

立法會
Legislative Council

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Panel on Economic Development

**Minutes of special meeting
held on Friday, 10 July 2009, at 8:30 am
in the Chamber of the Legislative Council Building**

- Members present** : Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman)
Hon Starry LEE Wai-king (Deputy Chairman)
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Albert CHAN Wai-yip
Hon Vincent FANG Kang, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon Ronny TONG Ka-wah, SC
Hon Paul CHAN Mo-po, MH, JP
Hon Tanya CHAN
Hon IP Wai-ming, MH
Hon Mrs Regina IP LAU Suk-yeet, GBS, JP
Hon Paul TSE Wai-chun
Dr Hon Samson TAM Wai-ho, JP
- Members attending** : Hon Miriam LAU Kin-yeet, GBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Cyd HO Sau-lan
- Members absent** : Hon Albert HO Chun-yan
Hon Fred LI Wah-ming, BBS, JP
Hon CHIM Pui-chung

- Public officers attending** :
- Miss Yvonne CHOI, JP
Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
 - Miss Margaret FONG, JP
Commissioner for Tourism
 - Mr Clement LEUNG, JP
Deputy Secretary for Financial Services and the Treasury (Treasury)2
 - Mrs Helen CHAN, JP
Government Economist
 - Ms Ellen CHOY
Assistant Commissioner for Tourism (5)
- Clerk in attendance** :
- Ms Debbie YAU
Chief Council Secretary (1)6
- Staff in attendance** :
- Mrs Constance LI
Assistant Secretary General 1
 - Mr Timothy TSO
Assistant Legal Adviser 2
 - Ms Elyssa WONG
Deputy Head (Research and Library Services Division)
 - Mr Michael YU
Research Officer 7
 - Ms Angel SHEK
Senior Council Secretary (1)1
 - Ms Debbie SIU
Legislative Assistant (1)9

Action

- I Proposed expansion of Hong Kong Disneyland**
(LC Paper No. CB(1)2206/08-09(01) - List of follow-up actions arising from the discussion at the special meeting on 4 July 2009 prepared by the Legislative Council Secretariat

- LC Paper No. CB(1)2206/08-09(02) - Administration's response to LC Paper No. CB(1)2206/08-09(01)
- LC Paper No. CB(1)2206/08-09(03) - Hon Emily LAU and Hon Fred LI's questions on proposed expansion of Hong Kong Disneyland (Chinese version only)
- LC Paper No. CB(1)2206/08-09(04) - Administration's response to questions raised by Hon Emily LAU and Hon Fred LI as set out in LC Paper No. CB(1)2206/08-09(03)
- LC Paper No. CB(1)2234/08-09(01) - Administration's paper on proposed expansion of Hong Kong Disneyland (Supplementary information)
- LC Paper No. LS105/08-09 - Paper on proposed expansion of Hong Kong Disneyland prepared by the Legal Service Division of the Legislative Council Secretariat
- LC Paper No. FS30/08-09 - Fact sheet on financial arrangements relating to Tokyo Disneyland, Disneyland Paris and Hong Kong Disneyland prepared by the Legislative Council Secretariat
- LC Paper No. FS28/08-09 - Fact sheet on financial arrangements relating to the construction and expansion of Hong Kong Disneyland prepared by the Legislative Council Secretariat
- LC Paper No. FCR(1999-2000)48 - Administration's paper for the Finance Committee meeting on 26 November 1999
- LC Paper No. CB(1)2144/08-09(03) - Extract of minutes of Finance Committee meeting on 26 November 1999

LC Paper No. CB(1)2090/08-09(01) - Administration's paper on "Update on proposed expansion of Hong Kong Disneyland"

LC Paper No. CB(1)2090/08-09(02) - Paper on proposed expansion of Hong Kong Disneyland prepared by the Legislative Council Secretariat (Background brief)

Briefing by the Administration

The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PS/CED(CIT)) referred members to the supplementary information (CB(1)2206/08-09(02), CB(1)2206/08-09(04) and CB(1)2234/08-09(01)) provided by the Administration in response to the concerns raised by members on the proposed expansion of the Hong Kong Disneyland (HKD) and the related financial arrangements. She said that the Administration had tried to provide members with as much information as possible having regard to the provision on confidentiality under the existing agreement signed between the Government and The Walt Disney Company (TWDC). She appealed to members for their support of the Government's proposal.

