

立法會
Legislative Council

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House Committee of the Legislative Council

**Minutes of the special meeting
held in the Legislative Council Chamber
at 11:00 am on Wednesday, 3 November 1999**

Members present :

Dr Hon LEONG Che-hung, JP (Chairman)
Hon Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, JP
Hon David CHU Yu-lin
Hon HO Sai-chu, SBS, JP
Hon Cyd HO Sau-lan
Hon Edward HO Sing-tin, SBS, JP
Hon Michael HO Mun-ka
Ir Dr Hon Raymond HO Chung-tai, JP
Hon LEE Wing-tat
Hon Martin LEE Chu-ming, SC, JP
Hon Eric LI Ka-cheung, JP
Hon LEE Kai-ming, SBS, JP
Dr Hon David LI Kwok-po, JP
Hon Fred LI Wah-ming, JP
Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing
Prof Hon NG Ching-fai
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Hon MA Fung-kwok
Hon CHEUNG Man-kwong
Hon Ambrose CHEUNG Wing-sum, JP
Hon HUI Cheung-ching
Hon Christine LOH Kung-wai
Hon CHAN Kwok-keung
Hon Bernard CHAN
Hon CHAN Wing-chan

Hon CHAN Kam-lam
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
Hon Gary CHENG Kai-nam, JP
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon WONG Yung-kan
Hon Jasper TSANG Yok-sing, JP
Hon Howard YOUNG, JP
Hon YEUNG Yiu-chung
Hon LAU Chin-shek, JP
Hon Mrs Miriam LAU Kin-yee, JP
Hon Ambrose LAU Hon-chuen, JP
Hon CHOY So-yuk
Hon Andrew CHENG Kar-foo
Hon Timothy FOK Tsun-ting, SBS, JP
Hon LAW Chi-kwong, JP
Hon TAM Yiu-chung, GBS, JP
Hon FUNG Chi-kin
Dr Hon TANG Siu-tong, JP

Members absent :

Dr Hon YEUNG Sum (Deputy Chairman)
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon Margaret NG
Hon Ronald ARCULLI, JP
Hon James TO Kun-sun
Hon CHAN Yuen-han
Hon LEUNG Yiu-chung
Hon Andrew WONG Wang-fat, JP
Hon LAU Kong-wah
Hon LAU Wong-fat, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon SZETO Wah

Public Officers attending :

Hon Mrs Anson CHAN, JP	Chief Secretary for Administration
Mr Rafael HUI	Acting Financial Secretary
Mr Gordon SIU, JP	Secretary for Planning, Environment and Lands
Mr Nicholas NG, JP	Secretary for Transport
Miss Denise YU, JP	Secretary for the Treasury

Mr Stephen IP, JP	Secretary for Economic Services
Mr S S LEE, JP	Secretary for Works
Mr Albert LAM, JP	Director of Civil Aviation
Mr M J T ROWSE, JP	Commissioner for Tourism
Mr R D POPE, JP	Director of Lands
Mr Rob LAW, JP	Director of Environmental Protection
Mr Bosco FUNG, JP	Director of Planning
Mr LO Yiu-ching, JP	Director of Civil Engineering
Mr K Y TANG	Government Economist
Mr Martin GLASS	Deputy Secretary for the Treasury

Clerk in attendance :

Mrs Justina LAM	Clerk to the House Committee
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Staff in attendance :

Mr Jimmy MA	Legal Adviser
Mr LAW Wing-lok	Chief Assistant Secretary (2)5
Miss Mary SO	Senior Assistant Secretary (2)8

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The Chairman welcomed representatives of the Administration to the special meeting to brief members on the Disney theme park. He referred members to the following papers tabled at the meeting -

- (a) "Briefing Paper on Hong Kong Disneyland";
- (b) "Walt Disney Project - Major input assumptions for economic evaluation"; and
- (c) a letter dated 2 November 1999 from Hon SIN Chung-kai re. "Questions raised by the Democratic Party on the Hong Kong Disneyland project".

2. Chief Secretary for Administration (CS) thanked members for attending the briefing session at Government House on 2 November 1999 on the agreement reached with The Walt Disney Company (WD) regarding the Hong Kong Disneyland (HKD) project. She made the following points in connection with HKD -

- (a) First, the Government considered that the agreement was a good one. It would be beneficial to the community, the Government and WD. The Government was confident to recommend the project to the Executive

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Council (ExCo), the Legislative Council (LegCo) and members of the public.

