism agrees with the audit recommendations. She has said that:

- (a) the shopping malls in the vicinity of the KTCT have already provided mall shuttle bus services to the KTCT. The TC will continue to urge the terminal operator to explore with shopping malls farther away to provide mall shuttle bus services to the KTCT. The TC will also urge the terminal operator to prepare necessary contingency in the event of discontinuation of mall shuttle bus services;
- (b) while the franchised bus service is mainly for the park users, the service provider has extended its service to cover the disembarkation time of cruise passengers on certain occasions (e.g. more ship deployments at the KTCT) in response to the request of the TC and the terminal operator;
- (c) the TC will make it a requirement for the terminal operator to update the traffic management plan annually with immediate effect. Moreover, the TC has been requesting, and will continue to request the terminal operator to provide, on top of the requirement of the TA, dedicated traffic plans for special occasions (double or more berthings on the same day) to ensure that proper transport arrangements are in place for such occasions;
- (d) the terminal operator has provided more than six taxi pick-up points when the actual circumstances, such as the number of taxis available and the number of passengers waiting, so warranted. The TC will continue to urge the terminal operator to be flexible and provide more taxi pick-up points at the KTCT when necessary; and

- (e) the TC will continue to collaborate with the terminal operator and the Transport Department, and in the process, to seek the views of the cruise trade to regularly review the transport services provided at the KTCT for cruise passengers. For instance, a new bus route connecting the KTCT and Kowloon Tong is planned to be introduced in 2018. Meanwhile, the frequency of minibus service and franchised bus service was increased in 2016. The TC will also continue to urge the terminal operator to invite more cruise lines to provide chartered ferry services as an additional means of transport for their passengers.

4.10 The Commissioner for Transport agrees with the audit recommendations in paragraph 4.8(b) and (c). She has said that:

- (a) the green minibuses, franchised bus service and licensed ferry service are intended mainly to serve locals other than cruise passengers;
- (b) the existing franchised bus service (Route No. 5R), as an exceptional arrangement, had extended its service to help disperse cruise passengers on previous occasions. Based on the Transport Department's observation, only 1.5% of the cruise passengers used the existing franchised bus route (Route No. 5R), indicating a very low passenger demand from cruise passengers;
- (c) any long term enhancement plan and proposal to existing franchised bus route services has to be carefully examined, under the prevailing guidelines, by taking into account various factors such as the demand from cruise passengers, the local views and the resources of the public transport services providers, etc.; and
- (d) the Transport Department is planning to introduce a new bus route connecting the KTCT in 2018.

Usage of KTCT facilities

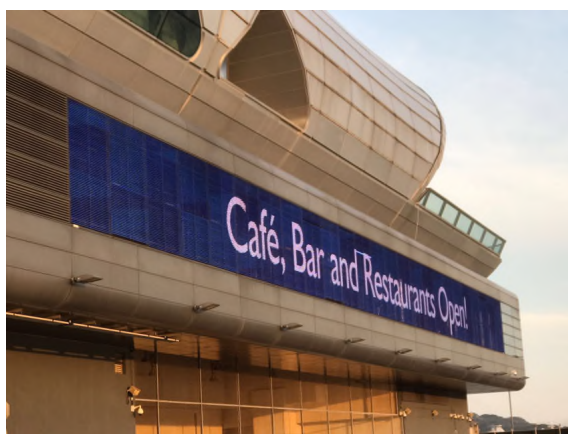
Video wall not let out

4.11 There is a video wall (measuring 60 metres by 3.7 metres) installed on the external wall of the terminal building facing the Hong Kong Island. The video wall was intended for displaying messages and advertisements. According to the TA, the terminal operator is responsible for the maintenance of the video wall and the letting of the video wall. Income generated from the video wall forms part of the gross receipt of the terminal operator in the calculation of the variable rent payable to the Government (see Appendix A).

4.12 Since the commissioning of the KTCT in 2013, the video wall has not been let out and has not generated any income. The video wall has sometimes been used by the terminal operator for displaying messages to cruise passengers on ship call days (see Photograph 18). On special occasions, the HKTB would also use it to display special messages for guests of their events (see Photograph 19). The TC could not provide the number of days that the TC or the HKTB had used the video wall for displaying messages. According to the TA, the terminal operator shall allocate air-time of the video wall to the Government for promotion of Hong Kong tourism and the Government's events and activities without payment of any fee. Audit considers that the TC needs to urge the terminal operator to endeavour to let out the video wall and encourage the use of video wall by other government departments when it is not let to outside parties.

