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24 May 2011

Ms Miranda HON  
Clerk, Public Accounts Committee  
Legislative Council Building,  
8 Jackson Road,  
Central, Hong Kong

Dear Ms HON

**The Director of Audit's Report on the  
results of value for money audits (Report No. 56)**

**Hong Kong 2009 East Asian Games (Chapter 5)**

I refer to your letter of 12 May 2011 requesting further information on the Hong Kong 2009 East Asian Games (EAG). The required information is set out below -

*(a) Ranks and salaries of government staff*

The ranks and monthly salaries of the 80 government staff deployed by LCSD from 2006-2007 to 2010-2011 to provide support for the 2009 EAG are set out at **Annex A**.

*(b) Accounting treatment*

The accounting treatments for the recognition of sponsorships and government grant reflected the progress in delivering the EAG as well as the EAG Company's accounting policy and the actual funding situation. The detailed arrangements are set out in **Annex B**. The accounting arrangement has been consistently applied

throughout the financial years concerned. All deferred income from both government grant and sponsorships was recognised upon the conclusion of EAG.

(c) *Broadcasting and television rights*

When the Government sought the in-principle support of the Finance Committee (FC) of the Legislative Council (LegCo) in July 2003 for Hong Kong to bid for the right to host the 2009 EAG, we assumed that there would be bids for the host broadcasting rights<sup>1</sup> and that the income so derived would be in the region of \$25 million. Subsequently, after observing the experience gained of the 2005 EAG held in Macau, we adjusted the estimated income from the sale of broadcasting rights downwards to \$12 million when seeking FC's funding approval in January 2006. However, the experience of the Hong Kong leg of the 2008 Beijing Olympic Torch Relay revealed that none of the local electronic media organisations had the required capacity to take up the role of host broadcaster for the Torch Relay. To overcome this problem, a consortium involving all the local electronic media organisations was formed to share the filming work at cost and, in return, they were granted free broadcasting rights for the Torch Relay.

Taking into account the arrangements for the Olympic Torch Relay and in view of the large number of EAG venues (20 venues and some public roads) and competition events (around 700) to be covered, the EAG Company and the local electronic media organisations agreed in early 2009 that a consortium should be formed to arrange for the filming and broadcasting of the 2009 EAG. The seven local electronic media organisations agreed among themselves the division of production work for the EAG ceremonies and competitions, having regard to manpower and equipment availability. Under the consortium model, the local electronic media organisations were required to provide production crews, equipment and coverage of the EAG ceremonies and competition events **at cost** and, in return, were granted free broadcasting rights. As for overseas broadcasters, the EAG Company engaged an acquisition agent through open tender to handle the sales and distribution of the broadcasting rights. After deducting the commission paid to the agent, the Company received \$1.2 million from the sale of broadcasting rights to 16 overseas

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<sup>1</sup> The host broadcaster is responsible for the shooting and production of Games footage and feeding the television signals to a broadcasting centre for distribution to local and overseas rights holders.

broadcasters.

As one of the consortium partners for the 2009 EAG, TVB produced the opening ceremony and the athletics events and charged the EAG Company **at cost**. The cost covered the provision of equipment and manpower for broadcasting and transmitting the signals to the EAG international broadcasting centre for use by all local broadcasters and overseas right holders. The EAG Company is contractually bound not to disclose the actual cost charged by individual consortium partners without the consent of the party concerned. The EAG Company consulted RTHK on the costs charged by all consortium partners. Given the scale and complexity of the opening ceremony, the duration of the athletics events and the need to use highly sophisticated equipment to capture the athletes, RTHK considered that the costs quoted by TVB were fair and reasonable.

Negotiations with the local electronic media organisations were carried out by the EAG Company, not LCSD. As all local electronic media organisations carried out the production work at cost, it would be difficult to quantify the amount of money saved by adopting the consortium model. As regards the sale of TV rights to overseas broadcasters, we consider that the EAG Company's interest was appropriately served with the engagement of the acquisition agent to negotiate the terms and conditions on its behalf.

*(d) Reasons for variations in income and expenditure*

As stated in the FC submission in 2006, the Government's objective was to ensure that the EAG Company would use its best endeavour to economise on its expenditure, live within the sums appropriated by the FC and generate revenues for organising the EAG. We consider that these objectives have been achieved in that the Company had lived within the funding approved by FC and attained a balanced final account with a surplus to be returned to the Government.

