

立法會
Legislative Council

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(These minutes have been
seen by the Administration)

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Finance Committee of the Legislative Council

**Minutes of the 5th meeting
held at the Legislative Council Chamber
on Friday, 21 December 2001, at 2:30 pm**

Members present:

Dr Hon Philip WONG Yu-hong (Chairman)
Hon NG Leung-sing, JP (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, GBS, JP
Dr Hon David CHU Yu-lin, JP
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, JP
Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, GBS, JP
Dr Hon LUI Ming-wah, JP
Hon Margaret NG
Hon Mrs Selina CHOW LIANG Shuk-yee, JP
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching, JP
Hon CHAN Yuen-han, JP
Hon CHAN Kam-lam
Hon LEUNG Yiu-chung
Hon Andrew WONG Wang-fat, JP
Hon WONG Yung-kan
Dr Hon YEUNG Sum
Hon YEUNG Yiu-chung, BBS

Hon LAU Kong-wah
Hon LAU Wong-fat, GBS, JP
Hon Ambrose LAU Hon-chuen, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon CHOY So-yuk
Hon Andrew CHENG Kar-foo
Hon SZETO Wah
Hon LAW Chi-kwong, JP
Hon TAM Yiu-chung, GBS, JP
Dr Hon TANG Siu-tong, JP
Hon Abraham SHEK Lai-him, JP
Hon LI Fung-ying, JP
Hon Henry WU King-cheong, BBS
Hon Tommy CHEUNG Yu-yan, JP
Hon Michael MAK Kwok-fung
Hon Albert CHAN Wai-yip
Hon LEUNG Fu-wah, MH, JP
Dr Hon LO Wing-lok
Hon Frederick FUNG Kin-kee
Hon IP Kwok-him, JP
Hon LAU Ping-cheung
Hon Audrey EU Yuet-mee, SC, JP
Hon MA Fung-kwok

Members absent:

Hon Cyd HO Sau-lan
Hon Fred LI Wah-ming, JP
Hon CHAN Kwok-keung
Hon Bernard CHAN
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon SIN Chung-kai
Hon Jasper TSANG Yok-sing, JP
Hon Howard YOUNG, JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-yea, JP
Hon Timothy FOK Tsun-ting, SBS, JP
Hon WONG Sing-chi

Public officers attending:

Mr Stanley YING, JP Mr K K LAM	Deputy Secretary for the Treasury Principal Executive Officer (General), Finance Bureau
Mr Arthur HO, JP Mr S V CHAI	Deputy Secretary for Transport Principal Government Engineer/Railway Development of Highways Department
Mr L T MA	Government Engineer/Railway Development of Highways Department
Mr M J T ROWSE, JP Ms Ellen CHOY	Director-General of Investment Promotion Principal Assistant Secretary for Commerce and Industry
Mr Simon GALPIN	Associate Director-General of Investment Promotion
Miss Glenda CHAN Miss Erica NG	Principal Economist Principal Assistant Secretary for the Treasury
Mrs Teresa CHU Wong Lai-fun Mr Kenneth MAK	Assistant Commissioner of Inland Revenue Deputy Secretary for Commerce and Industry
Mr Philip CHAN	Principal Assistant Secretary for Commerce and Industry
Mr Justin YUE	Chief Executive Officer, Tradelink Electronic Commerce Limited

Clerk in attendance:

Ms Pauline NG	Assistant Secretary General 1
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Staff in attendance:

Miss Polly YEUNG	Chief Assistant Secretary (1)3
Ms Mabel CHAN	Senior Assistant Secretary (1)4

Item No. 1 - FCR(2001-02)48

**RECOMMENDATIONS OF THE PUBLIC WORKS SUBCOMMITTEE
MADE ON 28 NOVEMBER 2001**

The Committee approved the proposal.

Item No. 2 - FCR(2001-02)49

HEAD 60 - HIGHWAYS DEPARTMENT

◆ Subhead 000 Operational expenses

Proposed creation of one supernumerary post of Chief Engineer (D1) in the Highways Department up to 31 December 2004

2. Members noted that the present proposal had been discussed at the previous Finance Committee (FC) meeting on 7 December 2001.

3. Miss Margaret NG queried whether it was procedurally acceptable for the Administration to submit the same proposal to FC at a following meeting after it had been rejected by members at a previous meeting. She considered that by doing so, the Administration might have abused the process in order to secure passage of its proposal. Her view was supported by Dr YEUNG Sum.

4. Upon the Chairman's request, the Clerk to FC advised that under the FC Procedure, there was no provision which prohibited the Administration from re-submitting the same proposal to FC after the same proposal had been rejected by FC at a previous meeting.

