

ITEM FOR FINANCE COMMITTEE

HEAD 53 - GOVERNMENT SECRETARIAT: HOME AFFAIRS BUREAU Subhead 800 Departmental other non-recurrent

Members are invited to accept in principle the financial implications of Hong Kong hosting the Fifth East Asian Games in 2009.

PROBLEM

To bid for the right to host the Fifth East Asian Games in 2009 (2009 EA Games) in Hong Kong, the Sports Federation and Olympic Committee of Hong Kong, China (SF&OC) would need to submit an Expression of Interest to the East Asian Games Association (EA Games Association)^{Note} with the guarantee and commitment of the Government of the Hong Kong Special Administrative Region (HKSAR). The financial implications in terms of a Government subsidy to meet the operating deficit for hosting the 2009 EA Games is estimated to be in the order of \$84 million.

PROPOSAL

2. It is proposed that, subject to Members' acceptance in principle of the financial implications, Hong Kong should make a formal bid to the EA Games Association for hosting the 2009 EA Games.

/JUSTIFICATION

^{Note} The East Asian Games Association comprises ten National Olympic Committees: PR China, D.P.R. Korea, Hong Kong, Japan, Korea, Macau, Mongolia, Chinese Taipei, Kazakhstan and Guam.

JUSTIFICATION

Benefits

3. The EA Games is a major event in East Asia. By hosting the 2009 EA Games, Hong Kong could –

- (a) raise its prestige and profile in the region;
- (b) promote its image as a world city for hosting international events;
- (c) attract more inward investment;
- (d) create job opportunities;
- (e) enhance its tourism industry; and
- (f) foster its sporting culture.

Preliminary Feasibility Assessment

4. We have conducted a preliminary feasibility assessment and have concluded that Hong Kong is capable of hosting the 2009 EA Games on the basis of the following –

- (a) The structure and scale of the event would broadly follow those of the past EA Games, i.e.
 - (i) Duration of the Games: 10 to 12 days;
 - (ii) No. of competition events: about 20. For reference, the events organized in the First to Fourth EA Games are shown in Enclosure 1;
 - (iii) No. of participating countries and regions: 11;
 - (iv) No. of athletes and delegation members: about 2 000;
 - (v) No. of press members: about 300; and
 - (vi) Television coverage: all competition events.
- (b) The competition events would mostly be held in existing Government venues and be supplemented by some non-governmental venues such as Hong Kong Convention and Exhibition Centre and South China Athletic Association, etc.

Encl. 1

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- (c) The Government venues would be upgraded and supplemented with additional temporary works to meet the international standard for holding the respective competition events, including sufficient supporting ancillary facilities such as training/warming up areas for athletics, changing rooms, and working areas for judges and media, etc.

Reasons for Choosing to Bid the 2009 EA Games

5. We have reviewed the calendar of forthcoming international sports events. Ten major sports events have been scheduled from now till 2010 as follows –

Year	Name of Event	Hosting City
2003	China National City Games	Changsha
2004	Olympic Games	Athens
2005	East Asian Games	Macau
	China National Games	Nanjing
2006	Asian Games	Doha
2007	China National City Games	To be announced
2008	Olympic Games	Beijing
2009	East Asian Games	To be decided
	China National Games	To be decided
2010	Asian Games	To be decided

6. Among the three major sports events which are still open for bidding, we consider it appropriate to bid for the hosting of the 2009 EA Games because –

- (a) being an international event, the EA Games will help promote the image of Hong Kong as a world city and raise the profile of Hong Kong in the regional and international sports arena. In terms of tourism, hosting the EA Games will also help attract tourists from the Mainland as well as other parts of the world; and
- (b) the resources required to host the EA Games are moderate when compared with those required to host either the Asian Games or the China National Games. Regarding the Asian Games, the consultancy study conducted in 2000 when Hong Kong bid the hosting right of the 2006 Asian Games indicates that the anticipated deficit for hosting

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Asian Games would be \$945 million. Regarding the China National Games, our very preliminary assessment, based on the delivery of the 9th Games held in Guangdong in 2001 and calculated with reference to the current local price level, shows that the anticipated deficit will be over \$700 million. On top of this, the Government would also have to inject about \$5,000 million to build the infrastructures required for both the Asian Games and the China National Games e.g. an athlete village, a new stadium with 70 000 seats, and a velodrome etc.