For a major international sports event such as the EAG the preparation of which straddled some six years, it is not unusual to find variations between the estimated and actual income and expenditure in respect of individual items. Further to the response provided to the Audit Commission earlier, we enclose at **Annex C**

a more detailed analysis of the main reasons for the variations between the estimated and actual income and expenditure for the items highlighted in the Audit report.

*(e) Financial review of the equestrian events*

We have not conducted any financial review on the organisation of the Equestrian Events of the 2008 Beijing Olympics and Paralympics as it was funded by the Beijing Organising Committee for the Games of the XXIX Olympiad (BOCOG). The HKSAR Government did not provide the Equestrian Company with funding for organising the Equestrian Events in Hong Kong. As the Equestrian Company was a registered company, its audited financial statements were filed with the Company Registry for public inspection and can be obtained from the Registry on request.

*(f) Breakdown of “other income”*

The \$26.1 million “other income” comprises -

(i) EAG Fund Raising Concerts	\$19.75 million
(ii) Income from pro-shop, banner promotion and video wall promotion services, EAG stamps and magazine, bank interest and sundry items	\$ 6.33 million
<b>Total</b>	<b>\$26.08 million</b>

*(g) Source of funding of the legacy project*

A table showing the sequence of events for the arrangements for funding the EAG legacy projects is at **Annex D**. The documents requested in paragraph (g) (i) to (iv) of your letter are at Appendices (I) - (VI) of Annex D. Taking into account the general principles set out in the advice obtained from the Financial Services and Treasury Bureau (FSTB) in June 2010, the EAG Company identified a sponsorship of \$10 million for the purpose of the legacy projects. With the approval of the Secretary for Home Affairs (SHA) and its Board of Directors, the Company implemented the legacy projects with the \$10 million sponsorship, which was from a sponsor other than Sponsor A.

We wish to point out that the last batch of government funding disbursed to the Company was received in November 2009. The \$10 million sponsorship used to fund the legacy projects was received in January 2010 and its purpose was in support of the EAG generally but not designated for any specific EAG activities or expenditure items. Given its timing, this \$10 million sponsorship (from a sponsor other than Sponsor A) could easily be differentiated from the government funding disbursed to the Company. Funding the legacy projects with this sponsorship met the principles set out in FSTB's memo dated 1 June 2010 and has suitably taken into account the wishes of the Sponsor to support the EAG and sports development. The Company therefore sought its Board's approval in mid-June 2010 accordingly.

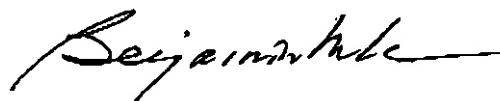
*(h) EAG Company's financial statements from 1 April to 30 June 2010*

The audited financial statements of the EAG Company for its last three months of operation from 1 April to 30 June 2010, which have been submitted to the Inland Revenue Department for tax assessment, are at **Annex E**.

*(i) Admission tickets issued to District Councils*

Of the 44 974 admission tickets issued to all guests for the 22 sports events, about 18% of the tickets were issued to District Councils.

Yours sincerely,



(Benjamin Mok)  
for Secretary for Home Affairs

c.c. Director of Leisure and Cultural Services (Fax No.: 2606 1824)  
Secretary for Financial Services and the Treasury (Fax No.: 2596 0729)  
Director of Audit (Fax No.: 2583 9063)

