

立法會

Legislative Council

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seen by the Administration)

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Finance Committee of the Legislative Council

Minutes of the 29th meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 11 July 2014, at 2:30 pm

Members present:

Hon NG Leung-sing, SBS, JP (Chairman)
Hon Emily LAU Wai-hing, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon CHAN Kam-lam, SBS, JP
Hon LEUNG Yiu-chung
Dr Hon LAU Wong-fat, GBM, GBS, JP
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-hing, BBS, MH
Prof Hon Joseph LEE Kok-long, SBS, JP, PhD, RN
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon Cyd HO Sau-lan, JP
Hon Starry LEE Wai-king, JP
Hon CHAN Hak-kan, JP
Hon CHAN Kin-por, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP

Hon CHEUNG Kwok-che
Hon WONG Kwok-kin, SBS
Hon IP Kwok-him, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Hon Albert CHAN Wai-yip
Hon WONG Yuk-man
Hon Claudia MO
Hon Michael TIEN Puk-sun, BBS, JP
Hon James TIEN Pei-chun, GBS, JP
Hon Steven HO Chun-yin
Hon Frankie YICK Chi-ming
Hon WU Chi-wai, MH
Hon YIU Si-wing
Hon Gary FAN Kwok-wai
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon CHAN Han-pan, JP
Dr Hon Kenneth CHAN Ka-lok
Hon CHAN Yuen-han, SBS, JP
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, JP
Hon KWOK Wai-keung
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon SIN Chung-kai, SBS, JP
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen
Dr Hon Elizabeth QUAT, JP
Hon Martin LIAO Cheung-kong, SBS, JP
Hon POON Siu-ping, BBS, MH
Hon TANG Ka-piu, JP
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, BBS, MH, JP
Hon Christopher CHUNG Shu-kun, BBS, MH, JP
Hon Tony TSE Wai-chuen, BBS

Members absent:

Hon Jeffrey LAM Kin-fung, GBS, JP
Dr Hon LAM Tai-fai, SBS, JP
Dr Hon LEUNG Ka-lau
Dr Hon KWOK Ka-ki
Hon Dennis KWOK
Hon CHUNG Kwok-pan

Public officers attending:

Ms Elizabeth TSE Man-yee, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Esther LEUNG, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Mr Alfred ZHI Jian-hong	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr Philip YUNG, JP	Commissioner for Tourism
Miss Rosanna LAW, JP	Deputy Commissioner for Tourism
Mr Damien LEE	Acting Managing Director, Hong Kong Disneyland Resort
Miss Linda CHOY	Vice President, Public Affairs, Hong Kong Disneyland Resort
Mr Frank KWOK	Government Security Officer, Security Bureau
Mr LAI Chi-tung	Assistant Director of Marine (Port Control)
Mr Lobee YUEN Wai-yip	Senior Electronics Engineer (Engineering and Systems), Marine Department

Clerk in attendance:

Mr Andy LAU	Assistant Secretary General 1
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Staff in attendance:

Mr Derek LO	Chief Council Secretary (1)5
Mr Daniel SIN	Senior Council Secretary (1)7
Mr Ken WOO	Senior Council Secretary (1)5
Miss Queenie LAM	Senior Legislative Assistant (1)2
Mr Frankie WOO	Senior Legislative Assistant (1)3
Ms Christy YAU	Legislative Assistant (1)7

Action

The Chairman advised members that three meetings had been scheduled for the day. The first meeting would start at 2:30 pm, the second meeting would start at 4:40 pm and the third meeting would start 30 minutes after the second meeting.

2. The Chairman said that the Administration had issued a reply to Dr Fernando CHEUNG, Ms Emily LAU and Mr LEE Cheuk-yan in response to their letters suggesting an adjustment to the sequence of the agenda items for the Finance Committee ("FC") meeting on the day (LC Paper No. FC136/13-14(04)). The Chairman considered that it was the duty of FC to examine funding proposals put forward by the Administration. All along, proposed agendas of meetings were submitted by the Administration and the Chairman of FC would respect the Administration's view on what items should be put on the agenda and their order for discussion. He did not intend to change this practice.

