立法會
Legislative Council

LC Paper No. FC151/17-18
(These minutes have been seen by the Administration)

Ref : FC/1/1(13)

Finance Committee of the Legislative Council

Minutes of the 27th meeting
held at Conference Room 1 of the Legislative Council Complex
on Saturday, 1 April 2017, at 10:36 am

Members present:

Hon CHAN Kin-por, BBS, JP (Chairman)
Hon Michael TIEN Puk-sun, BBS, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon LEUNG Kwok-hung
Hon Claudia MO
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon CHAN Chi-chuen
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung
Hon Dennis KWOK Wing-hang
Hon Christopher CHEUNG Wah-fung, 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
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon HO Kai-ming
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan
Dr Hon Pierre CHAN
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LAU Kwok-fan, MH
Hon Jeremy TAM Man-ho
Hon Nathan LAW Kwun-chung
Dr Hon YIU Chung-yim
Dr Hon LAU Siu-lai

Members absent:

Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Steven HO Chun-yin, BBS
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Han-pan, JP
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, BBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon Alvin YEUNG
Hon SHIU Ka-fai
Hon CHAN Chun-ying
Hon LUK Chung-hung
Hon Kenneth LAU Ip-keung, MH, JP
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu

[According to the Judgment of the Court of First Instance of the High Court on 14 July 2017, LEUNG Kwok-hung, Nathan LAW Kwun-chung, YIU Chung-yim and LAU Siu-lai have been disqualified from assuming the office of a member of the Legislative Council, and have vacated the same since 12 October 2016, and are not entitled to act as a member of the Legislative Council.]

Public officers attending:

Ms Elizabeth TSE Man-yee, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Carol YUEN, 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 Gregory SO Kam-leung, GBS, JP	Secretary for Commerce and Economic Development
Mr Philip YUNG, JP	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
Miss Cathy CHU, JP	Commissioner for Tourism
Mr Aaron LIU	Deputy Commissioner for Tourism
Mr Eddie LEE	Assistant Commissioner for Tourism (1)
Mr George TSOI	Assistant Commissioner for Tourism (4)
Mr Adolph LEUNG, JP	Principal Economist (2), Economic Analysis and Business Facilitation Unit
Mr Samuel LAU	Executive Vice President and Managing Director, Hong Kong Disneyland Resort
Miss Linda CHOY	Vice President, Public Affairs, Hong Kong Disneyland Resort

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1

Staff in attendance:

Mr Derek LO	Chief Council Secretary (1)5
Ms Ada LAU	Senior Council Secretary(1)7
Mr Raymond SZETO	Council Secretary (1)5
Mr Frankie WOO	Senior Legislative Assistant (1)3
Ms Michelle NIEN	Legislative Assistant (1)5

Action

Item No. 1 — FCR(2017-18)1
CAPITAL INVESTMENT FUND
HEAD 973 — TOURISM
New Subhead — "Equity in Hongkong International Theme Parks Limited for the Expansion and Development Plan at Phase 1 site of the Hong Kong Disneyland Resort"

The Finance Committee ("FC") continued with the deliberation on item FCR(2017-18)1.

Operation of the Hong Kong Disneyland Resort

2. Dr CHIANG Lai-wan enquired about the measures to be taken by the Hong Kong Disneyland Resort ("HKDL") to generate revenue and cut costs so as to improve its operating performance. Ms Tanya CHAN also said that the Administration should review whether there was room for improvement in the practices and mode of operation of HKDL alongside the expansion and development plan at Phase 1 site of HKDL ("the Plan"). Ms CHAN concurred with Ir Dr LO Wai-kwok's views that the Administration should engage independent experts to review the technical and financial feasibility of the works projects under the Plan.

3. The Executive Vice President and Managing Director, Hong Kong Disneyland Resort ("EVP & MD of HKDL") responded that The Walt Disney Company ("TWDC") owned many popular franchised brands, and he noted that per capita spending, besides attendance, was an important factor contributing to turnover growth. For example, at the same time when the new "Star Wars"-themed offering was launched by HKDL last year, the original shop that sold general merchandise was converted to a "Star Wars"-themed specialty shop. Such an initiative had pushed up the customer flow and provided incentives for customers to purchase "Star Wars"-themed merchandise, resulting in a two-fold growth in per capita spending in the shop.