Discussion

2. Ms Emily LAU and Mr Albert CHAN expressed grave concern that the Secretary for Commerce and Economic Development (SCED) and other politically-appointed officials did not attend the meeting. Mr Vincent FANG and Mr Abraham SHEK shared such concerns. Mr SHEK suggested that TWDC should send representatives to the FC meeting to convince members of the advantages to take forward the expansion project. PS/CED(CIT) responded that SCED had met with the Panel to discuss the HKD expansion project and the related financial arrangements at its meetings on 30 June and 4 July 2009. Although SCED was unable to attend the current meeting due to a pre-arranged appointment with the Chief Executive, SCED would attend the FC meeting to be held later in the afternoon to explain the Government's proposal and answer members' questions.

Members' stance

3. Ms Miriam LAU expressed support for the HKD expansion in view of the small size of the park and the need to enhance its appeal to visitors. Mr Andrew LEUNG said that he would support the expansion plan, as the prospect of Hongkong International Theme Parks Limited (HKITP) yielding investment return for Government and repaying the Government loan would be limited without the expansion. He noted that the development of new theme parks in the region (e.g. the Universal Studio in Singapore and the proposed Disney theme park in Shanghai) might pose competition to HKD, but he considered it viable to have more than one Disneylands in China, having regard to the situation in the United States.

4. Mr WONG Ting-kwong expressed support for the proposal. In view of the financial performance of HKITP and competition from other theme parks in the region, he considered it necessary to expand HKD and improve its operation. He considered the proposed financial arrangements acceptable as Government would not need to inject new capital to HKD. Moreover, he was concerned about the impact on the economy and the employment of HKD staff if the park had to be closed down if the expansion project was not taken forward. Ms Starry LEE expressed support for the expansion project given the small size of HKD and its limited number of attractions. She considered the proposed conversion of Government loan to equity an acceptable approach to finance the expansion project.

5. Mr Vincent FANG expressed support for the conversion of Government loan to equity as a means to deleverage HKITP while maintaining Government's majority shareholding in the joint-venture. He urged that members should adopt a positive attitude towards the expansion project as it was a more constructive option than withdrawing investment from or closing down the park.

6. Mr Abraham SHEK expressed support for the proposal. He said that if the proposed HKD expansion was not to be taken forward, the park would face greater difficulty in its operation. Apart from expanding the park, he opined that the Administration should address other problems of the park in a proactive manner.

7. Mr Paul TSE pointed out that some theme parks, such as the Ocean Park, had also encountered financial hardship in the early years of operation. Referring to Annex IV to FS30/08-09, he noted that as compared to Tokyo Disneyland and Disneyland Paris, HKD had attracted more visitors from the international source market (i.e. 26%), which reflected HKD's competitiveness. He believed that HKD could compete with the proposed Disney theme park in Shanghai and remain viable. However, Mr TSE considered that the HKD project had exposed the weaknesses and constraints of the Government in participating in commercial joint ventures. He opined that HKD, as a tourism infrastructure in Hong Kong, was not a purely commercial pursuit, hence its contribution to Hong Kong should not be measured by financial return alone but should include the economic benefits it would bring to Hong Kong. In view of the investment already made in HKD and the advantage to retain the park as a tourism asset, he urged that members should take a more positive attitude in considering the expansion project.

8. Mr IP Wai-ming expressed great dissatisfaction that the Government had conceded to the new agreement with TWDC even though it was unfair to the Government which was a majority shareholder in the joint venture. He opined that the Government should adopt a stronger stance in the negotiation with TWDC and bargain for better terms in the interest of Hong Kong. He also criticized the Government for pressing members to consider the financing arrangement under a very tight timeframe, which put members in a difficult position as there was insufficient information and discussion. Mr IP urged that the Government should in future consult Members on related plans at an early stage to allow adequate time

for discussion prior to the signing of agreements.

9. Mr Albert CHAN said that the current and new agreements with TWDC were unequal treaties. He expressed grave disappointment with the outcome of the negotiations and the way the Administration pushed members into agreeing to the financing arrangements. He strongly criticized that although the Government had made huge investment in HKD (including the land premium of \$4 billion for which Government received subordinated equity in HKITP), HKD still needed such a long time to break even under the financial analysis, and members were not able to know the actual losses in the past three years as well as the worst case scenario in the coming years. Despite the Administration's explanation that HKD would continue to bring economic benefits to Hong Kong, Mr CHAN considered that there would be greater return if the investment was made in other projects (e.g. Container Terminal No. 10) instead of HKD. He urged the Administration not to put too much stake in the Disney brand.