Item No. 1 – FCR(2014-15)6

CAPITAL INVESTMENT FUND

HEAD 973 – TOURISM

Subhead 101 Equity in Hongkong International Theme Parks Limited

Subhead 102 Loan in Hongkong International Theme Parks Limited

3. The meeting continued the deliberation on the item FCR(2014-15)6 regarding the proposed loan-to-equity conversion and new term loan for the implementation of a new hotel development project at the Hong Kong Disneyland ("HKD") carried over from the third meeting held on 4 July 2014.

4. Mrs Regina IP declared that she was a shareholder of The Walt Disney Company ("TWDC") and she would not speak or vote on the item.

Investment return of HKD and the proposed hotel development project

5. Mr Kenneth LEUNG, Dr Fernando CHEUNG and Mr WU Chi-wai sought information on HKD and the proposed hotel, including the annual average return on equity, cost of capital and auditor's reports of Hongkong International Theme Parks Limited ("HKITP") as well as the internal rate of return and payback period of the proposed hotel project.

6. C for Tourism ("C for Tourism") and DC for Tourism ("DC for Tourism") responded that, pursuant to the agreements entered between the Government and TWDC, HKD would make annual disclosure of the key operating and financial results of the resort such as park attendance, revenues, expenses and earnings before interest, taxes, depreciation and amortisation ("EBITDA") and could not divulge other commercially sensitive information under the agreements. DC for Tourism advised that the Administration had provided all other relevant information for members' reference as far as practicable. She pointed out that the cost of capital for TWDC of 8% was based on the average analyst estimate, and the expected return of the proposed hotel was at or above that threshold.

7. Regarding the payback period of the proposed hotel, C for Tourism advised that the Administration did not set a target timeframe to recover the investment costs of the hotel project, but instead focused on the overall benefits brought about by the hotel project to HKD and the tourism industry. Mr WU Chi-wai expressed concern on whether there were other Government projects for which the Administration did not have an estimated internal rate of return.

8. Ms Emily LAU and Ms Claudia MO were disappointed at the Administration's reluctance to disclose the financial performance of HKD. Ms Cyd HO and Ms Claudia MO requested the Administration to disclose the terms and conditions of the agreements signed between the Government and TWDC. Ms Cyd HO added that she would vote against the funding proposal if the Administration did not do so. C for Tourism advised that due to the need to respect commercial confidentiality, the Administration would not be able to disclose the agreement details.

9. As regard Dr Fernando CHEUNG's question on the amount of fees payable to TWDC for the operation of HKD, C for Tourism explained that TWDC was entitled to receive management fees and royalties in accordance with the agreements. The base management fee was based on EBITDA instead of gross revenues after 2009 as this could provide a greater incentive for HKD to improve the operation of the theme park.

Conversion of part of the existing loan into equity

10. Mr LEE Cheuk-yan queried the rationale for converting the existing loan into equity since the Government could collect interest on the loan, whereas it could receive cash dividend only when HKITP recorded a profit. Dr Fernando CHEUNG made a similar comment and queried about the amount of loan interest collected by the Government last year and the total interest income forgone as a result of the conversion.

11. C for Tourism advised that the conversion of the existing loan into equity, together with the grant of new term loan for the new hotel development, was a balanced approach to fund the hotel project while enabling the Government to maintain its majority shareholding in HKITP without the need to inject new cash equity. DC for Tourism added that the agreements signed between the Government and TWDC set out the interest rates of the loan concerned, which were prime rate minus 1.75% from drawdown to the first eight years after park opening, and prime rate minus 0.75% for the next eight years. HKITP had paid all the loan interest to the Government over the years. Nevertheless, the Administration could not disclose the amount of interest collected for the reason of commercial confidentiality.