5. Mr CHEUNG Man-kwong shared Miss Margaret NG's views and recapped the concerns raised by Members of the Democratic Party (DP) at the FC meeting on 7 December 2001. They rejected the proposal because there was no need to retain the supernumerary Chief Engineer/West Rail (CE/WR) post up to end December 2004, i.e. 12 months after the scheduled commissioning of the West Rail (WR) project in December 2003. He informed members that in the past, it had been a common practice for the Administration to seek FC's approval for extending a supernumerary post usually six months prior to the scheduled completion of a project. FC members would then consider each staffing proposal on its merits. He remarked that the handling of the present proposal had deviated from this practice, i.e. FC's approval was being sought long before the scheduled completion of the WR project (end of 2003).

6. On the Administration's undertaking in paragraph 3 of the paper FCR(2001-02)49, Mr CHEUNG Man-kwong said that he had further discussion with representatives of the Administration on 20 December 2001. The Deputy Secretary for Transport (DS(T)) explained that the two approaches in handling staffing proposals as described by Mr CHEUNG Man-kwong had both been adopted by the Administration. Regarding the present case, the outstanding duties of the WR project at the completion of WR would require substantial knowledge of the project works and professional judgement. The Administration had come to the view that it was necessary to retain the CE/WR post for a period of 12 months after commissioning of WR and had therefore put up the staffing proposal for members' consideration at this stage.

7. DS(T) further advised that the Administration fully appreciated members' concerns expressed at the FC meeting on 7 December 2001 that the post concerned should not be retained for a period longer than what was really necessary and would endeavour to complete the major work early. In any case, the Administration had undertaken that it would not seek any further extension of the post beyond 31 December 2004. Any outstanding work of the project would be taken up by other remaining or redeployed staff. DS(T) undertook that the Administration would report to the Establishment Subcommittee (ESC) its assessment on the continued need or otherwise of the CE/WR post around end 2003 when WR was scheduled for commissioning. The post would be deleted if the assessment at that time indicated that the post was no longer needed before 31 December 2004. However, if the Administration considered that there was still a need to retain the post for 12 months, i.e. up to end 2004, the Administration would provide ESC with full justification. If members of ESC would not accept the justification, the Administration would provide more detailed explanations with a view to persuading members to accept the assessment. However, if after examining the explanations, most members were still of the view that the post should be deleted before 31 December 2004, the Administration would handle the post in accordance with the views of members..

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8. Mr CHEUNG Man-kwong said that he was agreeable to the Administration's undertaking and requested that it be recorded in the minutes of meeting for future reference. He reiterated that the Administration should not preempt members' decision on the duration of the post in question. In response to Dr YEUNG Sum, DS(T) clarified that the aforesaid undertaking had not been explicitly included in the paper because the relevant request was brought to the Administration's attention after the paper had been issued.

9. Miss Margaret NG maintained her reservation that the same proposal rejected by FC should not be submitted to FC for the second time. In response, the Deputy Secretary for Treasury (DS(Tsy)) confirmed that unless for very

exceptional reasons, the Administration would rarely submit the same proposal to FC twice although this was procedurally in order. The present proposal was different from the proposal considered by FC on 7 December 2001 in that the Administration had given further undertaking in respect of the duration of the CE/WR post. In elaboration, DS(T) pointed out that the Highways Department had re-examined the justification for the staffing proposal. The current proposal had incorporated some changes in that the Administration had undertaken, inter alia, not to extend the post beyond December 2004 and to revert to ESC if the CE/WR post could not be deleted prior to end December 2004.

10. Mr James TIEN recapped that Members of the Liberal Party (LP) had rejected the proposal at the FC meeting on 7 December 2001 as they shared the concerns raised by Mr CHEUNG Man-kwong. In view of the Administration's undertaking, he considered the current proposal more acceptable than the previous one. On this basis, Members of LP would support the present proposal.

11. Noting that upon expiry of the CE/WR post in December 2004, the Administration would not seek any further extension and that outstanding duties of the project would be taken up by other staff, Dr Raymond HO urged the Administration to make the necessary succession plan so that when required, CE/WR's deputies/assistants would be able to take up the outstanding duties quickly. DS(T) noted Dr HO's suggestion.

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12. Regarding the value and number of contracts involved in the current claims in the WR project, the Principal Government Engineer/Railway Development of Highways Department (PGE/RD of Hy D) advised that the WR project involved 46 contracts with a total cost of \$46.4 billion. At present, there were more than 200 claims involving some \$400 million relating to Government's Essential Public Infrastructure Works.