10. Ms Emily LAU criticized the Administration for not providing adequate information on the financial results of HKITP while pushing members to consider and approve the financial proposal within just ten days. Ms LAU also expressed dissatisfaction that neither TWDC nor Hong Kong Disney Management Limited (HKDML) had cared to send any representatives to attend Legislative Council (LegCo) meetings to discuss the HKD expansion project. She recalled that TWDC had, in response to the incidents in the first year of HKD's operation which had aroused negative sentiment against the park among local and Mainland visitors, promptly sent their representatives to Hong Kong to settle the matters. It appeared to her that the Government had lost the bargaining power by sending top officials to the United States to negotiate with TWDC. She said that Members belonging to the Democratic Party would vote against the proposal.

11. PS/CED(CIT) said that she hoped members would understand that the Administration had tried its best to report the outcome of the negotiation to the Panel as soon as an agreement in principle had been reached with TWDC in late June 2009. The Administration had also endeavoured to provide as much information as practicable for members' reference.

12. Ms Cyd HO commented that the Government should not get involved in commercial ventures as it did not have the necessary expertise and business acumen. She opined that the Government's involvement as a shareholder in HKITP would undermine its role in monitoring the HKD project. She said that she would vote against the financial proposal at the FC meeting. PS/CED(CIT) said that the community was in support of the proposed development of HKD when it was discussed in 1999, and the Administration had taken into account various factors in determining the most suitable mode of collaboration with TWDC in developing HKD. The Administration was well aware of the concerns expressed by members and the general public about HKITP's financial results and the restriction on disclosure of such results in respect of the past three operation years. She said that TWDC had agreed to make annual disclosure of the main operating and financial results of HKD starting with the operation year 2008-2009, and the first disclosure

would contain data in respect of both 2008-2009 and 2007-2008.

Annual disclosure of financial results

13. Ms Emily LAU commented that the Government should have taken the opportunity to bargain for disclosure of the financial results of HKITP for the past three years, when negotiating the new agreement.

14. Mr Paul CHAN said that the Government was obliged to make public the operating and financial results of HKITP, given that substantial public resources were invested in HKD. While TWDC had agreed to make annual disclosure of information on HKITP's performance including park attendance and key indicators of financial performance starting with the operation year of 2008-2009, Mr CHAN opined that HKITP should follow the practice of Tokyo Disneyland and other listed companies to publish its financial accounts in full for public scrutiny.

15. Mr Abraham SHEK shared members' concerns about HKD's financial disclosure under the existing agreement. As the LegCo had the duty of monitoring public expenditure, members would need adequate information in examining financial proposals. He agreed that the financial results of HKITP should be fully disclosed as if they were listed companies.

16. PS/CED(CIT) reiterated the need to comply with the provision on confidentiality under the current agreement. On the other hand she understood members' and the public wish to be provided with more information. In this connection, the transparency of HKD operation would be enhanced as TWDC and the Government had agreed to publish an annual business review, starting with the operation year of 2008-2009, that would disclose the business and aggregate financial indicators, as set out in paragraph 5 of the Administration's paper (CB(1)2206/08-09(02)).

17. Mr Paul TSE enquired whether TWDC had insisted on the confidentiality issue in order to comply with the listing regulations in the United States. The Deputy Secretary for Financial Services and the Treasury (Treasury) 2 (DS(Tsy)2/FSTB) said that as a listed company in the United States, TWDC was subject to stringent listing rules, including restriction on selective disclosure of information. It was also cautious about releasing sensitive information which might be exploited by its competitors.

18. Mr Paul CHAN urged that the Administration and TWDC should release information on the payment of management fees (both the base and variable management fees) and royalties, and also TWDC's business transactions with related parties, such as HKDML, to ensure that there would be no conflict of interests in these transactions. He also urged for disclosure of information on the loan repayment arrangements to ensure that such arrangements were fair to Hong Kong. PS/CED(CIT) responded that the base management fees would be linked to the performance of HKITP, i.e. 6.5% of earnings before interest, tax, depreciation and amortization (EBITDA), while EBITDA would be disclosed in the

annual disclosure. As for the calculation of the variable management fee, the Commissioner for Tourism (C for T) said that the rate would be revised from 2%-8% to 0%-8% of EBITDA under the new arrangement, and it would be collected only when the performance of HKITP attained a satisfactory level.