Provision of new term loan

12. In response to the questions raised by Mr Albert HO and Mr Tommy CHEUNG about the terms of the new loan provided by the Government and TWDC, DC for Tourism confirmed that the key terms of the new loan (e.g. interest rate and repayment period) were the same for both parties. Moreover, the Government and TWDC had reached a consensus that the aggregate loan amount provided by TWDC should be on par with that by the Government, i.e. about \$1.1 billion of loan for each party, after taking into account the new loan and conversion of the existing loan.

13. Mr Albert HO and Mr Kenneth LEUNG queried whether the new loan could be converted into equity. DC for Tourism advised that the new loan did not specify whether it could be converted into equity in future. C for Tourism added that any further conversion of loan into equity would require the approval of FC.

14. In reply to Mr Kenneth LEUNG's query about the right of the Government to recall the new loan immediately under special situations, DC for Tourism advised that, rather than a right to recall the loan, a mechanism had been put in place to handle situations where HKITP failed to repay the loan or/and the loan interest due to financial loss or/and insufficient cash flow.

15. Mr Albert HO asked the reason for not financing the hotel project by a commercial loan for which the Government and TWDC could serve as guarantors. DC for Tourism advised that the Administration had considered such option but found that the terms of the commercial loan were less favourable compared with those of the new loan provided by the Government and TWDC. Moreover, the independent financial advisor appointed by the Administration confirmed that the provision of new loan by the Government and TWDC was most beneficial to the Government and HKD.

Shareholding structure of HKITP

16. Mr LEE Cheuk-yan recalled that the Government had undertaken to gradually give up its majority stake in HKITP when introducing the HKD project into the Legislative Council in 1999. Mr LEE asked whether the Administration would sell its shares to TWDC. Mr Tommy CHEUNG requested the Administration to clarify the relevant policy.

17. C for Tourism advised that it was the Government policy's to maintain a majority shareholding in HKITP and any major change in the Government's shareholding structure should be approved by FC. DC for Tourism supplemented that the Government's equity in HKITP was lowered from 57% in 1999 to 52% under HKD's expansion plan in 2009. The Administration considered the change acceptable as long as the Government was the majority shareholder of HKITP.

18. In response to the concerns of Mr LEE Cheuk-yan and Ms Claudia MO over the rationale of the Government to be the majority shareholder of HKITP, C for Tourism advised that the arrangement would enable the Government to play a leading role in the development of HKD and optimize Government's interests.

Land premium and development of the new hotel

19. Mr Tony TSE enquired about the land premium of the new hotel. C for Tourism said that the new hotel was located at the Phase 1 site of HKD and the land premium of the site had been paid to the Government in the form of subordinated shares with a worth of \$4 billion.

20. Dr Fernando CHEUNG asked when the Administration would convert the subordinated shares into ordinary shares. C for Tourism replied that the subordinated shares would be converted to ordinary shares progressively based on HKD's operating performance.

21. Mr CHAN Chi-chuen enquired that whether HKD would offer any concessions or preference to local residents in the new hotel. Acting Managing Director, the Hong Kong Disneyland Resort ("Acting MD, HKDR") replied that same as the existing two hotels in HKD, it would introduce offers to different guests from time to time.

22. Mr Tommy CHEUNG asked about the room rates of the new hotel. Acting MD, HKDR said that the new hotel would be positioned between the existing two hotels in HKD, i.e. the Disney's Hollywood Hotel and the Hong Kong Disneyland Hotel, and so would be the room rates.

23. Mr James TO sought information about the occupancy forecast of the new hotel in HKD and the additional visitor arrivals brought by the new hotel. Acting MD, HKDR responded that the occupancy rate of the two existing hotels in HKD was over 90% and up to 20% of the hotel guests could be turned away at times due to insufficient room supply in the past few years. Moreover, most of the hotel guests of HKD would visit the theme park during their stay. The survey conducted by HKD also showed that overnight visitors staying three nights in Hong Kong might spend one night in the hotels of HKD. Hence, there was a pressing need to increase the hotel room supply in HKD.