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- (b) Second, once agreement was reached, the Government had informed the public, including ExCo and LegCo members, the media, academics and the business community of the content and details of the deal in the first instance to facilitate their understanding of the project as well as the financial arrangements.
- (c) Third, HKD would be able to generate additional employment opportunities and economic benefits in both the short- and long-term. In addition, the Government would be able to earn a reasonable return on its \$3.25 billion equity. The \$5.6 billion loans would be repaid in full with interest, and the \$4 billion land premium would be recouped in the form of subordinated shares which could be converted into ordinary shares progressively during the life of the project. Even without the HKD project, the infrastructural works would have to be undertaken anyway, if North-East Lantau were to be developed for tourism and recreation purposes.
- (d) Fourth, the Government had not departed from its long-standing free market principle. As the HKD project would entail large-scale infrastructural developments, it was necessary for the Government to be actively involved in the project to enable it to proceed expeditiously, complete smoothly and develop successfully. There was no cash subsidy, no free land, no tax concessions and no exclusivity arrangement.

3. CS said that the HKD project would produce long-term economic benefits, create thousands of employment opportunities and enhance the status of Hong Kong as a key tourist destination in the world. CS hoped that members could give their full support to the HKD project.

4. Commissioner for Tourism (CT) said that the Government's decision to support the HKD project was based on the economic benefits which would be derived if the forecast of performance and financial projections for Phase I of the HKD project, known as "Base Case", was achieved. CT further said that the Government and WD had agreed to use conservative forecasts of patronage for the Base Case. This was particularly significant for the Government, given that the subordinated equity held by the Government would convert into ordinary shares progressively during the life of the project to the extent that the operating performance of HKITP exceeded the Base Case forecast return. CT pointed out that the Government and WD were mindful of the mistake made by Euro Disneyland in Paris and had decided not to over-leverage the HKD project, and both sides had agreed that the cost of constructing HKD should be financed by a mixture of debt and equity at a commercially prudent ratio of approximately 60:40.

5. CT also highlighted the quantifiable economic benefits and non-quantifiable benefits of the HKD project detailed in paragraphs 4-7 of the "Briefing Paper on Hong Kong Disneyland". CT further said that in line with the practice in other Disney theme

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parks, the Government and WD had agreed that HKITP would proceed with a second phase if Phase I of the project was successful. HKITP was therefore given an option to purchase the Phase II site for \$2.812 billion, which was equivalent to the construction cost at current prices and would be adjusted in accordance with changes in Composite Consumer Price Index.

6. Mr LAU Chin-shek said that according to the Administration, the 18 400 additional jobs to be created in the year of the opening of HKD included 4 200 jobs within HKD, 6 600 outside HKD and 7 600 jobs indirectly created by the HKD project. Mr LAU enquired whether the Administration could provide a detailed breakdown of the additional jobs by job nature, job location, academic qualifications and technical skills required. The Government Economist (G Econ) undertook to provide the information in writing.

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7. In reply to Mr LAU's further enquiry on whether the Government would import labour to fill the jobs arising from the HKD project, CS said that the Government would adhere to the established policy of giving job priority to local workers. CS added that at this stage, the Government had no plan to import labour for the HKD project.

8. Mr CHAN Wing-chan said that a large number of visitors from the Mainland would come to Hong Kong to visit HKD. He asked whether the Government had used this as a bargaining strategy in its negotiations with WD to obtain a better deal. He further enquired whether arrangements for the management and licence agreements reached with WD were on par with or better than those for the Disney theme parks in Tokyo and Paris.

9. Secretary for the Treasury (S for Tsy) responded that the Government had emphasized Hong Kong's strategic location as a southern gateway to the Mainland in its negotiations with WD. S for Tsy added that in order to safeguard the interests of Hong Kong taxpayers, a financial adviser familiar with the financing arrangements for the Disney theme parks in Tokyo and Paris had been hired at the outset to help in the negotiations. As a result, the Government had been able to get WD to agree to contribute \$2.45 billion in equity (or 43% of the outstanding one-dollar shares) and to commit to retain at all times a minimum investment of 1.9 billion shares.

10. S for Tsy further said that it was difficult to compare the contractual arrangement of HKD with those of the Disney theme parks in Tokyo and Paris, given that the strategy applied in each case was different. For example, in the case of Tokyo Disneyland, WD merely received a licence fee for access to its intellectual property and had neither contributed any equity nor participated in the management of the theme park. In the case of Euro Disneyland in Paris, WD was a shareholder participating in the management of the theme park and received a licence fee on its intellectual property. S for Tsy pointed out that despite such differences, the arrangements for the management and licence agreements reached with WD on the HKD project were at least equal if not more favourable than the arrangements for Tokyo Disneyland and Euro Disneyland. S for Tsy added that the management fee which WD would earn for agreeing to manage HKD was

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structured to be a function of overall financial performance. This would provide an incentive for WD to strive for better performance in operating HKD.

11. Mr TAM Yiu-chung expressed concern that the nightly firework displays planned for HKD would cause nuisance to residents living in nearby Discovery Bay.

12. CT responded that every effort would be made to ensure that the firework displays and the laser light shows would meet the statutory requirements on noise levels. CT pointed out that in view of the close proximity of HKD to the airport at Chek Lap Kok, the Government would ensure that the firework shells and the direction and brightness of the laser light would not cause danger to aircraft flying over HKD.