Photograph 18

**Message displayed on the video wall
to cruise passengers on ship call day**



Source: TC records

Photograph 19

**Special message displayed on the video wall
for guests on event day**

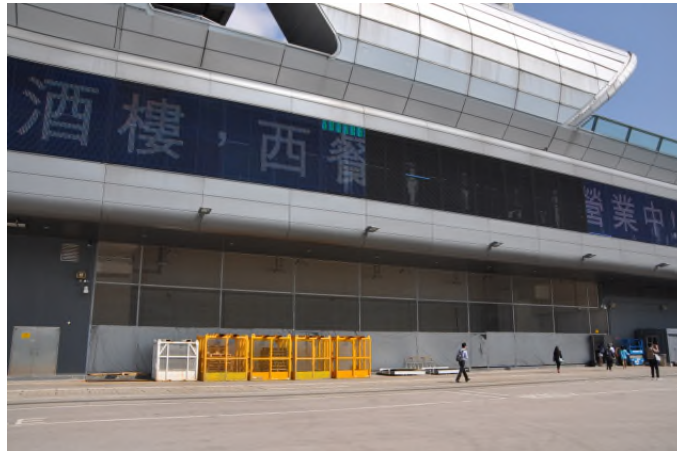


Source: TC records

4.13 According to the TA, the terminal operator shall perform repair and remedial work to the video wall in order to ensure that all parts of the video wall are safe and fit for display and advertisement at all times throughout the term. Audit conducted site visits on 4 November 2016 and 17 January 2017 and found that the video wall was not functioning properly (see Photographs 20 and 21). The repair work on the video wall was completed on 14 February 2017. Audit considers that the TC needs to urge the terminal operator to ensure that repair work on the video wall is carried out in a timely manner and monitor the proper functioning of the video wall regularly.

Photograph 20

The video wall on 4 November 2016



Source: Photograph taken by Audit on 4 November 2016

Photograph 21

The video wall on 17 January 2017



Source: Photograph taken by Audit on 17 January 2017

Need to optimise the use of space reserved for on-shore power supply system

4.14 Spaces are reserved in the KTCT project for the installation of an on-shore power supply (OPS) system. Two plant rooms (occupying a total area of 1,100 m²) are reserved at the KTCT for setting up the system. In November 2013, the Environmental Protection Department (EPD) engaged the Electrical and Mechanical Services Department (EMSD) to study the technical feasibility of installing OPS system at the KTCT, including gauging the readiness of cruise terminals and cruise liners to use OPS system. In July 2014, the EMSD submitted to the EPD its report which confirmed the technical feasibility of installing the OPS system at the KTCT. The EPD and the EMSD carried out follow-up survey in 2015 and found that:

- (a) while the installation of the OPS system at the KTCT was technically feasible, OPS-capable ships were not common worldwide;
- (b) no Asian cruise terminal was providing OPS system, and only a few OPS-capable ships were deployed to the Asian region; and
- (c) in 2014, globally only 32 international cruises were OPS-capable. Three cruise ships would be retrofitted with OPS equipment in 2015, raising the total number of OPS-capable cruise ships to 35, accounting for about 16% of the international cruises in 2015.

The EPD reported the findings of the feasibility study and survey results to the Panel on Environmental Affairs of LegCo in June 2015. Having regard to the above considerations and that an increasing number of cruise ships were fitted with scrubbers (instead of adopting OPS-technology) to comply with the fuel sulphur cap, the Panel supported the EPD's recommendations to put the installation of OPS system at the KTCT on hold, while keeping a close watch of developments on OPS-capable cruise ships to review whether it was appropriate to take forward the installation of OPS at the KTCT.

Administrative issues

4.15 Consequently, the two plant rooms are not equipped with the OPS system. The plant rooms have been used temporarily by the EMSTF since 2015. The usage of the plant rooms in June 2015 and November 2016 was shown in Photographs 22 and 23 respectively. There is a need to review the optimal use of the two rooms with the Government Property Agency's assistance.