**\*Note by Clerk, PAC: Annex E not attached.**

**Breakdown of 80 Time-limited Civil Service Posts  
(2006-07 to 2010-11)**

<b>Time</b>	<b>Rank</b>	<b>Monthly Salary (at Mid-point Salary)</b>	<b>Number</b>
April 2006 to August 2010 (4 years 5 months)	Chief Executive Officer	\$83,060	1
	Senior Executive Officer	\$60,890	1
	Assistant Clerical Officer	\$15,875	1
	Personal Secretary II	\$15,875	1
<b>Sub-total (I):</b>			<b>4</b>
Late 2007 to March 2010 (2 years 4 months)	Chief Leisure Services Manager	\$83,060	1
	Senior Leisure Services Manager	\$69,105	1
	Leisure Services Manager	\$55,640	3
	Assistant Leisure Services Manager I	\$40,515	2
<b>Sub-total (II):</b>			<b>7</b>
Late 2008 to March 2010 (1 year 4 months)	Chief Leisure Services Manager	\$83,060	1
	Senior Leisure Services Manager	\$69,105	2
	Assistant Leisure Services Manager I	\$40,515	6
<b>Sub-total (III):</b>			<b>9</b>
June to December 2009 (7 months)	Executive Officer I	\$44,400	15
<b>Sub-total (IV):</b>			<b>15</b>
Mid Oct to Dec 2009 (2 months)	Executive Officer I	\$44,400	2
	Executive Officer II	\$29,400	43
<b>Sub-total (V):</b>			<b>45</b>
<b>Total ((I) – (V)):</b>			<b>80</b>

**Detailed Accounting Arrangements of the EAG Company  
for Recognition of Sponsorship and Government Grant**

Under the Company's accounting policy, **sponsorships and other revenues** were first recognised as "deferred income" during the year of receipt, and then as "revenue" in the period in which direct and related expenses were incurred. In the financial year 2009-10, a significant balance of the "deferred income" from sponsorships was actually "accounts receivable". It was therefore appropriate to carry forward the balance after recognising part of the "deferred income" from sponsorships, and then recognise the remaining balance after the "accounts receivable" had been received by the Company. Under Hong Kong Accounting Standard 20 – Accounting for Government Grants and Disclosure of Government Assistance, a **government grant** would not be recognised as revenue until there was reasonable assurance that the entity (i.e., the Company) would comply with the conditions attached to the grant (i.e., the Tripartite Agreement), and that the grant would be received accordingly. Under the terms of the Tripartite Agreement, the Government had discretion over the frequency and amount of each disbursement of the grant to meet the cash flow requirements of the Company. The primary role and objective of the Company in delivering the EAG was met in the 2009-10 financial year (i.e., the EAG were held in December 2009) and the full amount of

government grant (\$113,350,000) was received by the Company. In addition, a significant portion of the “deferred income” from sponsorships was “accounts receivable”. Therefore, it was appropriate to recognise the government grant in the same financial year in one go, in compliance with the relevant Accounting Standard and the Company’s accounting policy.

The accounting treatments for the recognition of sponsorships and government grant reflected progress in delivering the EAG as well as the Company’s accounting policy and the actual funding situation. All deferred income from both government grant and sponsorships was recognised upon the conclusion of EAG.



**Analysis of variations between estimated and actual income and expenditure items of the Hong Kong 2009 East Asian Games**

<b>Item</b>	<b>Estimate (January 2006) (In Million)</b>	<b>Actual (June 2010) (In Million)</b>	<b>Reasons for variation</b>
<b>Income</b>			
(a) Community / Commercial Sponsorship	50	131.4	The increase was attributable to keen support from the community and to the fact that the original estimate was highly conservative.
(b) Ticket Sales	28	11	The decrease was due to the setting of a lower ticket price at the time of sale (\$50 on average) than the original estimate (\$100 on average). The adjustment was made in response to FC Members' views that the ticket price should be low to encourage people to watch the EAG. Also, the sales proceed of student tickets taken up by a sponsor were credited as sponsorship income.

<b>Item</b>	<b>Estimate (January 2006) (In Million)</b>	<b>Actual (June 2010) (In Million)</b>	<b>Reasons for variation</b>
(c) Licensing and Merchandising	15	0.8	The decrease was mainly due to the lack of experience in assessing the market response to merchandise of games of a similar scale.
(d) Television Rights	12	1.2	Please refer to the detailed explanation set out in item (c) of the covering letter.
(e) Other Income	4	26.1	The increase was mainly due to an excellent response to the two EAG fund-raising concerts.
<b>Expenditure</b>			
(f) Opening and Closing Ceremonies	35	63.4	The increase was due to the improved standard and quality of the opening ceremony. More expenditure was incurred to erect LED screens to enable the public to watch the opening ceremony and fireworks on-site. These enhancements were made possible by sponsorships obtained for the purpose.