24. Mr WU Chi-wai asked how the Administration would proceed with the hotel project in case the funding proposal was voted down by members. DC for Tourism said that if the funding proposal was not approved by FC, the tendering process of the project would be deferred and consequently the construction costs of the new hotel would likely increase. Without the new hotel, it would also be difficult for HKD to further enhance its appeal to Mainland and overseas visitors.

Economic benefits of HKD development

25. Being concerned about the financial loss incurred by HKD, Mr LEUNG Yiu-chung requested the Administration to state the specific benefits brought about by the development of HKD. C for Tourism advised that HKD had incurred some losses during the initial stage of operation but had succeeded in achieving a net profit in both 2012-2013 and 2013-2014 financial years. He estimated that the net profit would increase in the coming year but the Government had yet to receive any cash dividend from HKD.

26. DC for Tourism supplemented that the Government had adopted a two-fold investment strategy in HKD: the operating surplus would be payable to the Government as cash dividend in case no investment opportunity was found. Otherwise, HKD would make use of its operating surplus for further

expansion to enhance its receiving capacity. DC for Tourism advised that new expansion projects would be launched in the coming years, including the night time parade in 2014, the Iron Man-themed area in 2016 and at least three expansion projects from 2018 onwards. The Government and TWDC had agreed in principle that these projects, which would cost billions of dollars in total, would be financed by HKD's operating surplus as far as possible without additional financial support from the Government.

27. Despite the Administration's explanation, Mr LEUNG Yiu-chung commented that the Administration only kept on making investments in HKD, without receiving any benefits in return.

28. Considering that the overall benefits brought about by HKD should be seen from a wider perspective rather than in terms of its financial performance, Mr YIU Si-wing sought information about the contribution of HKD to the tourism industry and employment as well as its implication for tax revenue since park opening.

29. C for Tourism pointed out that, during its first eight years of operation, HKD generated an added value of \$50.4 billion and created a total of 148 900 jobs. The new hotel would also create new job opportunities during the construction stage and after its commencement. Regarding tax revenue, as HKD still recorded accumulated losses, no profits tax was payable. The Administration did not have the breakdown of salaries tax revenue collected from employees of HKD and related services.

Expansion plan of HKD

30. Mr SIN Chung-kai commented that the Administration should expedite the development of the Phase 2 site to meet the needs of tourism development. Mr SIN considered that the Administration should invite other parties to develop the site if HKD would not do so. Noting that the Phase 2 site had been left vacant since the completion of the Penny's Bay Reclamation Project, Dr Fernando CHEUNG enquired about the development plan of the Phase 2 site.

31. C for Tourism and Acting MD, HKDR said that the current priority was on the utilization of the remaining land plots on the Phase 1 site. C for Tourism added that the Administration had had initial discussions with TWDC on developing the Phase 2 site and both parties were interested to start the discussions as soon as possible. As an interim measure, the Phase 2 site was used for various temporary purposes, such as the venue for the Hong Kong Scout Centenary Jamboree and distance-running competitions.

32. Mr SIN Chung-kai asked about the agreement of allowing HKITP to develop the Phase 2 site in priority and the expiry date of the agreement term. Dr Fernando CHEUNG enquired about the land premium payable by HKITP for the Phase 2 site.

33. C for Tourism replied that the land premium for the Phase 2 site was set at \$2.8 billion in 1999 prices to be adjusted for inflation in line with the composite Consumer Price Index. DC for Tourism advised that HKITP was given an option to buy the Phase 2 site under the agreement. The option was valid for 20 years with an automatic right to extend for a further five years and a conditional right to extend for a second five-year period.

34. Mr WONG Yuk-man commented that development of HKD overly relied on the Mainland as its source market. In response, C for Tourism said that the local residents, Mainland visitors and tourists from overseas were the three main source markets of HKD. Therefore, the future development of HKD was also based on the needs of these three groups of visitors.