19. Mr Paul CHAN opined that the information on the management fees and royalty payment, such as the actual amount of fees and the rate adopted for the variable fee, should be included in the annual financial disclosure. Referring to the paper prepared by the Legal Service Division of the LegCo Secretariat (LS105/08-09), Mr CHAN pointed out that if TWDC would not consent to disclose the requested information to LegCo, the Panel could consider obtaining an authorization by a resolution of LegCo to exercise the powers under section 9 of LegCo (Power and Privileges) Ordinance (Cap. 382) to order the production of the relevant information. He considered that TWDC should accede to members' request before members resorted to the said powers.

20. Ms Starry LEE expressed concern that the accounting principles adopted for HKITP were not made available for public scrutiny. DS(Tsy)2/FSTB advised that as stated in the Administration's paper (CB(1)2206/08-09(02)), HKITP calculated depreciation and amortization in accordance with the Hong Kong Financial Reporting Standards, based on which HKITP would present its audited financial statements. He assured members that the accounts of HKITP would be scrutinized by public officers with the necessary expertise and subject to independent annual audit.

Projection of park attendance, economic benefits and estimated return on Government investment

21. Ms Emily LAU pointed out that while the estimated return on Government's existing equity and new equity after loan conversion under the projections by TWDC, i.e. "Case 1A" and "Case 1B" were made available to members, there was no such information under Government's own attendance projection of "Case 2". She expressed concern that under the projections, it would take a long time to yield investment return, i.e. at least 20 and 35 years under "Case 1A" and "Case 1B" respectively. Mr Vincent FANG commented that such projections implied that the park would continue to operate at a loss during the coming 20 or 35 years. He enquired about the Administration's assessment of the estimated loss in the ensuing years.

22. DS(Tsy)2/FSTB explained that "Case 2" was prepared by the Government for the purposes of economic assessment. A financial assessment for Case 2 was not conducted as the Government did not have the corresponding financial data from TWDC. He pointed out that although the financial return for the Government under "Case 1A" and "Case 1B" was not attractive, the expanded HKD would bring considerable economic benefits to Hong Kong.

23. Ms Emily LAU noted that when projecting the input parameters for "Case 2", the Government had taken into account, inter alia, the expected

demographic changes in Hong Kong over the next 30 years and possible challenges posed by intense competition within the region. It appeared to her that the current strategy to provide more attractions to target at the young adult segment did not match with the projection of an aging population in Hong Kong.

24. The Government Economist (G Econ) explained that "Case 2" was a separate set of projections made by the Government in respect of the attendance of the HKD. A conservative approach was adopted for the projection which assumed a lower penetration rate for assessing the economic viability of the park in a prudent manner. Apart from the demographic changes, the projection had taken into account the likely depressed external economic environment over the next few years, particularly the lingering effect of the global financial tsunami on the total number of tourists visiting Hong Kong. Notwithstanding, the economic assessment under "Case 2" indicated that the expanded HKD would likely bring considerable net benefits to the economy, estimated to be \$64.7 billion in present value and a 13.7% economic rate of return over an operation period of 40 years. The projection was also made with reference to past data, i.e. the actual number and additional spending of the tourists visiting HKD in the past three years.

25. Regarding competition within the region, Ms Emily LAU sought clarification on the Government's stance about the development of a proposed Disneyland in Shanghai. PS/CED(CIT) said that the Administration was aware of the impact on HKD of a possible new Disney theme park in Shanghai, and had exchanged views with TWDC on the matter. It was envisaged that the huge Mainland market could sustain more than one Disney theme park in its territory.

26. Referring to paragraph 6 of the Administration's paper CB(1)2206/08-09(02), Mr Ronny TONG asked whether the projected financial results of the expanded HKD under "Case 1A" and "Case 1B" covered investment return to the Government and loan repayment by HKITP. He observed that although the proposed conversion of Government/TWDC loan to equity would alleviate the burden of loans on HKITP and improve its financial condition, it would in fact reduce the income from interest to the Government, whereas TWDC would continue to receive management fee and royalty payment. DS(Tsy)2/FSTB explained that part of the Government loan would be converted to equity subject to retention of a balance of not less than \$1 billion. The Government would receive repayment of the loan balance together with interest. Regarding the original equity and new equity from loan conversion, the Government expected that they would be fully recovered by 2029-2030 and 2044-45 under "Case 1A" and "Case 1B" respectively.