<b>Item</b>	<b>Estimate (January 2006) (In Million)</b>	<b>Actual (June 2010) (In Million)</b>	<b>Reasons for variation</b>
(g) Accommodation and Catering	15	25.5	The increase was due to the redirection of accommodation and catering costs of VIPs from “VIP hospitality” to this item. Also, hotels and catering prices were higher in 2009 than estimated in late 2005.
(h) Volunteers	8	12.3	The increase was due to an increase from 3 000 to 6 000 in the number of volunteers recruited.
(i) Transportation	4	10.5	The increase was due mainly to the redirection of the transportation cost for VIPs from “VIP hospitality” to this item.
(j) VIP Hospitality	8.5	2.7	The decrease was due to the redirection of the transportation, accommodation and catering costs of VIPs from this item to other items (see (g) and (i) above).

**Legacy Projects of the 2009 East Asian Games  
Sequence of Relevant Events**

<b>Date</b>	<b>Event</b>
Early Nov 2009	Sponsor A donated \$10M to EAG Company to enhance the Opening Ceremony
Nov 2009	LCSD allocated the last tranche of Government funding to the EAG Company
Nov 2009	Sponsor B indicated that it would donate \$10M to the EAG Company (no specific expenditure item mentioned)
2-13 Dec 2009	2009 EAG
22 Jan 2010	EAG Company received \$10M from Sponsor B and banked it on 27 Jan 2010 (copies of the cheque, the Company's receipt voucher and bank statement are at <i>Appendix I</i> )
Early May 2010	LCSD consulted HAB on the use of the unallocated balance (\$20M) on the proposed legacy projects. HAB agreed to the proposed legacy projects. (Extract of the relevant content of the submission to HAB is at <i>Appendix II</i> )
17 May 2010	LCSD wrote to FSTB seeking its views on the proposed legacy projects (Extract of the relevant memo is at <i>Appendix III</i> )
25 May 2010	At FSTB's request, LCSD provided supplementary information (Extract of the relevant correspondence is at <i>Appendix IV</i> )
1 June 2010	FSTB replied to LCSD setting out its views on the use of the unallocated balance for the proposed legacy projects (Extract of FSTB's reply is at <i>Appendix V</i> )
Early June 2010	In the light of FSTB's reply, LCSD sought HAB's views on the proposal to use \$10M of the unallocated balance on the two legacy projects. HAB agreed to the proposal set out in a draft board paper.

<b>Date</b>	<b>Event</b>
Mid June 2010	LCSD informed the EAG Company that the draft board paper could issue to its Board of Directors. The Board paper was subsequently approved by directors (A copy of the board paper is at <i>Appendix VI</i> ).

**\*Note by Clerk, PAC:**  *Appendices I and II not attached.*

**Extracts from LCSD's memo dated 17 May 2010  
seeking FSTB's view on the Proposed Legacy Project**

**Proposed EAG Legacy Project**

The 5<sup>th</sup> EAG, the first large-scale international multi-sport games ever held in Hong Kong, was concluded successfully last December. While the EAG Company is finalising its accounts for winding up in end June 2010, it has been giving thoughts to how Hong Kong's hosting of the 5<sup>th</sup> EAG could be commemorated in a meaningful and long-lasting way. The Company has now proposed to launch an EAG legacy project so as to continue the spirit of the EAG and to mark the success of Hong Kong in hosting this special event.

Having explored different options and taking into account practices adopted by other cities hosting major multi-sport events, the Company proposes that the EAG legacy project should comprise both tangible and intangible elements :

- (a) installing commemorative plaques at 19 EAG-related venues owned by LCSD, including 16 competition venues and three other venues where the 100-day countdown, flag raising and opening ceremonies were held, so as to create a tangible legacy for EAG; and
- (b) setting up an EAG fund or scholarship for the long-term benefits of Hong Kong athletes and the creation of an intangible but long-lasting EAG legacy.

On (a) above, the Company would arrange for the design and production for the commemorative plaques which will display the relevant EAG mascots and events, as well as the dates on which the events were held at that particular venue. The installation would be completed before late June 2010 when the Company is scheduled to wind up.