4. The Secretary for Commerce and Economic Development ("SCED") explained that the professional design, technology and experience of TWDC could be relied upon regarding the design and operation of theme parks. The Administration had engaged an independent financial consultant in respect of the financial arrangements of the Plan. All along, the Administration had been closely monitoring the financial performance of HKDL through, inter alia, the regular reports submitted by the Board of the Hongkong International Theme Parks Limited ("HKITP") and the appointment of independent directors to undertake the monitoring work. Where necessary, the possibility of engaging independent consultants to provide relevant expert advice on individual projects could not be ruled out.

Restrictions on the development of the government lands in the vicinity of Phase 1 site of the Hong Kong Disneyland Resort

5. Mr Jeremy TAM noted that the government lands in the vicinity of Phase 1 site of HKDL ("Phase 1 site") would be subject to certain height restrictions under the Deed of Restrictive Covenant ("DRC") signed between the Administration and TWDC in 1999. He and Ms Tanya CHAN requested the Administration to provide information on the followings: a copy of DRC (Memorial No. 278911) signed between the Administration and TWDC; the coverage of the government lands in the vicinity of HKDL in respect of which TWDC had agreed in-principle to relax their height restrictions; and the current height restrictions applicable to such lands as well as the proposed post-relaxation height restrictions. Noting that Kau Yi Chau fell within the East Lantau Metropolis development plan proposed by the Administration, Mr TAM asked whether this area was also covered by DRC.

> [*Post-meeting note:* The supplementary information provided by the Administration was issued to members on 20 April 2017 vide LC Paper No. FC103/16-17(01).]

6. SCED agreed to provide a copy of DRC to members. He said that in order to ensure that the use of the sites surrounding HKDL was coherent with HKDL, and to preserve the atmosphere in HKDL as a fantastic world, at the time when the Government sought to finalize the construction of HKDL in 1999, the Lands Department and HKITP entered into DRC under which the lands in the vicinity of HKDL (which mainly included Sunny Bay, Penny's Bay, Discovery Bay, Kau Yi Chau, etc.) were subject to height and use restrictions. TWDC had agreed in-principle that the height restrictions on the government lands situated at certain areas outside the

Visual Buffer Zone specified in DRC might be relaxed. These areas included the areas to the east and south of Peng Chau which had yet to be reclaimed (including Kau Yi Chau), as well as the government lands and those areas which had yet to be reclaimed around Sunny Bay. He said that the specific details of relaxing the relevant restrictions were subject to further discussions with TWDC. The Assistant Commissioner for Tourism (1) ("AC(T)1") supplemented that as regards the areas outside the Visual Buffer Zone, the closer they were to HKDL, the more stringent height restrictions they were being subject to. The specific details of relaxing the relevant restrictions were subject to further discussions, and the Administration hoped that TWDC would handle this issue more flexibly.

7. Mr Jeremy TAM and Mr Dennis KWOK enquired about the details of the development plan for Kau Yi Chau (an area covered by DRC) proposed by the Development Bureau. Mr TAM queried whether the Administration's initiative of injecting funds into the Plan was aimed at persuading TWDC to give consent to the relaxation of height restrictions on neighbouring lands, including Kau Yi Chau, otherwise the East Lantau Metropolis development plan could not be taken forward. Members requested the officials of the Development Bureau to attend the FC meetings for deliberating on item FCR(2017-18)1, so as to answer the questions raised by members concerning the development of lands covered by DRC signed between the Administration and TWDC.

> [*Post-meeting note:* The supplementary information provided by the Administration was issued to members on 20 April 2017 vide LC Paper No. FC103/16-17(01).]

8. SCED did not agree with Mr Jeremy TAM's views mentioned above. He said that the Plan was not aimed at discussing with TWDC the relaxation of development restrictions. In drawing up the financial arrangement for the Plan, the Administration had taken into account the development needs and financial situation of HKDL. The injection plan in question was not initiated for the purpose of taking forward the East Lantau Metropolis development plan. During its discussion with TWDC, both parties were fully aware of the views expressed by members of the public and the Legislative Council on relaxing the development restrictions on these lands.

Land use of the site reserved for Phase 2 expansion of the Hong Kong Disneyland Resort

9. Mr WU Chi-wai, Mr SHIU Ka-chun, Dr KWOK Ka-ki and Mr Nathan LAW expressed grave concern about the land use of the site reserved for Phase 2 expansion of HKDL. They considered it a waste of valuable land resources as the 60-hectare site had been left idle for a prolonged period. Mr WU and Mr SHIU enquired about the detailed terms of the option granted to HKITP for buying the site, and asked whether the site could be used for temporary housing or other socially beneficial purposes. Mr WU enquired whether the development of the site would still be subject to the restrictions relating to the operation of HKDL if HKITP, in the end, did not exercise its option to use the site. Dr KWOK Ka-ki criticized the Administration for wasting land resources, and held that the Administration should take the opportunity of the current injection to negotiate with TWDC on relaxing the development restrictions on the use of the site. As regards the policy on the land use of the site, Mr SHIU considered that the Administration must establish clear guidelines or else social resources would be wasted.