Impact of the Shanghai Disney Resort and other theme parks on HKD

35. Mr YIU Si-wing raised concern about the impact of the competition from the Shanghai Disney Resort on HKD in particular its impact on the visitors from the Yangtze River Delta. He considered that HKD should open up other visitor sources, such as Guangdong and Southeast Asia. Mr Tommy CHEUNG raised a similar concern.

36. C for Tourism and Acting MD, HKDR advised that South China, Southeast Asia and India were among the key visitor sources of the theme park and HKD had invested in these markets to enhance market penetration. Acting MD, HKDR referred to the co-existence of two Disneyland theme parks in the United States ("US") and considered that the market in the Mainland was large enough for two Disneyland theme parks as well. Acting MD, HKDR advised that HKD and the Shanghai Disney Resort, each with distinctive features, would complement each other in branding and appeal to visitors.

37. Ms Emily LAU was worried that the Shanghai Disney Resort would pull tourists away from HKD, resulting in an oversupply of hotel rooms in the theme park. She queried if the park attendance of HKD would be affected after the opening of the Shanghai Disney Resort. C for Tourism said that the park attendance depended on a number of factors. The new hotel in HKD would attract more overnight visitors to stay at the theme park and help HKD

maintain its appeal and competitiveness in the face of the opening of the Shanghai Disney Resort.

38. Mr Tony TSE commented that, apart from the Shanghai Disney Resort, the Administration should also study the impact of hotel projects from other theme parks in neighbouring markets (e.g. the Chimelong Theme Parks in Guangdong). C for Tourism advised that HKD had evaluated the impact of other theme parks in the region when planning the new hotel.

Voting results

39. There being no further questions from members, the Chairman put the item FCR(2014-15)6 to vote. At the request of Mr WONG Ting-kwong, the Chairman ordered a division. Thirty-nine members voted for and eight members voted against the proposal. The voting results of individual members were as follows –

For:

Mr Albert HO Chun-yan
Dr LAU Wong-fat
Mr Tommy CHEUNG Yu-yan
Mr Jeffrey LAM Kin-fung
Mr WONG Ting-kwong
Ms Starry LEE Wai-king
Mr CHAN Kin-por
Mr WONG Kwok-kin
Mr Paul TSE Wai-chun
Mr Steven HO Chun-yin
Mr WU Chi-wai
Mr MA Fung-kwok
Mr CHAN Han-pan
Mr LEUNG Che-cheung
Miss Alice MAK Mei-kuen
Mr Christopher CHEUNG Wah-fung
Dr Elizabeth QUAT
Mr POON Siu-ping
Dr CHIANG Lai-wan
Mr Christopher CHUNG Shu-kun
(39 members)

Mr James TO Kun-sun
Ms Emily LAU Wai-hing
Mr WONG Kwok-hing
Mr Andrew LEUNG Kwan-yuen
Mr Ronny TONG Ka-wah
Mr CHAN Hak-kan
Dr Priscilla LEUNG Mei-fun
Mr IP Kwok-him
Mr James TIEN Pei-chun
Mr Frankie YICK Chi-ming
Mr YIU Si-wing
Mr Charles Peter MOK
Miss CHAN Yuen-han
Mr Kenneth LEUNG
Mr KWOK Wai-keung
Mr SIN Chung-kai
Mr Martin LIAO Cheung-kong
Mr TANG Ka-piu
Ir Dr LO Wai-kwok

Against:

Mr LEE Cheuk-yan
Ms Cyd HO Sau-lan

Mr LEUNG Yiu-chung
Mr WONG Yuk-man

Ms Claudia MO
Mr CHAN Chi-chuen
(8 members)

Mr Gary FAN Kwok-wai
Dr Fernando CHEUNG Chiu-hung

40. The Chairman declared that the Committee approved the item.

Item No. 2 – FCR(2014-15)7

CAPITAL WORKS RESERVE FUND

**HEAD 708 – CAPITAL SUBVENTIONS AND MAJOR
SYSTEMS AND EQUIPMENT**

Marine Department

**New Subhead "Procurement of Ground Receiving Station
of the Medium Earth Orbit Search and Rescue Satellite System"**

41. The Chairman advised that the item sought the Committee's approval of \$41.4 million for the procurement of the ground receiving station of the Medium Earth Orbit Search and Rescue ("MEOSAR") Satellite System for the Hong Kong Maritime Rescue Co-ordination Centre of the Marine Department.