PROPOSED MODUS OPERANDI

7. To seek the hosting right, the SF&OC will submit an Expression of Interest with the guarantee and commitment of the Government of the HKSAR to the EA Games Association for consideration.

8. If the application was successful, the SF&OC and the Government would enter into a bilateral agreement specifying their respective commitments and obligations, and set up an organizing committee to oversee the delivery of the 2009 EA Games. The organizing committee would establish a small secretariat, and a wholly-owned subsidiary to deal with the daily operations for organizing the events. We would make arrangements, on a need basis, for Leisure and Cultural Services Department (LCSD) staff to be seconded to the organizing committee to provide support in the organization, publicity and receptions of the 2009 EA Games. LCSD will arrange for internal redeployment or employment of contract staff to cope with the short-term increase in work.

FINANCIAL IMPLICATIONS

Overview

9. The expenditure for seeking the hosting right would not be significant, given that it is not necessary to prepare an extravagant document or to stage any major publicity activities. Some public relation expenses, which would be absorbed by the Home Affairs Bureau and LCSD would however be expected.

10. Based on our preliminary estimate, we expect that hosting of the 2009 EA Games would result in an operating deficit of \$84 million. The estimated expenditure, calculated on the basis of data collected in 2000 for bidding the hosting right of the 2006 Asian Games, would be about \$171 million. On the revenue side, we expect that around \$87 million would be generated. Taking into

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account the revenue foregone of \$5 million due to the use of the LCSD venues for holding the competition events, the total financial implications to Government would therefore be \$89 million. Major components of the estimated revenue and expenditure of the event are described below.

Projected Expenditure

11. We estimate that the gross expenditure for hosting the 2009 EA Games would be about \$171 million, broken down as follows –

	Current prices (\$ million)
(a) Staff	50
(b) Administration	8
(c) Information technology facilities and equipment	10
(d) Broadcasting costs	20
(e) Accommodation and catering	8
(f) Venue sports events	19
(g) VIP hospitalities	5
(h) Transportation	4
(i) Publicity	8
(j) Opening and closing ceremonies	25
(k) Security	10
(l) Volunteers	4
Total	171

Encl. 2 A more detailed note of the individual items of estimated expenditure is at Enclosure 2.

12. It should be noted that the estimated expenditure of \$171 million has not included the following financial implications –

- (a) the hiring charges for using Government venues for staging the opening and closing ceremonies and the competition events. In this regard, notional revenue of around \$5 million would be forgone; and

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- (b) the notional cost of seconding LCSD staff to the organizing committee for varying periods. Redeployment or employment of short term staff would be arranged to cope with the short term increase in workload arising from the secondment. We have already included the estimated expenditure for this purpose in the budget as staff cost in Enclosure 2.

Projected Revenue

13. We expect that the gross revenue to be generated from hosting the 2009 EA Games would be about \$87 million, broken down as follows –

	Current prices (\$ million)
(a) Sponsorship	30
(b) Television Rights	25
(c) Ticket Sales	10
(d) Licensing and Merchandising	10
(e) Charged Accommodation	8
(f) Other Income	4
Total	87

Encl. 3 A more detailed note of the individual items of estimated revenue is at Enclosure 3.

Government Commitment

14. The Government would need to provide funding for planning and operating the event as well as for upgrading the sports facilities. Based on the projected revenue and expenditure as shown in Enclosures 2 and 3, hosting the 2009 EA Games would require a Government subsidy of \$84 million to meet the anticipated operating deficit. This expenditure will spread over a number of years from 2005-06 to 2009-10. Moreover, taking into account of the cash flows requirement for the projected expenditure and the flow of revenue, the Government may have to provide additional loans or advances to meet the shortfall in the period leading up to 2009. We expect the Government would need to provide about \$120 million from 2005-06 onward to support the cash flow requirement.