13. Referring to paragraph 9 of the paper, Mr LAU Ping-cheung queried why CE/WR would be required to handle the maintenance and operation issues of the WR during its initial stage of operation. In reply, the PGE/RD of Hy D advised that while the daily operation and maintenance works related to WR would be carried out by the Kowloon-Canton Railway Corporation, the CE/WR would be required to oversee and help resolve expeditiously the outstanding maintenance and operation issues of the associated Essential Public Infrastructure Works.

14. Mr CHAN Kam-lam said that Members of the Democratic Alliance for Betterment of Hong Kong supported the Administration's proposal of extending the post up to end December 2004 because for a massive project like WR, it was impossible to complete all the outstanding duties within six months after the commissioning of the WR, i.e in June 2004, as suggested by some members at the

last FC meeting. He agreed that it would be a good arrangement for the Administration to submit its assessment to the ESC around end 2003 for members' consideration. He nevertheless stated his view that members should not simply seek to minimize the proposed duration of a post but should examine the justifications of each staffing request per se.

15. The Committee approved the proposal.

Item No. 3 - FCR(2001-02)50

CAPITAL INVESTMENT FUND

NEW HEAD - "NEW EXHIBITION CENTRE AT CHEK LAP KOK"

◆ New Subhead "Equity in the International Exhibition Centre"

16. Members noted that the present proposal had been discussed by the Panel on Commerce and Industry on 12 November 2001.

17. Miss CHOY So-yuk supported in principle the establishment of a new International Exhibition Centre (IEC) at Chek Lap Kok (CLK) but expressed concern about the funding arrangement for the project. She pointed out that there was no question about the need for more exhibition facilities in Hong Kong, but the recent announcement of the Government's plan to fully fund the extension of the Hong Kong Convention and Exhibition Centre (HKCEC) in Wanchai would make the proposed IEC project financially not viable. As the IEC would be a tripartite joint venture (comprising a private sector participant, the Government and the Hong Kong Airport Authority (AA)) and the private sector participant was expected to finance half of the \$4 billion construction cost of IEC, Miss CHOY queried how IEC could stay competitive and viable in the face of HKCEC. She further pointed out that the industry was in need of a large exhibition centre with all basic requirements at reasonable charges. There was no need to incur \$4 billion to build another venue for high-end exhibitions, as the industry would not be able to afford the resultant high charges.

18. In response, the Director-General of Investment Promotion (DG of IP) clarified that the existing extension wing of the HKCEC provided some 28 000 m² and 10 000 m² of exhibition area and meeting/convention area respectively while the proposed IEC would provide 50 000 m² net usable area for exhibitions. On the funding arrangement by way of a tripartite joint venture would ensure the commitment on the part of the private sector participant in the success of the project. As the proposal to develop a new IEC at CLK was not financially viable from the investment point of view, the selected private sector participant

would be allowed to secure a return on its investment on a priority basis up to a preferred return rate specified in its bid during the franchise period. DG of IP further confirmed that the proposed IEC would not be another high-end facility and would cater for the needs of the exhibition trade. The actual construction cost might be less than \$4 billion as a result of competitive bidding and depending on whether it would be developed in a single- or two-phase scenario. However, funding approval was needed to demonstrate the Government's commitment and capability for undertaking the project when conducting the international road show.

19. In this connection, the Principal Assistant Secretary for Commerce and Industry (PAS(CI)) supplemented that although government funding was provided for the construction of phases I and II of the HKCEC, the HKCEC was now run on prudent commercial principles. She advised that the Trade Development Council was still studying the feasibility of a proposal to build a further extension to the HKCEC. At this stage, there was no finalized plan yet.

20. Mr Albert CHAN also considered the estimated construction cost of \$4 billion for 50 000 m² of net usable area too high. In response, DG of IP reiterated that \$4 billion was only the estimated maximum cost. The amount was not exclusively for the IEC but also included the estimated cost for providing the necessary infrastructure and transportation facilities. On whether there was a continued need for government funding, DG of IP assured members that the Government's contribution under the present proposal was one-off and the future IEC would have to finance its own operation.

21. Dr LUI Ming-wah suggested that the Government should either fund the construction cost for the IEC in full and select a private operator to manage the facility, or provide more detailed information on the contract to be entered into with the private sector participant if a joint venture was to be formed. Dr LUI considered the existing arrangements of the HKCEC unsatisfactory as users were charged very high fees and there was very little the Government could do under the contractual agreement with the operator. He reiterated that if the Government funded the entire IEC project, it would have a greater say in future management matters such as the level of charges.