10. SCED and the Commissioner for Tourism ("C for T") explained that under the agreement, HKITP was given an Option to buy the Phase 2 site for a second phase of the development. The Option was valid for 20 years until year 2020. Upon the expiry of the Option, HKITP enjoyed an unconditional right to request a five-year extension until year 2025. However, HKITP's right to extend the Option for a second five-year period until year 2030 was conditional. HKITP was entitled to, in 2025, request the Government to extend the Option for a second five-year period until year 2030 on condition that the annual attendance of HKDL recorded continuous growth of having not less than 8 million but not more than 10 million visitors a year between 2023 and 2025. In other words, if HKITP waived its right to exercise the Phase 2 site Option (i.e. not to buy the site or not to request an extension of the Option by five years) in 2020, the Option would then cease to have effect.

11. SCED and C for T said that the site concerned could not be used for residential purpose. Prior to HKITP exercising the Phase 2 site Option, the Government might consider putting the Phase 2 site to various short-term uses (such as sports and group activities), having regard to the approved uses for the Phase 2 site. For example, the site had been leased to the Scout Association of Hong Kong for organizing its Anniversary Jamboree, and had been used as the venue for holding the Hong Kong Cross Country Championships. AC(T)1 said that in order to ensure that the use of the sites surrounding HKDL was coherent with HKDL, the short-term uses proposed by groups renting such sites must be coherent with HKDL.

12. Mr Nathan LAW requested the Administration to provide information on the short-term activities permitted to be held at the site reserved for the Phase 2 expansion of HKDL.

[*Post-meeting note:* The supplementary information provided by the Administration was issued to members on 20 April 2017 vide LC Paper No. FC103/16-17(01).]

13. Mr CHU Hoi-dick noted that it might not be likely for the Phase 2 expansion of HKDL to be carried out in the foreseeable future. Mr CHU pointed out that the Administration entered into an option deed with HKITP in 1999 concerning the site reserved for the Phase 2 expansion of HKDL. Mr CHU further pointed out that the Administration, as the major shareholder of HKITP, should be able to rationalize the terms relating to the right to buy the site in the option deed. Mr CHU said that if the Administration, as the major shareholder of HKITP, was unable to amend those terms, it would be better for the Administration to reduce its holding in HKITP.

14. SCED replied that in line with the commercial practice commonly adopted for protecting the shareholders of all sides, the Administration had signed a shareholders' agreement with TWDC concerning the operation of HKITP, in which the rights of shareholders and the relationship among shareholders were clearly spelt out. According to the shareholders' agreement, mutual agreement of the two shareholders (i.e. the Government and TWDC) must be obtained in handling some of the matters relating to HKITP. The shareholders' agreement involved commercial secrets and could not be disclosed.

Cash returns on investment in the Hong Kong Disneyland Resort

15. Dr Helena WONG considered that the Administration, as the major shareholder of HKITP, would likely be required to keep making capital injections in the future. She queried whether this investment could generate cash returns for the Administration. She asked whether the Administration would, under the Plan, discuss with TWDC the possibility of sharing profits and dividends based on their shareholding ratio.

16. Mr Michael TIEN did not think the current injection was going to bring considerable profits or cash returns to the Administration. He pointed out that the Panel on Economic Development had passed a motion in relation to this funding proposal, and TWDC, the other shareholder, had only made some minor concessions. Seemingly, the amount to be injected by the Administration was $300 million less than that in the original proposal, but in fact, this reduction only represented a drop of 1% in the Administration's shareholding. On this basis, even if the Administration decided not to make the capital injection, and thus resulting in a reduction of equity interests by some 17%, its shareholding still exceeded 30%. Mr TIEN called upon members to think twice in deciding whether they should support this funding proposal.