Photograph 22

**Use of the switch room inside one of the
OPS system plant rooms in June 2015**



Source: TC records

Photograph 23

Use of one of the OPS system plant rooms in November 2016



Source: Photograph taken by Audit on 4 November 2016

Audit recommendations

- 4.16 **Audit has *recommended* that the Commissioner for Tourism should:**
- (a) **urge the terminal operator to endeavour to let out the video wall;**
 - (b) **encourage the use of video wall by other government departments for promotion of Hong Kong tourism and the Government's events and activities;**
 - (c) **monitor the proper functioning of the video wall regularly and ensure that repair work for the video wall is carried out in a timely manner;**
 - (d) **review whether the current temporary use of the two spare OPS system plant rooms by the EMSTF represents the optimal use; and**
 - (e) **in the light of the result of the review, seek the Government Property Agency's assistance, if necessary, and put the two plant rooms, or part thereof as appropriate, to optimal use.**

Response from the Government

4.17 The Commissioner for Tourism generally agrees with the audit recommendations. She has said that:

- (a) the terminal operator has been making efforts (e.g. site walks with potential clients, invitations for proposals, etc.) to identify an advertising agency or a media company to make use of the video wall for commercial advertisements. The market response has been lukewarm so far. Nonetheless, the video wall has been used in some non-cruise events or by government departments/public bodies. The TC will continue to urge the terminal operator to make vigorous efforts in ensuring the proper functioning of the video wall and letting it out; and
- (b) the spaces reserved for installing the OPS system are of limited accessibility because they are located within the restricted area of the KTCT and can only be accessed through the apron which is also within the restricted area. Such spaces cannot be accessed freely without approval, and they are currently put to gainful use by the EMSTF as a maintenance workshop. The TC will invite the 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.

4.18 The Director of Electrical and Mechanical Services agrees with the audit recommendations in paragraph 4.16(d) and (e).

4.19 Regarding paragraphs 4.14 to 4.16, the Government Property Administrator has said that:

- (a) the KTCT was developed and is managed as a Specialist/Departmental Building. According to the Accommodation Regulations, the management responsibility of a Specialist/Departmental Building rests with its owner department (i.e. the TC in this case), which should, inter alia, take expeditious action to ensure its own government accommodation is put to optimal use and report any surplus accommodation in the annual Stewardship Statement Exercise;

- (b) any change of use of its accommodation (i.e. other than its intended use) by the department will be subject to the approval of the Property Vetting Committee;
- (c) if the owner department is unable to fully utilise its accommodation in supporting its operation and services, it may liaise with the Government Property Agency, which will help identify suitable bureau/department (subject to the agreement of the owner department concerned) to take up the surplus accommodation or its part. If no suitable bureau/department can be identified, the possibility of leasing out the surplus accommodation will be explored with a view to putting the space to gainful use; and
- (d) if the TC has any enquiries on or encounters problems in accommodation issue, the Government Property Agency stands ready to provide accommodation advice and assistance as appropriate with regard to relevant principles and mechanism under the Accommodation Regulations for dealing with government accommodation, or in the event of existence of surplus space, with a view to making appropriate and gainful use of property resources.

Monitoring performance of contractor on facility management services

4.20 Since the commissioning of the KTCT, the facility management services for the government offices and the communal areas in the KTCT have been outsourced through open tender to a contractor. The first contract covered the two-year period from 1 June 2013 to 31 May 2015. The current three-year contract (from 1 June 2015 to 31 May 2018) was awarded in May 2015, with a contract sum of \$25.5 million. The facility management services include site management, security, cleansing, pest control and landscaping maintenance. Site management services include the assistance rendered to ensure the smooth flow of passengers and crowd management during special events.

Areas for improvement

4.21 *Need to set a reasonable timeframe for the submission of yearly report.* Under the first contract, the contractor was not required to submit yearly reports. According to the current contract, the contractor should submit yearly reports to the TC covering various matters on the services provided, including significant matters (e.g. fire accident, breakdown of building service equipment, etc.) that occurred in the year, improvement required and plans for the forthcoming year. Audit noted that:

- (a) the contract had not specified the deadline for the submission of yearly report; and
- (b) the yearly report for the year ended on 31 May 2016 was submitted on 18 January 2017, 7.5 months after the end of the period covered.

The TC sent an email to the contractor in January 2017 requiring the contractor to submit future yearly reports within three months after the end of the period covered.

4.22 *Inadequate coverage of joint site inspections.* According to the contracts, the TC may carry out joint site inspections with the contractor to inspect the quality of services provided. Audit noted that no joint site inspections were carried out under the first contract. The first joint site inspection under the current contract (commencing June 2015) was carried out in February 2016. Since then, joint site inspections have been carried out monthly. Audit review of the joint site inspection records revealed that during the inspections, only the attendance of contractor staff was checked instead of the quality of services. A joint site inspection form was used to record the inspection date, inspection time, name of staff checked, assigned duty location, and the signatures of two inspecting officers from the TC and one staff from the contractor. During the site inspections, the TC staff obtained the roster of the contractor's security guard team and the cleaner team for that day. Then the TC staff, accompanied by the contractor's staff, walked through the locations (e.g. podium, roof garden and immigration hall) where the security guards and the cleaners were supposed to be on duty and checked their presence. The TC staff only checked the attendance of contractor staff of the cleaner team, but did not check the cleanliness and hygiene level achieved. Furthermore, the TC had not issued any guidelines or checklists for site inspections to ensure that the site inspections are carried out effectively and consistently to monitor the quality of the services provided by the contractor.