27. Referring to the projections, Mr Ronny TONG enquired why the revenue would continue to rise from 2024-2025 to 2044-2045 even if the projected attendance for these years remained constant. PS/CED(CIT) and DS(Tsy)2/FSTB said that the projected patronage of 11 million in 2024-25 under "Case 1A" represented the maximum capacity of the theme park after the proposed expansion. However, the revenue and expenses of the park would continue to rise afterwards because of price adjustments and increases in the visitors' in-park spending.

28. Mr Abraham SHEK disagreed that the growth in park attendance would come to a halt when reaching 11 million after 2024-2025 in view of the possible extension of the Individual Visit Scheme (IVS) to cover more Mainland provinces and the increasing patronage in future.

29. In reply to Mr Andrew LEUNG, DS(Tsy)2/FSTB advised that the projected revenue for the expanded HKD included income from admission tickets, catering services and proceeds from the sale of merchandise.

30. Addressing Mr Albert CHAN's concerns about the investment return of HKITP, DS(Tsy)2/FSTB advised that the expanded HKD would start to yield operating surplus from 2014-15 after deducting expenses, depreciation and amortization under "Case 1A". He further clarified that under the current agreement, the Government would convert part of the Government loan to equity subject to retention of a balance of not less than \$1 billion, but would not be obliged to put new money into HKD.

Management fee

31. Mr CHAN Kam-lam enquired about the reasons for changing the formula for calculation of the base management fee, and how it compared with the existing formula. PS/CED(CIT) said that in order to encourage HKDML to deliver results in the management of HKD, the Government had obtained TWDC's agreement to revise the formula for calculating the base management fee to link it to HKITP's performance, i.e. to replace the current formula of 2% of gross revenue by 6.5% of EBITDA. She informed members that for the years from 2009-2010 to 2044-2045, on average the effective rate of base management fee payable under both the new and old formulae would be about the same if the park could achieve the business performance projected by TWDC under "Case 1A". Under the more conservative projection in "Case 1B", on average the effective rate of the base management fee payable under the new formula would be about 30% less than that payable under the existing formula. The new arrangements were considered more reasonable. PS/CED(CIT) advised that both TWDC and the Government had studied different options for the calculation of the base management fee during the negotiation, and both sides considered the new formula acceptable, taking into account other terms in the agreement package.

32. Mr Paul CHAN said that when Disneyland Paris encountered financial difficulty back in the years between 1992 and 1994, TWDC had agreed to waive its rights to management fees and royalties for five years, and to slash the management fees from 6% to 1% of the park's revenues and 50% of its original royalties for the subsequent five years starting from 1994. Compared to these arrangements, the proposed new arrangements for the calculation of management fee and payment of royalties for HKD appeared much less favourable to Hong Kong. Mr CHAN pointed out that the Government would pay much more when compared to the existing formula, if the attendance turned out to be better than that projected under "Case 1A". He considered that the base management fee should be calculated on

the basis of whichever the lower formulae in order to safeguard public interests.

33. Mr Abraham SHEK agreed with Mr Paul CHAN and suggested the Administration discuss with TWDC the feasibility of setting a ceiling for the attendance figure for the calculation of base management fee, so that a rate lower than 6.5% of EBITDA would be used if the attendance exceeded 11 million for the year 2024-2025 and beyond. PS/CED(CIT) advised that the expanded HKD could not accommodate more than 11 million visitors which represented the park's capacity limit. It was therefore not necessary to set a different rate of management fee for a higher level of patronage. Mr SHEK said that he did not agree to such an argument as there would be continuous flow of visitors in and out of the park each day, the total number of which might exceed 11 million.

New themed areas and attractions

34. Mr Vincent FANG considered that the Administration should have engaged the public in deciding the choice of new themed areas and attractions, in order to provide more attractions with thrill elements to target at the young adult segment. It seemed to him that the three proposed themed areas were rather similar in nature.