17. SCED said that HKDL, an important and strategic tourism infrastructure in Hong Kong, had created considerable economic benefits and job opportunities in the past. In its 11 years of operation, HKDL generated around $83.6 billion of total value-added and created a large number of jobs. In the 11 years of HKDL's operation, the Government had converted its existing loan into equity to maintain the majority shareholder status and provided a new loan of about $800 million for the third hotel development agreed in 2014. Other than the aforesaid, no new capital injection from the Government to HKITP had ever been made. During the same period, TWDC had invested some $8.2 billion in HKITP by way of equity and loan, which was more than ten times the financial investment made by the Government during that period. TWDC's investment in HKDL had far exceeded the sum of royalties and management fees previously received by TWDC. In fact, HKDL had recorded positive EBITDA (i.e. earnings before interest, tax, depreciation and amortization) for seven consecutive years between Fiscal Year 2010 (FY10) and FY16, with net profits in three of those years. When HKITP recorded net profits, the two shareholders and the Hong Kong Disneyland Management Limited ("HKDML") had, having regard to the business situation and operating environment at that time, decided to put in place additional offerings and attractions which were funded by HKITP on a

self-financing basis to enhance the competitiveness of HKDL. The Administration had already disclosed the relevant financial information in its submissions to the Legislative Council. He said that the operating performance and financial requirements of HKDL were similar to those observed in the early stages of other major projects.

Economic impact and financial feasibility of the Plan

18. Mr HUI Chi-fung expressed objection to this item and queried the justifications for injecting public funds into a commercial project launched by a private enterprise. He questioned whether, in case this funding proposal was not approved by FC, HKDL would close down as its present scale and mode of operation could no longer sustain its operation.

19. SCED said that HKDL was an important and strategic tourism infrastructure in Hong Kong, and the Government's involvement was essential in ensuring that HKDL's development direction and pace (such as the development mode, scale, rhythm, timetable) were compatible with the Government's policy direction for tourism development. EVP & MD of HKDL said that the business nature of HKDL required the rolling out of new offerings and attractions on an ongoing basis, so as to sustain visitors' excitement and visitation desire. If the Plan could not be launched, HKDL would lose its competitive edge amidst an increasingly competitive environment in the region, thereby facing greater challenge in sustaining continuous business growth.

20. Mr YIU Si-wing supported the Plan and requested the Administration to illustrate the benefits that would be brought by the Plan to local economy and labour market. He pointed out that the current ticket prices of HKDL, after an upward adjustment at the end of last year, were higher than those of Shanghai Disney Resort. In order to maintain the competitiveness of HKDL, he requested HKITP not to increase its ticket prices for the next two years.

21. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) and the Assistant Commissioner for Tourism (4) ("AC(T)4") said that the financial return assessment on the Plan was conducted mainly on the basis of the additional attendance and additional cash flow that would be brought by the additional investment concerned. Two sets of projection provided by TWDC were adopted as the basis of the financial assessment. Under Situation A, the attendance was expected to go up to 9 million in 2025, while under Situation B, the attendance was expected to reach 9.3 million in 2025. Under the two sets of projection, HKDL's attendance would record an

increase from 2018 to 2025. Under Situation A, there would be an annual increase of 3.4% in attendance on average, while under Situation B, the annual increase of attendance would reach 3.9%. It was expected that the Plan would bring considerable net benefits to local economy. The overall net economic benefits that could be generated by the Plan over a 40-year operation period were estimated at $38.5 billion and $41.6 billion respectively under Situation A and Situation B. The Government's return on its additional investment on the Plan would break even in 2025. It was also estimated that the Plan would create about 3 500 jobs during the construction period, and another 600 full-time equivalent jobs in HKDL during the operation period after the completion of the Plan. Overall, the additional visitor spending brought about by the Plan could create 5 000 to 8 000 jobs in Hong Kong.

22. EVP & MD of HKDL said that HKITP assessed the value of its products every year and its objective was to do its best to increase the attendance and turnover.

23. Not concurring with the Administration's economic assessment mentioned above, Dr YIU Chung-yim explained the findings of the discounted cash flow analysis prepared by him. Dr YIU considered that even if HKDL's attendance recorded a year-on-year growth of 3.9% as estimated by TWDC and the Administration, the attendance could not reach 9 million by 2025. Moreover, Dr YIU agreed with Mr Michael TIEN's estimates on asset depreciation incurred by the Plan, and he considered that the amounts of depreciation and amortization would increase significantly in future. He enquired whether the Administration could provide the relevant estimates.

24. AC(T)4 responded that when conducting financial return assessment on the Plan, the Administration adopted the straight-line depreciation method, whereby the depreciation periods of assets ranged from 10 to 40 years depending on the type of assets. Given the agreement between the Administration and TWDC, he could not disclose the relevant asset values and the amount of depreciation based on which assessment had been made.