Audit recommendations

- 4.23 **Audit has *recommended* that the Commissioner for Tourism should:**
- (a) **take action to ensure that yearly reports are submitted by the contractor in a timely manner;**
 - (b) **consider setting guidelines and checklists for joint site inspections to ensure effective monitoring of the quality of services provided by the contractor; and**
 - (c) **ensure that joint site inspections are carried out in a way that is effective in monitoring the quality of the services provided by the contractor.**

Response from the Government

4.24 The Commissioner for Tourism agrees with the audit recommendations. She has said that:

- (a) apart from the requirement to submit yearly reports, the TC has been closely monitoring the performance of the contractor on facility management services through a wide range of measures including the submission of different types of monthly reports, site inspections, monthly operation meetings, half-yearly management meetings and half-yearly user satisfaction surveys; and
- (b) the TC has already required the contractor to submit yearly reports within the specified timeframe of three months after the end of the period covered. The TC will also set guidelines and checklists for joint site inspections to facilitate the monitoring of the quality of services provided by the contractor.

Maintenance of KTCT facilities

4.25 The EMSTF is responsible for, amongst others, providing operation services of air-conditioning system, emergency generator sets and electrical supply system, and maintenance services for the electrical and mechanical engineering systems and equipment at the KTCT. In May 2013, the TC and the EMSTF signed a service level agreement (SLA) for ten years from 1 June 2013 to 31 May 2023. Under the SLA, the EMSTF provides operation and maintenance services to ensure that the KTCT's engineering systems and equipment (e.g. Seaport Passenger Boarding Bridges and Electrical Supply System) are in a safe, efficient and good working condition, and in compliance with relevant statutory requirements and manufacturers' specifications and recommendations as well as satisfying the operational needs of various users of the KTCT. Operation and maintenance costs charged by the EMSTF for the services provided in the contract period from June 2013 to May 2017 are summarised in Table 9.

Table 9

**Operation and maintenance costs charged by EMSTF
(June 2013 to May 2017)**

	1 June 2013 to 31 May 2014 (\$ million)	1 June 2014 to 31 May 2015 (\$ million)	1 June 2015 to 31 May 2016 (\$ million)	1 June 2016 to 31 May 2017 (\$ million)
Annual basic fee	25.6	57.9	59.3	62.8
Ad hoc fee outside the scope of SLA	0	0.2	2.4	0.8 (Note)
Total	25.6	58.1	61.7	63.6

Source: Audit analysis of TC records

Note: The ad hoc fee of \$0.8 million was charged for the services provided by the EMSTF for the period from 1 June to 31 December 2016.

Need to improve performance reporting

4.26 Under the SLA, 28 performance targets have been specified. Areas covered include:

- (a) services availability of major systems;
- (b) response time to fault calls;
- (c) fault rectifications; and
- (d) technical advice on projects and procurement services.

The EMSTF is required to submit half-yearly performance reports on the actual performance of the engineering systems compared with the specified targets.

4.27 According to the SLA, the EMSTF should submit seven performance reports for the seven half-yearly periods from 1 June 2013 to 31 December 2016. However, the EMSTF had only submitted five reports covering the period from 1 January 2014 to 31 December 2016 (see Table 10).

Table 10

**Submission of half-yearly performance reports by the EMSTF
(June 2013 to December 2016)**

Period covered	No. of months covered	Submission date
Jun 2013 to Dec 2013	7	Not submitted
Jan 2014 to Oct 2014	10	28.11.2014
Nov 2014 to Jun 2015 (Note)	8	16.7.2015
Jun 2015 to Dec 2015 (Note)	7	12.1.2016
Jan 2016 to May 2016	5	15.7.2016
Jun 2016 to Dec 2016	7	24.1.2017

Source: Audit analysis of TC records

Note: Both the performance reports submitted on 16 July 2015 and 12 January 2016 covered the performance in June 2015.

4.28 Although the EMSTF reported in all the performance reports that all the performance targets were met, no information on its actual performance was provided.