35. PS/CED(CIT) responded that the Administration had undergone thorough discussions with TWDC in coming up with the three proposed themed areas, with a view to providing more attractions with thrill rides to suit the taste of young adults. TWDC had also stressed that two of the themed areas ("Grizzly Trail" and "Mystic Point") would be exclusive to HKD amongst Disney theme parks worldwide and the remaining one ("Toy Story Land") would be exclusive amongst Disney theme parks within the Asian region at the time of their respective opening. C for T supplemented that around 40% of the visitors to HKD were young adults in the age group of 18 to 30 but most of the park's existing attractions catered to the interests of children under 10. Hence, there was a need to provide novel and exciting attractions at the park, such as the proposed "Mystic Point" which would feature many novel technological elements.

36. Mrs Regina IP said that many Disney fans were disappointed to note that the "Glacier Peak" was excluded, whereas some of the new attractions, such as those at the "Toy Story Land", did not match with the "Magic Kingdom" image of Walt Disney and lacked 4-D technological elements. These fans also expressed concern that the new attractions were largely outdoor and did not suit the humid weather of Hong Kong. Mrs IP asked if changes could still be made to the design of the themed areas. Miss Tanya CHAN also relayed the strong expectation of Disney fans for the launching of the "Glacier Peak" at HKD.

37. Mr IP Wai-ming opined that exclusivity of the proposed new themed areas might not necessarily guarantee their appeal to visitors. He enquired whether TWDC or the Government had conducted opinion surveys in this regard.

38. PS/CED(CIT) informed members that in proposing the new themed areas, TWDC had conducted market survey to ascertain the preferences of park visitors, in

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particular young adults. Both TWDC and the Government believed that the proposed new attractions would enhance the appeal of HKD, bringing more patronage and revenue to the park. As the "Glacier Peak" originally proposed by TWDC would overlap with similar attractions to be launched at the Ocean Park, the Administration had requested TWDC to replace it by another themed area in order to enhance the uniqueness and diversity of HKD's attractions. As regards 4-D elements, PS/CED(CIT) said that the technology was featured in "Mickey's PhilharMagic" currently shown in HKD. Nevertheless, the Administration would relay members' views on the proposed new themed areas to TWDC.

39. Miss Tanya CHAN remarked that "Mickey's PhilharMagic" was performance-based and not as interactive as the 4-D attraction "Toy Story Mania". C for T advised that during the negotiation with TWDC, it was learned that the themed attraction "Toy Story Mania" would soon be developed in another Disney theme park in the region. Hence, it was considered appropriate not to repeat the attraction at HKD. PS/CED(CIT) and C for T said that the Administration would ask TWDC to consider introducing more 4-D entertainment in the future expansion of HKD. Mr Abraham SHEK cautioned that in deciding the choice of attractions and entertainment at HKD, the Administration and TWDC had to consider carefully whether the attractions would blend well with the magic image of Disneyland.

40. The Chairman said that the Administration should broaden the base of consultation in determining new themed areas in future, with a view to catering for the culture and interest of the local public. PS/CED(CIT) took note of the suggestion, and assured members that the park management would gauge the views of related sectors and the public as far as practicable.

41. Miss Tanya CHAN enquired about the cost of design and whether it was reasonable and comparable to those incurred for the overseas counterparts. PS/CED(CIT) said that under the expansion project, TWDC estimated that the design fees would cost about \$55 million, a small part of which was the cost for creative design, while the remaining fees were for associated works/facilities. It was her understanding that TWDC also collected such fees for the imagineering works in other Disney resorts but the Administration did not have details of the costs involved. In reply to Mr IP Wai-ming, C for T advised that the cost of creative design and associated works/facilities was in the ratio of around 20% to 80%.

Park management and marketing strategy

42. Ms Emily LAU said that it appeared to her that the Administration and the park management lacked the necessary skills and experience in doing business and improving the operation of HKD, hence members often had to give advice on the project.

43. Mr Vincent FANG recalled that the operation of HKD was unsatisfactory in the first few years as the management had not been able to adapt to the Hong Kong culture and local taste. He considered it more appropriate to appoint renowned and experienced businessmen and managers instead of public officers to the Board of Directors of HKITP. In particular, he suggested inviting experts in financial management to be directors as they could assist in inspecting the accounts of HKITP. Mr Abraham SHEK shared similar views.