15. Should Hong Kong's bid be successful, we would prepare a detailed estimates on the funding requirements for hosting the 2009 EA Games, and would submit a separate submission to Members for approval of the actual financial commitment required.

CONSULTATION WITH LEGISLATIVE COUNCIL PANEL

16. We shall brief the Legislative Council (LegCo) Panel on Home Affairs of the proposal and the financial projections at its meeting held on 14 July 2003. We will brief Members on the views of the LegCo Panel on Home Affairs at the Finance Committee meeting.

BACKGROUND INFORMATION

17. It has long been the wish of the SF&OC to host major games in Hong Kong. In 2000, with the support of the Government, the SF&OC bid, though in vain, the hosting right of the 2006 Asian Games. The SF&OC has recently approached the Home Affairs Bureau for similar support from the Government for bidding the hosting right of the 2009 EA Games.

18. The EA Games is the exclusive property of the EA Games Association and the hosting right of the event is entrusted to a National Olympic Committee. The EA Olympic Committee first discussed the idea of EA Games in September 1991, and resolved in January 1992, inter alia, that the first EA Games be held in China in 1993. Korea and Japan subsequently hosted the second and third EA Games in 1997 and 2001 respectively, while Macau will host the fourth EA Games in 2005.

19. At the meeting of the Executive Council on 24 June 2003, the Council advised and the Chief Executive ordered that subject to the acceptance in principle of the financial implications involved by the Finance Committee of the LegCo, the Government should support, with guarantee and commitment, the SF&OC in its application for hosting the 2009 EA Games.

Enclosure 1 to FCR(2003-04)42

Competition Events Organized in 1st- 4th EA Games

Competitive Events	1 st EA Games- 1993 (Shanghai)	2 nd EA Games- 1997 (Pusan)	3 rd EA Games- 2001 (Osaka)	4 th EA Games- 2005 (Macau)
Athletics	√	√	√	√
Aquatics	√	√	√	√
Badminton	√	√		√
Basketball	√	√	√	√
Beach Football				√
Beach Volley				√
Bowling	√	√	√	
Boxing	√	√	√	√
Dance Sport				√
Dragon Boat				√
Fencing				√
Football	√	√	√	√
Golf				√
Gymnastics	√	√	√	√
Handball			√	
Hockey			√	√
Judo	√	√	√	√
Karatedo				√
Rowing	√	√	√	
Sepak Takraw				√
Shooting				√
Soft Tennis	√	√	√	
Table Tennis				√
Taekwondo		√	√	
Tennis				√
Volleyball			√	√
Weightlifting	√	√	√	√
Wrestling		√	√	
Wushu	√	√	√	√
No. of sports	13	15	17	23