22. In response, DG for IP advised that the Government did not see a need for it to bear the entire construction cost as according to the Government's assessment, it should be able to secure third party investment in the IEC project under the proposed preferred return rate and income-sharing arrangements. At this stage, the Administration was not in a position to provide details of the contract pending discussion with leading operators worldwide during the international road show. In assessing bids, the Administration would give due consideration to factors such

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as robustness of business plans and the bidders' ability in attracting new exhibition business to Hong Kong. DG of IP confirmed that progress would be reported to the Panel on Commerce and Industry in due course.

23. Regarding the choice of site for IEC, DG of IP informed members that a number of locations had been examined by the consultant engaged for the purpose. The two best locations were North Lantau and CLK. CLK was the only site which was available, serviced and formed by 2005 when the new facility was required. Synergy could also be achieved as the completion of the IEC would likely tie in with that of the Disneyland in 2005. Experience elsewhere had indicated that those who came for the exhibition would also visit the town as a whole, hence benefiting the rest of the community.

24. Noting that AA would contribute the site, time and money and reserve for the first ten years of the IEC's operation an additional piece of adjoining land to cater for further expansion, Mr James TIEN asked why AA would only exchange for a 10% equity stake in the joint venture but not higher. In reply, DG of IP said that 10% was a compromise reached after negotiation between the Government and AA.

25. On future development plans on the airport island, Mr James TIEN recalled that at a recent meeting of the Economic Services Panel, the AA had briefed members on a massive SkyCity comprising not just the IEC, but also office and retail developments. Both he and some Panel members had expressed reservation on AA's expanded scope of activities. They questioned whether this expansion of activities would be consistent with AA's role in managing the airport and maintaining Hong Kong's status as an aviation centre. DG of IP said that he was not in a position to comment on proposed developments outside his policy purview but confirmed that the provision of an exhibition centre was compatible with the objective of the airport. Moreover, about half of exhibition materials were usually flown in.

26. Given the prevailing economic condition, Mr James TIEN asked whether the Government had in mind any reasonable level of preferred return. In response, DG of IP said that he could not speculate on the return rate. While bidders specifying a lower preferred return rate might secure a better chance of being selected, other factors such as the bidder's management experience and track record in attracting business would also count. DG of IP further confirmed that the preferred return rate was different from the Scheme of Control Agreement applicable to utility companies as the former was not a guaranteed return and the Government would not have to top up the shortfall, if any. He added that the preferred return rate was cumulative and through competitive tendering, the Government would be able to secure a lower level of preferred return rate.

27. Mr James TIEN asked whether consideration had been given to a bipartite joint venture consisting of a private partner with either the Government or the AA. In reply, DG of IP advised that as the land of the airport island belonged to AA pursuant to a private treaty grant, AA's partnership in return for an equity stake was essential unless the government somehow acquired the land. On the other hand, if the Government was not to participate in the project, it would have to inject extra capital into the AA to permit it to do so. DG of IP pointed out that under the current arrangement, the Government would be represented on the Board of Directors of the joint venture to ensure proper monitoring of both the construction and future operation of the IEC.

28. Mr Albert CHAN held the view that as AA had already received a sizable capital injection from the Government and was granted some 1 000 hectares of land, it should be in a position to implement the IEC project. Mr CHAN considered that AA should undertake the project and invite tender. Only if this failed should the Government consider funding part of the cost.

29. For clarification, DG of IP said that the \$2 billion was not a capital injection into AA, but the Government's maximum share of the construction cost of the IEC in exchange for equity and representation on the board of the joint venture. As to why AA would not develop the project on its own, DG of IP advised that this was because the IEC project was assessed to be not financially viable and AA must operate in accordance with prudent commercial principles. He stressed that an essential element of the present proposal was a competitive tendering exercise in which bidders worldwide would submit bids on the basis of their proven ability and their preferred return rate on investment.

30. Mr Albert CHAN urged that the long-term financial viability of the IEC should be carefully assessed in the face of keen competition from the Mainland and neighbouring countries and the failure of similar projects elsewhere. He saw no urgency for approving the funding at this meeting. DG of IP was aware of similar exhibition facilities in neighbouring areas and pointed out that if the IEC project was not proceeded with, thousands of job opportunities and potential exhibition business in Hong Kong would be foregone. On financial viability or otherwise, DG of IP advised that if contrary to the assessments by the Government and AA, the IEC project proved to be financially viable, then it would mean the surplus income above the preferred return rate available for distribution among the three parties would also be higher and the Government would be able to secure a greater share of revenue in future years.