44. Mr Paul TSE said that the Administration should appoint independent non-executive directors who could devote more time to attend to the business of HKD and avail themselves for the Board meetings. As HKD was a tourism infrastructure, he advised that the Administration should enlist members of the travel trade, especially those who were familiar with the Mainland market, to serve as directors and give advice to the Board. Mr WONG Ting-kwong shared this view.

45. Ms Starry LEE expressed concern as to how the park management could learn from previous experience and improve its performance. In her view, most Government directors lacked the expertise in commercial operations and financial management. Mr IP Wai-ming also expressed grave concern that the five Government directors might not be able to reflect the concerns of the public and LegCo Members in negotiating for better terms with TWDC.

46. PS/CED(CIT) said that the performance of HKD had shown improvements in the recent years. Currently two renowned business executives, i.e. Mr Philip CHEN (Deputy Chairman of Cathay Pacific Airways and former Chairman of the Board of Ocean Park Corporation) and Mr Payson CHA (Chairman of Asia Television Limited) were appointed to the HKITP Board as independent non-executive directors to assist the Board in monitoring the park's operation. The Board currently held its meetings on a quarterly basis and the two independent non-executive directors had all along participated actively in these meetings. They had also from time to time exchanged views and suggestions informally with other Board members and the Administration outside the meetings. She assured members that the Government directors had strived to protect the interests of HKD and the public. For instance, as a result of the efforts of the Government directors, TWDC had agreed to waive the management fees and defer the payment of royalties for two years (i.e. 2007-2008 and 2008-2009). In addition, C for T, being one of the Government directors in the Board, would closely liaise with the management company on the operation of HKD. Besides, the Administration would provide an update on the operation of HKD to the Panel on an annual basis.

47. Referring to the relatively better attendance performance of the Disney theme parks in Tokyo and Paris and other theme parks in the Mainland, Mr Albert CHAN said that the Administration should analyze the problems in the operation of HKD to work out measures to boost patronage of the park. PS/CED(CIT) said that the Disney theme parks in Paris and Tokyo had been in operation for 17 and 26 years respectively whereas HKD had only been opened for some 4 years, hence

HKD should not be compared directly with the other two parks. She advised that the management company would continue to boost the patronage of HKD, especially to capture the vast Mainland market.

48. Mr Paul CHAN said that the Tokyo Disneyland had performed financially better even though it was privately owned and managed by a Japanese company (i.e. Oriental Land), whereas Disneyland Paris, which was managed by TWDC, was still operating with cumulative deficits as at end 2008. Mr CHAN enquired whether there was any escape clause under the existing agreement with regard to the right of management by TWDC. Mr Abraham SHEK said that an exit provision should have been made such that both parties would be able to review the management mode after a certain period of operation. PS/CED(CIT) said that arrangement pertaining to the management of HKD was laid down in the existing agreement without the inclusion of a break clause.

49. Ms Miriam LAU pointed out that other Disney theme parks had experienced financial difficulties in their early years of operation but had picked up business after implementing appropriate marketing strategies. For instance, Euro Disney, which was opened in 1992, had started to make profits after 1995. The name of the park was changed to Disneyland Paris in 1994 because the name of Paris had a connotation of romance and magic, which was considered closer to the image that Walt Disney wished to project. She suggested the Administration consider changing the name of HKD to make it more attractive. PS/CED(CIT) said that HKITP would focus its efforts on the expansion project after the financial proposal was approved. There was no plan at this stage to change the name of HKD.

50. Ms Miriam LAU said that it was crucial to devise a new business plan to complement the expansion project. She asked whether the Administration was involved in drawing up a new business plan. To step up promotion of HKD, she suggested strengthening collaboration with travel agents and exploring the feasibility of developing a downtown Disneyland. Mr Abraham SHEK also enquired about the business plan of HKD.

51. PS/CED(CIT) informed members that the Administration was involved in formulating HKD's business plan through the Government directors in the Board of Directors of HKITP. She assured members that the park management would step up marketing efforts during and after the park expansion to boost attendance, and suggestions from members were welcomed. Where appropriate, the Administration would take forward initiatives to enhance the appeal of HKD, such as making use of the Phase 2 site for short-term use and better utilization of the Inspiration Lake to achieve synergies.