Estimated Expenditure for Hosting the 2009 EA Games

\$ million

- (a) Staff: 50
Having regard to the scale of the EA Games and on the assumption that National Sports Associations will organize individual competition events, we estimate that about 100 staff would be required. We will make arrangements, on a need basis, for LCS D staff to be seconded to the organizing committee to provide support to it. Costs for employment of short term staff to cope with short term increase in workload arising from secondment have been included. We estimate that staff cost of \$50 million would be required.
- (b) Administration: 8
In view of the scales of the EA Games, we estimate that the administrative expenses for office administration, risk management and audit costs over the period up to, including and after the event, would be about \$8 million.
- (c) Information technology: 10
To host the event will require measurement device which can accurately record the times and scores achieved in each event, and a properly interfaced results system which is capable of communicating the results quickly and accurately to broadcasters, radio, and television commentators, press and judges and to competitors and spectators via scoreboards at each venue. In addition, such information has to be made available to the public via the inter-net. The total cost for hardware and software as well as other expenses on information technology and telecommunication equipment and facilities is estimated to be \$10 million.
- (d) Broadcasting costs: 20
The organising committee will need to set up an international broadcasting centre and employ a host broadcaster to produce television pictures of the Games and to provide the feeds to overseas television rights holders. We estimate that the total cost for the purposes (assuming only half of the competition events would be broadcasted live) would be about \$20 million.
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	\$ million
(e) Accommodation and catering: The costs for providing accommodation (standard twin-bed hotel room) and meal (at the hotel) for 2 000 athletes and delegation members during non-peak season are estimated to be about \$8 million.	8
(f) Venue sports events: There is a need both to purchase the necessary equipment in order to stage the events, and to upgrade the venues to accommodate spectators, media and competitors to the standards for hosting the 2009 EA Games. Upgrade or venue fit out costs will include temporary seating, portable toilets, fencing, additional cameras and commentary platforms and additional video screen and scoreboards. We estimate that the cost for these additional temporary works, inclusive of the hiring charges for using non-governmental venues, would be about \$16 million.	19
<p>As regards the doping test, it would be more cost-effective to make use of the doping centre in Beijing. About \$3 million would be required for transporting samples daily and for using the facilities.</p>	
(g) VIP hospitalities: Cost for provision of accommodations, transport and associated hospitalities to VIPs is estimated to be \$5 million.	5
(h) Transport: The host city is required to provide transport for athletes, officials and delegation members to travel between competition venues, training venues and accommodation. Considering also the traveling expenses for volunteers, an amount of \$4 million is estimated for transportation.	4
(i) Publicity We estimate that about \$8 million would be required for marketing the 2009 EA Games and enhancing the image of Hong Kong as the host city of event.	8
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	\$ million
(j) Opening and closing ceremonies: The opening and closing ceremonies are often the showpiece of a major sporting event. We estimate that the cost of the ceremonies, inclusive of venue preparation, cultural and entertainment programmes, pre-ceremony receptions, temporary staff, and general publicity, would be about \$25 million.	25
(k) Security: The host city is required to provide adequate security for personnel and property during the event. Such services include the provision of a secure environment for athletes, officials, spectators and VIPs, control access to key event locations, responding to security incidents and monitoring the perimeter of key locations. On the assumption that security consultant firms would be hired for providing the services, the cost for security is estimated to be about \$10 million.	10
(l) Volunteers: On the assumption that about 2 000 volunteers would be required, we estimated that \$4 million would be required to cover the costs for recruitment, clothing and training of the volunteers and the setting up of a volunteer centre.	4
Total:	171

Estimated Revenue for Hosting the 2009 EA Games

	\$ million
(a) Sponsorship: Sponsorship will include title sponsors, official suppliers, local sponsors etc. When bidding for the 2006 Asian Games in 2000, the estimated net income from sponsorship was \$595 million. Having regard to the scale of the EA Games, the market in Hong Kong as well as the additional Chinese dimension to the potential sponsorship market, we estimate that about \$30 million revenue could be generated from sponsorship.	30
(b) Television rights: Broadcasters will be invited to bid exclusive coverage of all or certain competition events. Given the scale of the event (with ten countries/regions participating), and the relatively lack of competition in the television markets of the main participating nations, we expect that the revenue from television rights would be around \$25 million.	25
(c) Ticket sales: Having regard to the scale of the EA Games and the seating capacities of the venues, we estimate that the revenue from ticket sales would be \$10 million.	10
(d) Licensing and Merchandising: Toys, stationery, pin badges, cups, hats, games and clothing etc. are typical products as merchandise of the event. However, having considered that income generated from merchandising from previous EA Games has not been high, we expect that the net income from the scale of merchandise products would be about \$10 million.	10
(e) Charged accommodation: In line with the practice of previous EA Games, athletes and delegation members would be charged for accommodation and catering costs. Assuming 2000 athletes/delegation members at a 80% turn up rate, the estimated income would be about \$8 million.	8
(f) Others: We expect that about \$4 million revenue could be generated from such other sources of income as coins and stamps, lotteries and other fundraising initiatives.	4
Total:	87