Need to address water leakage and seepage problem

4.29 The Architectural Services Department (ArchSD) is responsible for the majority of the maintenance and repair of the KTCT building and facilities other than electrical and mechanical engineering systems and equipment. There were 256 maintenance cases reported to the ArchSD and the EMSTF (see para. 4.25) during the period from January 2015 to December 2016 relating to water leakage/seepage, representing 22% of all maintenance cases. The number of reported cases related to water leakage/seepage at the KTCT was 110 in 2015 and 146 in 2016.

4.30 The 146 water leakage/seepage cases reported in 2016 involved 83 cases reported by the terminal operator, and 63 cases reported by the user departments and the facility management contractor. Audit analysed these 83 cases and noted that:

- (a) for the 83 cases, 67 locations were involved; and
- (b) for 12 of the 67 locations, water leakage/seepage occurred more than once, and for 3 of the 12 locations, water leakage/seepage occurred more than twice (see Table 11). On second floor, for one location in the Waiting Hall A, there were four water leakage/seepage cases. For another location at the commercial area, there were three water leakage/seepage cases. On ground floor, there were three water leakage/seepage cases at one location in the Baggage Hall B.

Photograph 24 shows an example of water leakage/seepage location.

Table 11

**Analysis of locations with more than
one water leakage/seepage case reported by the terminal operator
(2016)**

No. of cases	No. of locations (Note)
2	9
3 — 4	3
Total	12

Source: Audit analysis of TC records

Note: Generally, the size of a location of the terminal building measures approximately 12 metres by 42 metres.

Photograph 24

**A location with repeated water leakage/seepage problem
at Waiting Hall A on the second floor**



Source: TC records

Repeated fault cases of lifts/escalators

4.31 At the KTCT, 46 lifts and 32 escalators were installed. Repeated malfunctioning of lifts/escalators would be a safety concern and cause inconvenience to passengers and business operators. Audit analysed the 98 fault cases of lifts/escalators reported in 2015 and 2016 and noted that fault cases had been reported for 21 (27%) of the 78 lifts/escalators. Of the 78 lifts/escalators, 7 (9%) had fault cases more than 5 times. One of them had fault cases 17 times during the period (see Table 12).

Table 12

Analysis of fault cases of lifts/escalators (2015 and 2016)

No. of times involved in fault cases	No. of lifts/escalators	Total no. of fault cases involved	Cause of fault cases		
			Equipment failure	Improper operation	Others (Note)
0	57 (73%)	0	0	0	0
1 – 5	14 (18%)	25	9	6	10
6 – 10	4 (5%)	31	11	14	6
11 – 15	2 (3%)	25	8	9	8
16 – 20	1 (1%)	17	2	11	4
Total	78 (100%)	98	30	40	28

Source: Audit analysis of TC records

Note: Other causes of fault cases included power supply interruption, high ambient temperature, foreign objects and water ingress.

Audit recommendations

4.32 **Audit has recommended that the Commissioner for Tourism should:**

- (a) **ensure that the EMSTF submits half-yearly performance reports in a timely manner, and include in the reports the actual performance;**

- (b) **in collaboration with the ArchSD, take effective measures to address the water leakage and seepage problem;**
- (c) **monitor the effectiveness of the action taken to address the water leakage and seepage problem and, if necessary, step up the action;**
- (d) **in collaboration with the EMSTF, take effective measures to address the problem of lifts/escalators fault cases; and**
- (e) **monitor the effectiveness of the action taken to address the problem of repeated fault cases of lifts/escalators and, if necessary, step up the action.**

Response from the Government

4.33 The Commissioner for Tourism agrees with the audit recommendations. She has said that:

- (a) since mid-2015, the EMSTF has submitted half-yearly reports regularly in January and July each year. The TC will urge the EMSTF to submit reports, covering six-month periods and with information on its actual performance, in a timely manner;
- (b) according to the ArchSD, of the 146 reported leakage/seepage cases in 2016, about 33 cases (23%) were reported during three periods of exceptionally heavy rainfall and typhoon on 2 and 3 August 2016, 18 to 21 August 2016 and 17 to 21 October 2016. The ArchSD explained that of all the reported leakage/seepage cases in 2015, around 85% were minor cases. In 2016, around 93% were minor cases, demonstrating that the situation in terms of severity of the cases has improved;
- (c) the ArchSD will continue to step up actions with relevant parties, including both maintenance and preventive measures, to mitigate the water leakage/seepage issue at the KTCT; and

- (d) of the fault call cases of lifts/escalators received, the EMSTF pointed out that the majority were caused by improper operation mainly related to misuse of keyswitch and external influence such as by foreign objects. Equipment failure constituted a small portion, namely 12 lifts/escalators (out of a total of 78 lifts/escalators installed at the KTCT) in a time span of two years (i.e. 2015 and 2016). The 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.