52. Mr WONG Ting-kwong remarked that the HKD had suffered setback in the early years of operation as its Pan-American characteristics and management were incompatible with the local culture, and generated negative sentiment among the public. While improvement had been made to include more local people in the management team, Mr WONG considered that more initiatives should be

undertaken to complement the expansion project. Examples included developing the land adjacent to HKD, imparting more elements of the local culture to the park, strengthening collaboration with the travel trade and devising more flexible marketing and pricing strategies. Ms Emily LAU urged that the park management should facilitate visitors on the booking of hotels at HKD by extending the sales channel to travel agents.

53. PS/CED(CIT) said that the park management had been stepping up collaboration with the travel agents, including those in the Mainland, and would continue in this direction. She highlighted the efforts made by HKD to enrich visitors' experience at the park by infusing more cultural and festive elements in launching special programmes. The park management would continue to gauge public feedback on the operation of HKD and where appropriate, organize public forums in this regard.

54. Ms Cyd HO suggested that the Administration should provide more facilitation measures for visa applications to facilitate Mainland tourists to visit Hong Kong and HKD. PS/CED(CIT) and C for T apprised members that the Mainland was an important visitor source market for HKD and tourism-related measures under the "Mainland and Hong Kong Closer Economic Partnership Arrangement" (CEPA) were put in place to boost tourism, in particular the introduction of a one-year multiple-entry IVS endorsement for eligible Shenzhen permanent residents to visit Hong Kong and more than 180 000 Mainland visitors had visited Hong Kong under this arrangement in the two months since its introduction. The pilot scheme for Mainland-authorized Hong Kong travel agents to organize group tours for non-Guangdong residents in Shenzhen to visit Hong Kong had also helped attract more patronage to the park from the Mainland as the itinerary of these group tours included HKD and other tourist attractions.

55. Addressing Ms Cyd HO's suggestion of enhancing the accessibility of HKD through the provision of different transport infrastructures and enhancing the use of the existing pier in the vicinity of HKD, C for T said that HKDML had been liaising with different parties to explore measures that would bring greater convenience to visitors travelling to the park. For instance, it had been looking into the possibility of ferry transport to link up HKD with the Noah's Ark in Ma Wan and developing a ferry route to specially cater for the needs of the Discovery Bay residents in visiting HKD. It also made use of the pier for its MICE (i.e. Meetings, Incentives, Conventions and Exhibitions) programmes. Ms HO opined that the park management should also explore with the Star Ferry Company Limited other initiatives to utilize the existing pier more effectively.

Land use

56. Mr Ronny TONG noted that the site immediately to the east of Phase 1 Site was reserved for Phase 2 development of HKD. In view of the development of a proposed Disney theme park in Shanghai, he doubted whether TWDC would make further investment in HKD and take forward the Phase 2 expansion. He enquired whether the Administration would consider deploying the land for the development

of other tourist attractions to enhance visitors' flow to Hong Kong. Mr Abraham SHEK said that the Administration should also consider making use of the remaining portion of the land at Phase 1 site for other developments and bringing in competition to the operation of HKD. The Chairman asked whether the Government had any plans with regard to HKD development after the expansion, as the development of additional attractions would enhance the appeal of the park. Mr Andrew LEUNG enquired about the plans to construct additional hotels at the Phase 2 Site.

57. PS/CED(CIT) said that after the proposed expansion, there were still some 7 hectares of land left at the Phase 1 site. The Government would discuss with TWDC the uses of this remaining part of land after reviewing the performance of the expanded HKD. It was possible that new attractions and hotel projects might be developed on the unused land of the Phase 1 site in due course, should the park's attendance and hence financial results improve in future. The Administration would report progress to the Panel as appropriate. However, the land in question could not be used for purposes other than the development of HKD, in accordance with the terms of the land grant. As for the Phase 2 site, while HKITP was given an option to buy the site, the Government would discuss with TWDC how the land could be deployed for temporary uses on short-term tenancy before the Phase 2 project was taken forward. The Administration had not drawn up any concrete plans at this stage for the development of the Phase 2 site.

58. C for T said that the Lands Department was conducting an expression of interest exercise in respect of the Phase 2 site and market feedback would be analyzed by end of July 2009. HKITP was also looking into ways to boost the patronage of the Inspiration Lake which was close to HKD.

Conclusion

59. The Chairman summarized members' concerns raised at the meeting, especially those concerning the calculation of management fee, assessment of economic benefits and financial disclosure. He said that the financial proposal would be discussed at the FC meeting in the afternoon on the same day.

II Any other business

60. There being no other business, the meeting ended at 11:13 am.