On (b) above, since the resounding success of the EAG was due in a large measure to our athletes' outstanding achievements in the Games (110 medals including 26 gold, 31 silver and 53 bronze), setting up an EAG fund or scholarship that would support the long-term development of our athletes directly would be a fitting recognition of their contributions and a meaningful way to create an EAG legacy. However, as the Company is scheduled for winding up next month, instead of setting up a new fund that requires separate fund administration, the Company proposes to donate its funds to existing athletes' programmes so as to minimize the administrative work and expenditure involved. In this connection, we have identified two possible funds, namely the Hong Kong Athletes Career and Education Programme (HKACEP) and the Hong Kong Athlete Fund (HKAF), both with the objective of helping Hong Kong's serving and retired athletes to pursue excellence in their sports and to support their career and educational development, for the purpose of the donation. The HKACEP is operated by the Sports Federation and Olympic Committee of Hong Kong (SF&OC). Through supporting top athletes' career and education development, the Programme aims to nurture well respected world class sports talents to be the role models of youth and to honour their sports achievements and dedication to Hong Kong's sports success. The HKAF, operated by the Hong Kong Sports Institute Limited (HKSI), aims to provide grants for educational and other academic training to individual athletes to enable them to pursue excellence in their chosen sports and provide them with the opportunity to develop alternative careers upon retirement from sports. Information on the HKACEP and the HKAF is at Annex A and B respectively.

The donation to both funds will be a welcomed addition to the on-going efforts to support Hong Kong athletes' career and education development, which is a major area of concern of the sports community. To highlight and commemorate the outstanding achievements of Hong Kong's athletes in the 5<sup>th</sup> EAG, it is proposed that an EAG scholarship or sub-fund should be set up under the HKACEP and/or the HKAF or both so as to benefit the EAG medalists/athletes (including participants in future EAGs) directly. We agree that this would be a meaningful way to create a more long lasting legacy for the 5<sup>th</sup> EAG hosted by Hong Kong

and would be warmly welcomed by the sports sector. The Company's legal advisor has confirmed that donating the Company's money to funds that will benefit athletes falls within the Memorandum of Articles and Association of the Company which states that the Company may "subscribe or guarantee money for charitable/religious or educational objects, and to promote, contribute to or assist financially or otherwise any fund for any charitable purposes".

### **Funding Position of the Company**

The EAG Company is scheduled to wind up by the end of June 2010 and it has been finalizing its account. As can be seen from the latest draft income and expenditure statement of the Company as at 31 March 2010 at Annex C, it is anticipated that there will be an unallocated balance of funding of about \$20M if all the money receivable is duly received. The unallocated balance is a combined result of the concerted efforts of all parties concerned to contain costs, the lower expenditure arising from a lower-than-expected turnout of VIPs and participants at the Games and the better than expected ticket sales and sponsorship. With this balance, the Company would have sufficient funding to pursue the proposed legacy projects.

### **Funding Approval by Finance Committee**

The Finance Committee (FC) of the Legislative Council approved a funding of \$123M vide FCai FCR(2005-06)40 for the purpose of EAG, among which \$113.35M has been allocated to the EAG Company. The Company has also succeeded in securing over \$120 million sponsorship from various sectors of the community. We have examined the proposed EAG legacy projects having regard to the provisions set out in the FCai (Annex D). We note that while the FCai has made no reference specifically to the EAG Company pursuing legacy projects or donating money to funds which will benefit athletes, the preamble of the FCai states that the funding approved by FC is "to provide financial support for the organisation and implementation of the 2009 EAG". As the purpose of the proposed EAG legacy projects is to commemorate the successful hosting of the 5<sup>th</sup> EAG in Hong Kong and given that it is customary for the hosts of other large-scale multi-sport



games to pursue some kind of legacy projects to continue the spirit of the games in the city, we consider that the proposed legacy project constitutes a logical and justifiable extension of the implementation of the 5<sup>th</sup> EAG. The proposed donation to funds that support long-term sports and athletes development is also in line with one of the objectives of hosting of the 5<sup>th</sup> EAG as set out in paragraph 4(c) of the FCai, i.e. “to foster the development of our sports standard and culture”. As such, we believe that the use of the Company’s funding to fund the proposed legacy project including the setting up of an EAG sub-fund/scholarship under existing athletes programmes falls within the funding ambit approved by FC.

We note that paragraph 18 of the FCai states that “surplus funding from the event, if any, up to the amount of government subsidy provided and hiring charges waived, shall be returned to the Government”. Since the proposed legacy project would form part of the overall implementation of the 5<sup>th</sup> EAG, we believe that the use of the \$20M by the EAG Company for the purpose of pursuing such project could be legitimately charged as an expenditure item under the Company’s account. As such, the said amount would be deducted from the Company’s account as an expenditure item before calculating the net surplus, if any, to be returned to the Government upon the winding up of the Company and after settlement of all its debts and liabilities.