4.34 Regarding paragraphs 4.29 and 4.30, the Director of Architectural Services has said that:

- (a) the main reason for the increase in the number of reported leakage/seepage cases in 2016 was the much higher annual rainfall, super typhoon and severe rainstorm in 2016. The annual total rainfall in 2015 and 2016 were 1,875 millimetres and 3,027 millimetres respectively. In 2015 and 2016, there were 3 occasions and 9 occasions of tropical cyclones, and 26 occasions and 41 occasions of rainstorms respectively. Of the 146 reported leakage/seepage cases in 2016, about 107 cases were reported during the periods of exceptionally heavy rainfall associated with rainstorms or tropical cyclones; and
- (b) of all the reported leakage/seepage cases, around 85% in 2015 were minor cases and around 93% in 2016 were minor cases, demonstrating that the situation in terms of severity of the cases have indeed improved.

4.35 The Director of Electrical and Mechanical Services agrees with the audit recommendations in paragraph 4.32(a), (d) and (e). He has said that:

- (a) the EMSTF will submit future half-yearly performance reports in January and July each year, and will coordinate with the TC and provide more information on the actual performance in future reports;
- (b) causes of fault cases include equipment failure, improper operation and other causes such as power supply interruption and foreign objects. No lifts/escalators were involved in more than two cases of equipment failure for each of 2015 and 2016; and

- (c) the EMSTF will collaborate with the TC to explore ways to further improve the performance of the lifts/escalators. For instance, in addition to the basic operator training already in place, an enhancement training has been provided in March 2017 to strengthen the knowledge of the operators in operation of lifts and escalators at the KTCT with a view to reducing the occurrence of fault cases arising from improper operation and external influence. Similar enhancement training will be organised regularly in future.

Attendance at ACCI meetings

Attendance rates of some ACCI members on the low side

4.36 The ACCI was established on 28 January 2008 to advise the Government on measures to enhance the development of Hong Kong as a regional cruise hub. The membership of the ACCI for the current term (i.e. 2016-18) comprises the Commissioner for Tourism as the Chairman and 12 members from the cruise market, tourism industry and the HKTB.

4.37 Audit examination of the attendance records up to February 2017 of the 12 current ACCI members during their tenures (Note 7) revealed that the attendance rates of some members were on the low side. Three members had average attendance rates below 50% over their tenures. In particular:

- (a) two members had each attended 1 (10%) out of 10 meetings since their first appointments in January 2012; and
- (b) one member had attended 5 (38%) out of 13 meetings since his first appointment in January 2011.

4.38 Audit noted that the two members with the lowest attendance rates (see para. 4.37(a)) had each been reappointed twice despite their low attendance rates in their previous terms. Notwithstanding that they had each attended only one of the four meetings held during their first term (i.e. from 28 January 2012

Note 7: *The latest ACCI meeting for the current term was held on 15 February 2017.*

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to 27 January 2014), they were reappointed for a second term (i.e. from 28 January 2014 to 27 January 2016) in December 2013. Though they had not attended any of the three ACCI meetings held during their second term, they were reappointed in January 2016 for a third term. They had not attended any of the three ACCI meetings held under the current term.

4.39 Audit considers that the TC needs to take measures to improve the attendance rates of ACCI members with low attendance records. For future reappointment of ACCI members, the TC needs to take into account members' previous attendance records.

Audit recommendations

4.40 **Audit has *recommended* that the Commissioner for Tourism should:**

- (a) **take measures to improve the attendance rates of ACCI members with low attendance records; and**
- (b) **in future give due consideration to the attendance records of members at ACCI meetings when considering their reappointments.**

Response from the Government

4.41 The Commissioner for Tourism agrees with the audit recommendations. She has said that while noting that the low attendance of the members concerned was due to their busy flying schedule, the TC will inform individual members of their attendance as a reminder of the importance of their attendance. To facilitate members' participation, the TC will also arrange facilities for conference calls during meetings and in case members are not available for the meetings, will encourage them to provide written comments. On the whole, the ACCI has been well served by industry representatives and others. That said, the TC will take into account members' involvement and attendance at the ACCI when considering their future reappointments.

Strategic planning

Need to develop a Strategic Plan

4.42 Effective strategic planning is vital for meeting new demands and the challenges of a changing environment. The Strategic Plan should generally set out the strengths, weaknesses, opportunities and threats, as well as strategic objectives, operational goals, strategic actions for achieving the goals and outcome indicators for measuring the performance. The Strategic Plan would also serve to provide new stakeholders an overview of the strategic direction. Furthermore, implementation plans should be prepared to set out the initiatives and targets for achieving the strategic objectives and operational goals stated in the Plan. An annual review process should also be established for examining the extent to which the targets have been attained.