31. Mr Abraham SHEK did not fully subscribe to the Administration's view and cautioned that if the project was not financially viable, the Government might have to bear the costs ultimately. He doubted how, under prudent commercial

principles, AA could contribute the land to a financially unviable project and such action might affect the value of land in Hong Kong. Mr SHEK questioned whether the Administration had conducted any sensitivity tests on the recommendations of the consultancy report as he considered that the private sector might find the project attractive since no land premium had to be paid. Mr SHEK found it difficult to support the present proposal on the basis of the limited information available.

32. In response, PAS(CI) clarified that AA was contributing the land in exchange for a 10% equity stake in the joint venture. She advised that apart from the original consultancy study completed in 1999, the Administration had commissioned further consultancy studies which had come to the view that the IEC project was not financially viable from an investment standpoint. The currently proposed funding model was a reasonable arrangement.

Admin

33. On whether the Administration had examined the feasibility of the private sector undertaking the IEC project, DG of IP confirmed that according to the assessments by the Administration and its financial advisers, the project was not financially viable. He agreed to provide the relevant assessments for members' reference. DG of IP also informed members that in other Asian countries, government support was provided for similar facilities on account of the economic benefits brought to the entire community. In some countries, such facilities were 100% government-funded.

34. Miss Emily LAU agreed that there was inadequate information in support of the funding proposal. She also queried the prudence of committing up to \$2 billion in the face of the huge deficit without first tapping the readiness of the private sector in developing the project. She found it difficult to support the present proposal.

35. Dr YEUNG Sum suggested that the Administration should withdraw the paper and provide further information to address members' concerns about the high construction cost and the assessments on financial viability.

Admin

36. Mr CHAN Kam-lam recapped that at the last meeting of the Panel on Commerce and Industry, members present generally supported the development of an IEC in Hong Kong. Members of the Democratic Alliance for Betterment of Hong Kong also supported the establishment of an IEC on account of its importance in enhancing Hong Kong's position as a financial and logistics centre. However, in view of members' concerns, Mr CHAN suggested that the Administration should withdraw the paper and brief the Panel on Commerce and Industry on further details such as the equity arrangements and future operation of the joint venture. He commented that if justified, an economic infrastructure such

as an IEC should be supported.

37. Miss CHOY So-yuk reiterated her concern about the proposed funding arrangement and high construction cost, but agreed fully with the need to provide an additional exhibition centre. Based on her experience, she cautioned that international investors might be interested in developing an IEC in Hong Kong for the sake of dominating the exhibition business. She requested the Administration to provide members with information on the potential investors identified from the international roadshow. To facilitate members' consideration, she also asked the Administration to provide more concrete information on the financial arrangements for the further expansion of the HKCEC in Wanchai.

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38. Dr LUI Ming-wah concurred with the need for an additional IEC in Hong Kong but reiterated his concern about whether the current proposal was good value for money. He urged the Administration to furnish more information and revert to FC in the near future.

39. Mr Albert CHAN summed up that in principle, Members of DP supported the establishment of an IEC. However, they were concerned about the effectiveness of the funding and related arrangements.

40. Noting members' views, DG of IP said that the Administration would discuss the proposal further with the Panel on Commerce and Industry at its next meeting in January 2002 and provide the necessary information for members' consideration. The Administration would hope to revert to FC in January 2002. DS(Tsy) withdrew the proposal.

Admin

41. Mrs Selina CHOW, who had not spoken on the present proposal, requested to put on record her declaration of interest. (*Note: Mrs CHOW is a Board Member of the AA.*)

42. The proposal was withdrawn by the Administration.

Item No. 4 - FCR(2001-02)51

HEAD 76 - INLAND REVENUE DEPARTMENT

◆ Subhead 189 Interest on tax reserve certificates

43. Members noted that an information paper had been circulated to the Panel on Financial Affairs on 13 December 2001.

44. In reply to Miss Emily LAU's enquiry about the exceptionally large redemption cases requiring increased expenditure on payment of interest on Tax Reserve Certificates (TRCs), the Principal Assistant Secretary for the Treasury advised that the maximum interest earning period for TRCs was 36 months. However, as some TRCs of large value had not been redeemed last year as anticipated by the Administration, their redemption this year had resulted in the need to seek supplementary provision.

45. The Committee approved the proposal.

Item No. 5 - FCR(2001-02)52

CAPITAL INVESTMENT FUND

HEAD 971 - TRADELINK ELECTRONIC COMMERCE LIMITED

♦ Subhead 101 Purchase of equity in Tradelink Electronic Commerce Limited

46. Members noted that the present proposal had been discussed by the Panel on Commerce and Industry on 10 December 2001.

47. The Committee approved the proposal.

48. The Committee was adjourned at 4:20 pm.

Legislative Council Secretariat

11 March 2002