Grateful to know if you would have any views on the proposal set out in paragraph 3 above. As the EAG Company has to wind up in end June and allowing time to its Board of Director’s formal endorsement of the proposals, your reply by 24 May 2010 would be much appreciated. Please let me know if you need further information.

**\*Note by Clerk, PAC: Annexes not attached.**

## Appendix IV

### Extracts from LCSD's supplementary information provided to FSTB on 25 May 2010

We spoke last week. As requested, I attach a summary of the disbursement of government funding to the EAG Company and other parties from 2006-07 onwards.



Summary of financial position for the organisation of 2009 EAG(2009-10),final with schedules.xls

You may wish to note that the last batch of government funding, amounting to \$14M (or 11% of the \$123M government funding) was disbursed to the Company in October/November 2009. That said, the allocation had actually been committed and the expenditure approved by the EAG Planning Committee back in May 2009 for the organization of the Games. The deferred disbursement from Government was mainly due to the time taken to assess the sum to be disbursed to EMSD which was responsible for the provision of technical support services for the Games.

On the other hand, the Company has received some substantial last-minute donations, including a \$10M donation secured in November 2009 for enhancing the EAG opening ceremony and other publicity efforts. There were also sponsorships in kind received in November 2009, including \$2M sponsorship for sports equipment and \$0.5M for courier services for delivering doping samples to Beijing. It can be argued that quite a large proportion of the unallocated funding (about 65%) was due to the efforts made by the Company in securing last-minute sponsorship.

**Government funds allocated for the organization of 2009 EAG**

<b>Year</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>EAG Company</b>					
May/June	2,000,000.00	7,800,000.00	19,650,000.00	40,000,000.00	69,450,000.00
Oct /Nov	2,550,000.00	8,088,895.85	19,059,405.76	14,201,698.39	43,900,000.00
<b>RTHK</b>	0.00	0.00	650,000.00	0.00	650,000.00
<b>EAGA Secretariat (SF&amp;OC)</b>	1,750,000.00	1,461,104.15	1,690,594.24	2,098,301.61	7,000,000.00
<b>LCSD*</b>	0.00	0.00	0.00	2,000,000.00	2,000,000.00
<b>Total :</b>	<b>6,300,000.00</b>	<b>17,350,000.00</b>	<b>41,050,000.00</b>	<b>58,300,000.00</b>	<b>123,000,000.00</b>

\* Retained by LCSD for payment of venue operating and transport related expenses, with actual expenditure of \$1,931,931.00 and remaining of \$68,069.

**Extracts from FSTB's reply dated 1 June 2010**

You sought our views on a proposal to fund a legacy project in commemoration of the hosting of the 5<sup>th</sup> EAG in Hong Kong by using an unallocated balance of \$20M left in the EAG Company's account. In making this proposal, you regard the proposed legacy project as a logical and justifiable extension of the implementation of the EAG, and one which fulfils the objective of fostering the development of Hong Kong's sports standard and culture as mentioned in the relevant Finance Committee (FC) paper. On these bases, you consider the legacy project falls within the ambit of FC's funding approval and can be funded by the \$20M in question.

FC approved the creation of a commitment of \$123M to provide financial support for "the organization and implementation" of the EAG. We have considered carefully the components of the proposed legacy project, viz. installation of commemorative plaques at various venues and provision of extra funds to further support Hong Kong athletes. In our view, these are post-implementation initiatives instead of part of the EAG implementation. We also find it difficult to fit the proposed legacy project into any of the expenditure items for organising and implementing the EAG (para. 12 of the FC paper and its Enclosure 5).

Paragraph 18 of the FC paper requires surplus funding from the event be returned to the Government. We understand that the EAG Company does not maintain separate accounts for Government allocation and sponsorship. They all form a general pool of resources. Any unallocated balance of that pool of resources then falls within the meaning of surplus funding. This being the case, it would be inappropriate to fund the legacy project by using the unallocated balance left in the EAG Company's account.

That said, if all (or part) of the unallocated balance of \$20M can be clearly attributed to community/commercial sponsorship received by the EAG Company, depending on the sponsorship terms, one could argue that the Government may not necessarily have the first claim on the balance (or that part of it).