4.43 Audit noted that some overseas tourism authorities (e.g. a tourism authority in Australia) prepare Strategic Plans for cruise tourism to lead the authorities achieve their goals. It is the Government's goal to develop Hong Kong into a leading regional cruise hub through, amongst others, the development of the KTCT with modern facilities which are user-friendly and capable of providing efficient and quality services. The KTCT is one of the key strategic elements in achieving such goal. In March 2017, the TC informed Audit that, from time to time, the TC analysed the situations of the cruise industry and the possible strategic directions for developing Hong Kong into a leading regional cruise hub. For instance:

- (a) in April 2014, the Asia Cruise Fund was established to demonstrate Hong Kong's commitment to encourage regional cooperation among neighbouring ports and incentivise cruise lines to include Hong Kong and the participating ports in their ship itineraries;
- (b) in October 2015, the TC set out a plan on how to further drive demand for fly-cruise products with cruise itineraries embarking from/disembarking in Hong Kong;
- (c) in December 2016, the TC discussed with industry stakeholders its analysis of the current position of Hong Kong in the development of cruise tourism in the region, with an assessment of the strengths,

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weaknesses, opportunities and threats of Hong Kong with reference to neighbouring ports in the region, and considered possible strategic directions to drive more ships to Hong Kong and to cultivate source markets; and

- (d) in February 2017, in view of the changing cruise industry environment, the TC updated its strategies to develop Hong Kong into a leading regional cruise hub as follows:
 - (i) diversifying cruise tourism by cultivating and activating the growth of various source markets;
 - (ii) bringing in more high-spending/overnight visitors to Hong Kong;
 - (iii) driving more ship deployments to Hong Kong; and
 - (iv) elevating Hong Kong's profile in the international cruise tourism trade.

4.44 In Audit's view, a structured strategic planning process could be a useful means of soliciting advice and securing support from key stakeholders in the cruise and tourism industry. There is merit for the TC to produce a document in the form of a Strategic Plan, incorporating all the elements of strategic planning (such as strengths, weaknesses, opportunities and threats, as well as strategic objectives, operational goals, strategic actions for achieving the goals and outcome indicators for measuring its performance).

Audit recommendations

4.45 **Audit has *recommended* that the Commissioner for Tourism should:**

- (a) **establish a strategic planning mechanism for formulating strategies and initiatives of developing Hong Kong into a leading regional cruise hub;**

- (b) **develop a Strategic Plan incorporating elements such as strategic objectives, strategic directions and strategic actions; and**
- (c) **review and update the Strategic Plan periodically to take into account changes in the cruise industry.**