42. Mr IP Kwok-him, Chairman of the Panel on Security, reported that the Panel discussed the funding proposal on 8 April 2014. Panel members generally supported the funding proposal for the MEOSAR ground receiving station since the existing Low Earth Orbit Search and Rescue ("LEOSAR") would soon be phased out and replaced by the MEOSAR system.

43. Ms Cyd HO asked whether the airlines would be required to make payment to Cospas-Sarsat for the distress alerts service provided under the MEOSAR system, and if so, whether the Marine Department, being a participating organization of Cospas-Sarsat, would receive payment for providing such service.

44. Assistant Director of Marine (Port Control) ("AD of M") explained that an aircraft was mandated to carry an emergency location transmitter which would automatically transmit a distress signal in the event of an accident. The distress signal would then be detected by the Cospas-Sarsat's satellite-based system. Cospas-Sarsat did not charge the airlines for the distress alerts service. The Marine Department did not receive payment for providing such service as it was an international obligation.

45. Given that the MEOSAR system was reported to be more effective than the LEOSAR system as early as in 2011, Mr Gary FAN queried the

reasons for the Administration not to replace the existing LEOSAR system earlier. AD of M responded that the MEOSAR system was in the demonstration and evaluation phase spanning from 2011 to 2015. The Marine Department decided to install the MEOSAR ground receiving station in 2014 without taking part in that phase. The station would commence operation after two years, tying in with the schedule of the MEOSAR system to become Initial Operational Capability ("IOC") in 2016. During the IOC phase, the MEOSAR distress alert data would have been proven to be reliable and could be in use.

46. Mr Gary FAN was concerned about the possible problems associated with the replacement exercise and asked whether there was enough time for the Marine Department to acquire the necessary techniques for operating the MEOSAR system by 2016. AD of M advised that, the MEOSAR ground receiving station would commence operation after adequate testing and the approval of its testing results by Cospas-Sarsat.

47. Mr WU Chi-wai sought information on the numbers of MEOSAR satellites currently in orbit and those to be launched into orbit. AD of M advised that 15 MEOSAR satellites were in orbit and the US, Russia and the European Union planned to launch another 17 MEOSAR satellites in the coming four years.

48. Mr TANG Ka-piu asked whether the belated approval of the funding proposal, originally scheduled to be discussed at the FC meeting in May 2014, would delay the installation of the MEOSAR ground receiving station and thereby hindering Hong Kong to carry out its international obligation of providing the distress alerts service. Government Security Officer and AD of M advised that if the funding proposal was approved, the MEOSAR system would be capable to commence operation as scheduled in 2016. As such, the Marine Department would fulfill its international obligation.

49. Dr Fernando CHEUNG was concerned that many places in Asia (e.g. China, Malaysia and Taiwan) had not installed the MEOSAR ground receiving station thereby affecting the launch of the proposed MEOSAR system. He also asked whether the Marine Department or the Civil Aviation Department would be responsible for maintaining the MEOSAR. AD of M said that, similar to Hong Kong, the other Asian places would consider installing the MEOSAR ground receiving station direct by skipping the demonstration and evaluation phase. The Marine Department would be responsible for maintaining the MEOSAR system.

Action

50. The Chairman announced that the meeting be adjourned and the next meeting would be held after a ten-minute break.

51. The meeting was adjourned at 4:29 pm.

Legislative Council Secretariat

18 November 2014