We note from the supplementary information provided in your email that the EAG Company secured some \$10M donation in cash in November 2009. At that juncture, expenditure related to the implementation of EAG had largely been met with the EAG Company's general pool of resources. As a result, that \$10M cash donation was virtually not trapped and has now become a significant proportion of the unallocated balance. It appears that with reference to the timing of securing the donation, the EAG Company is able to differentiate the \$10M cash donation from the general pool of resources already in existence for meeting EAG related expenditure. On this basis, we consider it reasonable not to regard the sum as part of the surplus funding for return to the Government for the time being, until all legitimate ways of expending it have been exhausted. In fact, if the donation is expended legitimately, it is no longer part of the unallocated balance. You mentioned in the email that the \$10M cash donation was for enhancing the EAG opening ceremony and other publicity efforts. It is for the EAG Company to consider whether that donation can be used legitimately to fund the proposed legacy project, seeking clarification from the donor as necessary.

As regards the sponsorships in kind totalling \$2.5M received in November 2009, we understand they were consumed during the EAG events, i.e. entered into the general pool of resources for meeting EAG related expenditure. And since they have been spent, they do not account for any part of the unallocated balance.

In short, other than the \$10M cash donation which can be differentiated from the EAG Company's general pool of resources, the remainder of the unallocated balance should be regarded as surplus funding from the event, and should be returned to the Government.

We have further considered the option of apportioning the unallocated balance based on the ratio of Government allocation to commercial sponsorship. We have concluded that the term "surplus funding" in the FC paper does not provide any basis for such apportioning. Therefore, we do not recommend pursuing this option.

We fully appreciated that the proposed legacy project is a worthwhile initiative on its own. In case the unallocated balance will need to be returned to the General Revenue according to the FC paper, you may wish to consider other alternative funding options, such as drawing on the sports portion of the Arts and Sport Development Fund.

**Extracts from the EAG Company's Board Paper  
seeking approval for the Proposed EAG Legacy Project**

**Purpose**

This paper seeks Members' approval for the 2009 East Asian Games (Hong Kong) Limited (the Company) to pursue an EAG legacy project in commemoration of the successful staging of the 5th EAG in Hong Kong.

**Background**

The EAG was concluded successfully last December and the Company is finalising its account with a view to starting the legal winding up procedure in end June 2010. Based on the latest draft income and expenditure statement of the Company up to 31 March 2010 at Annex A, it is anticipated that there will be an unallocated balance of funding of about HK\$21M if all the money receivable is duly received. The unallocated balance is a combined result of the concerted efforts of the Company and relevant parties to contain costs and expenditure for the Games and the better than expected ticket sales and sponsorship received.

The Company's main sources of funding are Government allocation (\$113.35M) and cash sponsorship (\$131.33M). Since the Company does not maintain separate accounts for receiving Government allocation and sponsorship respectively, all the money received has been deposited into the same account. Clause 16 of the Tripartite Agreement for the EAG signed among the Government, the Company and the Sports Federation and Olympic Committee of Hong Kong, China (SF&OC) states that "any surplus funding for the event, if any, up to the amount of government subsidy provided and hiring charges waived, shall be returned to the Government."

To clarify whether the entire amount of the unallocated

balance needs to be returned to the government, the Company has consulted the relevant government authorities on the proper way of disposing the balance. Among the HK\$21M unallocated balance, it should be noted that a sum of HK\$10M cash donation was secured by the Company only in late November 2009. Given that the unallocated balance amounts to HK\$21M, it can be argued that the Company had already exhausted the Government allocation by November 2009 and that HK\$10M of the unallocated balance came from cash sponsorship received by the Company afterwards. Taking into account the timing of securing the donation and the above line of argument, the relevant government authorities agree to segregate the HK\$10M sponsorship from the Company's income and to allow the Company to dispose of the sum at its own discretion. For the remainder of the unallocated balance (HK\$11M), the relevant authorities consider that it should be regarded as surplus funding from EAG and be returned to the Government according to Clause 16 of the Tripartite Agreement. In other words, out of the HK\$21M unallocated balance, the Company may keep HK\$10M for such uses as deemed appropriate by its Board and return the remaining HK\$11M and any other surplus upon the dissolution of the Company to the Government in accordance with the Tripartite Agreement.