Response from the Government

4.46 The Commissioner for Tourism agrees with the audit recommendations. She has said that:

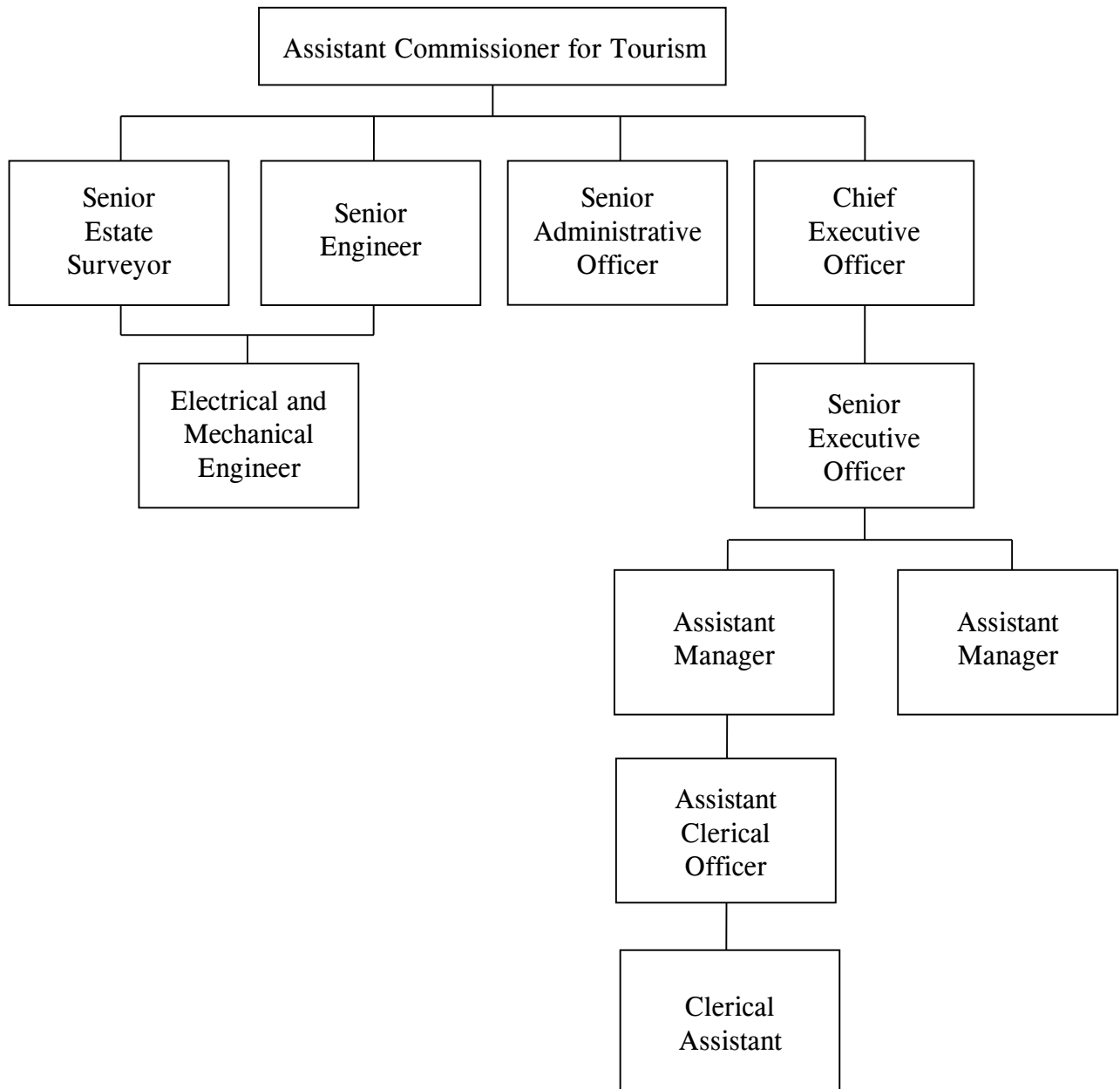
- (a) the TC is committed to continuing the strengthening of strategic planning for developing Hong Kong into a leading cruise hub, including the necessary strategic directions and initiatives. In the past years, these strategic directions and initiatives on cruise tourism development in Hong Kong were reflected and promulgated every year in the Government's Policy Addresses, Policy Agendas as well as Budget Speeches. The TC has been seeing positive results, with the number of ship calls increased by 115% and the total passenger throughput by 254% from 2013 to 2016. Also, the cruise vessels calling at the KTCT have also become more diversified, with the number of international cruise brands doubled from 9 in 2015 to 18 in 2016; and
- (b) the TC has consulted the ACCI in the process of formulating the strategic directions and initiatives on cruise tourism development. The TC will extend such consultation in its strategic planning process to cover tourist attractions, hotels and the retail sector starting this year. The TC will also formalise this engagement process and consolidate the various strategies and initiatives into a single document entitled "Strategic Plan for Cruise Tourism" for easy reference.

**Schedule of variable rent (as percentage of annual gross receipt)
payable by the terminal operator to the Government**

Annual gross receipt	Percentage
Such part of annual gross receipt ≤ \$30 million	7.3 %
Such part of annual gross receipt > \$30 million to ≤ \$60 million	18 %
Such part of annual gross receipt > \$60 million to ≤ \$90 million	23 %
Such part of annual gross receipt > \$90 million	34 %

Source: TC records

**Cruise Team of the Tourism Commission:
Organisation chart
(31 December 2016)**



Source: TC records

Remarks: Apart from overseeing the Cruise Team's work, the Assistant Commissioner for Tourism is also responsible for other duties under the purview of the TC, including overseeing the work of Disney Team.

Acronyms and abbreviations

ACCI	Advisory Committee on Cruise Industry
ArchSD	Architectural Services Department
Audit	Audit Commission
EMSD	Electrical and Mechanical Services Department
EMSTF	Electrical and Mechanical Services Trading Fund
EPD	Environmental Protection Department
FC	Finance Committee
HKTb	Hong Kong Tourism Board
KTCT	Kai Tak Cruise Terminal
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
m ²	Square metres
OPS	On-shore power supply
SLA	Service Level Agreement
TA	Tenancy Agreement
TC	Tourism Commission