Possibility for the Hong Kong Disneyland Resort being granted with exclusivity for individual brands

25. Mr Tommy CHEUNG, on behalf of the Liberal Party, expressed support for this funding proposal, and he objected to the suggestion made by some members that the Administration should withdraw its investment from HKDL. He was concerned whether the new attractions in HKDL would bring in a large number of visitors and cause overcrowding at HKDL. He and Mr LAM Cheuk-ting enquired whether it was possible for HKDL to be granted with time-limited exclusivity in Asia for running attractions themed on certain popular brands.

26. EVP & MD of HKDL said that at the moment, HKDL was the only theme park under TWDC with large-scale expansion plan spanning over a few years. TWDC was well-experienced in crowd management in its resorts. Moreover, as visitors from different countries had different vacation periods, he believed that there would not be overcrowding in HKDL.

The agreement between the Administration and The Walt Disney Company

27. Mr Andrew WAN, Dr KWOK Ka-ki and Mr LEUNG Kwok-hung made the criticism that the cooperation agreement then signed between the Administration and TWDC had placed the former in a disadvantageous position, and at present, TWDC, with a lack of sincerity, only made better-than-nothing concessions. Mr LEUNG and Mr WAN criticized the Administration for misleading the public by expressing attendance growth in percentage only, instead of giving absolute figures. They commented that if there had really been substantial growth in attendance, HKDL would not have recorded net deficits. Mr WAN opposed the proposed capital injection. Dr KWOK criticized the Administration for failing to come up with new ideas in the promotion of local tourism so that it had no choice but to succumb to TWDC. He asked whether the Administration had established contact with other theme park operators to seek new opportunities for cooperation; if it had not done so, the reasons for that.

28. SCED responded that HKDL was one of the facilities developed to increase diversity in tourism as advocated by the Administration. He reiterated that additional capital injection for the Plan was estimated to have an internal financial return of over 5% in real terms. Where the land supply situation permitted, other theme park operators were welcomed to discuss with the Administration on new cooperation opportunities.

Motion for the adjournment of further proceedings of the Finance Committee

29. At 12:04 pm, Mr Nathan LAW moved without notice under paragraph 39 of the Finance Committee Procedure ("FCP") that further proceedings of FC be then adjourned.

30. The Chairman proposed the question on the motion to adjourn further proceedings of FC. The Chairman directed that each member might speak once for not more than three minutes.

31. Mr Nathan LAW spoke on his motion. He was dissatisfied that under the joint venture agreement on the development of HKDL, the Administration was at a disadvantage in that there was no way for it to monitor its investment. On the contrary, TWDC made profits at zero risk. He considered that further proceedings of FC should then be adjourned so as to enable the Administration to bargain with TWDC for a proposal which was more beneficial to Hong Kong.

32. Dr KWOK Ka-ki, Ms Claudia MO, Mr Andrew WAN, Mr CHAN Chi-chuen, Mr SHIU Ka-chun, Mr LEUNG Yiu-chung and Mr Jeremy TAM spoke in support of the motion to adjourn further proceedings of FC. They were generally dissatisfied that the Administration and TWDC had refused to disclose information relating to this funding proposal, and the officials of the Development Bureau did not attend the meeting to answer questions on land development under this agenda item. Mr CHAN Chi-chuen requested the Administration to, by using the calculation method presented by Mr Michael TIEN at 9:40 am, provide information on the profit and loss situation of HKDL and TWDC's income in the past and in the future under different assumptions by using different business conditions (from conservative scenario to very optimistic scenario) and applying different royalty and management fee rates.

> [*Post-meeting note:* The supplementary information provided by the Administration was issued to members on 20 April 2017 vide LC Paper No. FC103/16-17(01).]

33. As it was almost the appointed end time of the meeting, and some members were still waiting in the queue to speak on the motion, there was not sufficient time to vote on the motion.

34. The Chairman said that he would, after the meeting, provide a written response to the letter from 25 members dated 31 March 2017 questioning his decisions to hold meetings today and waive the notice required for the item on the agenda of the meetings.

35. The Chairman also directed that members who wished to propose motions under FCP 37A to express views on this agenda item should submit their proposed motions to the Secretariat by noon on 13 April 2017 so that he could have sufficient time to peruse the motions and consider whether they were in order.

36. The meeting ended at 12:30 pm.

Legislative Council Secretariat
23 February 2018