### **Proposed EAG Legacy Project**

To continue the spirit of the EAG and to mark the success of Hong Kong in hosting the first ever large-scale international multi-sports games, we propose to make use of the HK\$10M to pursue a legacy project comprising both intangible and tangible elements as set out in the ensuing paragraphs.

#### ***(a) The tangible element – installation of commemorative plaques at EAG venues***

Commemorative plaques will be installed in 21 EAG-related venues (including 19 LCSD venues and two other venues) to leave a tangible legacy for the 5th EAG. The list of venues to be installed with commemorative plaques and the design of the plaque are at Annexes B and C respectively. The budget for this project is HK\$200,000 which has been approved by the Chief Executive Officer of the Company under



delegated authority and in accordance with the Company's procurement guidelines. The project will be completed by end of June.

***(b) The intangible element – donation to athletes funds***

As a meaningful and long-lasting way to commemorate Hong Kong hosting the 5th EAG, we propose to donate the remaining HK\$9.8M at the Company's disposal (after deducting HK\$200,000 for (a) above) to existing funds/programmes with the objective of supporting the long-term development of Hong Kong's athletes, thereby creating an intangible EAG legacy. Since the resounding success of the EAG was due in a large measure to our athletes' outstanding achievements in the Games, the setting up of an EAG fund or scholarship that will support the long term development of our athletes directly will be a fitting recognition of their contributions and a meaningful way to commemorate the 5th EAG. However, as the Company is about to wind up, instead of setting up a new fund that requires separate fund administration, donating the sum to existing athletes' fund will minimise administrative work and expenditure while benefiting the athletes. In this connection, we have identified two possible funds, namely the Hong Kong Athletes Career and Education Programme (HKACEP) and the Hong Kong Athletes Fund (HKAF), both with the objective of helping Hong Kong's serving and retired athletes to pursue excellence in their sports and to support their career and educational development, for the purpose of the donation.

The HKACEP is operated by the SF&OC and overseen by the Home Affairs Bureau. Through supporting top athletes' career and education development, the Programme aims to nurture well respected world class sports talents to be the role models of youth and to honour their sports achievements and dedication to Hong Kong's sports success. The HKAF, operated by the Hong Kong Sports Institute Limited, is a sub-fund of the Sir David Trench Fund which is monitored by the Sir David Trench Fund Committee. The HKAF aims to provide grants for educational and other academic training to individual athletes to enable them to pursue excellence in their chosen sports and provide them with the opportunity to develop alternative careers upon retirement from sports. Information on the HKACEP and the HKAF is at Annexes D and E respectively.

It is proposed to divide the HK\$9.8M surplus equally and donate HK\$4.9M to each of the two athlete funds. To commemorate the outstanding achievements of Hong Kong athletes in the 5th EAG, we will request, as part of the terms and conditions for the donation, that an EAG scholarship or sub-fund should be set up under the HKACEP and the HKAF. The use of the EAG donation will be generally in line with the existing objectives, terms and conditions of the respective funds, with the inclusion of the following specific requirements to provide an inherent link to EAG –

- (a) the donation should be put into an EAG sub-fund/scholarship to be set up under the respective funds;
- (b) on top of the eligibility criteria set by the respective funds, the beneficiaries of the EAG donation should be Hong Kong athletes, serving or retired, who have participated in major games, including the Olympic Games, Asian Games, East Asian Games and priority should be given to EAG athletes; and
- (c) the existing arrangements adopted by the respective funds should generally be applicable to the vetting and approval of applications for the EAG fund/scholarship.

We envisage that the proposed donation to the two athletes funds and the creation of an intangible legacy for the 5th EAG will be welcomed by the sports community. The Company's legal advisor has also confirmed that donating the Company's money to funds that will benefit athletes falls within the Memorandum of Articles and Association of the Company. The relevant government authorities are also agreeable to the Company's proposed ways of disposing its HK\$10M unallocated balance.

## **Way Forward**

Subject to Members' endorsement, we will arrange to donate the sum to HKACEP and HKAF with the inclusion of the specific

requirements stated in paragraph 9 above and to complete the installation of commemorative plaques before the winding up of the Company.

**Advice Sought**

Members are invited to approve the proposed EAG legacy project.

**\*Note by Clerk, PAC: Annexes not attached.**