13. Mr Howard YOUNG said that the Liberal Party fully supported the HKD project, and hoped that the construction of the theme park could commence as soon as possible. He further said that 80% of the dredgers worldwide were brought over to Hong Kong to carry out reclamation work for the construction of the new airport at Chek Lap Kok, and asked whether adequate dredging facilities would be available for the reclamation work at Penny's Bay.

14. Secretary for Works (S for W) replied that the airport at Chek Lap Kok entailed the reclamation of about 1 400 hectares of land, whereas reclamation work for Phase I of the HKD project only entailed about 180 hectares. S for W further said that Phase I reclamation work was expected to be completed within 30 months, and the Government was confident that the reclaimed land would be handed over to HKITP in 2002 for the construction of HKD.

15. Mr YOUNG further enquired whether the construction of HKD would endanger the lives of the Chinese white dolphins at Penny's Bay. Secretary for Planning, Environment and Lands (SPEL) responded that there was no cause for concern as there had been very few sightings of the dolphins in the area for the past few years. SPEL further explained that North-east Lantau was originally planned for port development, and a study had been conducted to assess the impact of the construction and the operation of the port on the environment. The findings of the study showed that the port development at North-east Lantau could meet the environmental requirements of the Environmental Impact Assessment Ordinance (EIAO). Given that the area covered by the HKD project was not as extensive as that of the port development, SPEL envisaged that there should not be any problem for the project to meet the statutory environmental requirements.

16. Mr NG Leung-sing asked why WD was required to retain a minimum of 1.9 billion shares, instead of a fixed percentage of shares in HKITP at all times. S for Tsy replied that it was not commercially practical to specify a fixed percentage of shares which WD must retain at all times in HKITP. This was because if Phase I of the HKD project was successful, there would be the possibility that the shareholders would issue additional shares to raise capital for the construction of Phase II and Phase III of the

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theme park. Also, upon the conversion of the \$4 billion subordinated shares to ordinary shares, the total shareholding basis of the HKITP would also change.

17. In reply to Mr NG's further enquiry, G Econ said that the calculation of economic benefits derived from the HKD project was different from the calculation of financial return on the investment in HKITP. G Econ further highlighted the main features of the conversion mechanism set out in paragraphs 6 and 7 of Annex B to the "Briefing Paper on Hong Kong Disneyland", and added that the dividends to be earned as a result of converting the \$4 billion subordinated shares into ordinary shares would not be included as part of the \$148 billion economic benefits over a period of 40 years.

18. Dr Raymond HO enquired whether priority would be given by the Buildings Department in vetting the building plans of the HKD project.

19. CT said that as the HKD project would involve a large number of complex structural submissions with unconventional designs, a special team would be set up in the Buildings Department to undertake the vetting work on a priority basis.

20. Miss Christine LOH enquired why the Government considered that the agreement reached with WD was a good deal for Hong Kong, given that the Government's investment in the HKD project would be close to 80%, but it would only hold a 57% stake in HKITP.

21. S for Tsy responded that even without the development of the HKD project, the Government would still need to develop North-east Lantau for tourism and recreational purposes. She said that of the \$13.6 billion spent on land formation and infrastructure costs, less than half of the amount would be attributable to Phase I of the HKD project on a pro-rata basis. As such, it was not fair to include all of the \$13.6 billion as Government's investment in the project. S for Tsy explained that it would be very difficult to apportion the cost of building infrastructure facilities such as police and fire stations between Phase I of the HKD project and the remainder. S for Tsy pointed out that the granting of land for the project was not free. The land premium, calculated at \$4 billion for the cost of reclaiming 126 hectares of land for Phase I of the project, would be settled by the HKITP by issuing \$4 billion worth of subordinated shares to the Government. S for Tsy further said that the Government had the option to sell its entire share of its equity contribution of \$3.25 billion, whereas WD must retain a minimum \$1.9 billion shares in HKITP. As regards the government loan of \$5.6 billion to HKITP, it would be repaid to the Government with interest within 25 years.

22. Mr YEUNG Yiu-chung said that some environmental and archaeological groups had expressed concern that the building of the HKD would severely damage the marine and archaeological environment at Penny's Bay. He asked what measures would be taken by the Government to ensure that the marine life and antiquities at Penny's Bay would not be destroyed.

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23. Director of Environmental Protection (DEP) replied that the HKD development would be required to meet the statutory requirements of the EIAO. He pointed out that an EIA was completed a few years ago on North-east Lantau which was originally planned for port development. He added that the port development proposal was endorsed by the Advisory Council of the Environment, and the environmental issues raised by Mr YEUNG had been addressed at the time. DEP further said that notwithstanding the fact that there had been very few sightings of Chinese white dolphins in the area over the past three years, steps would be put in place to ensure that no interference would be caused to the dolphins when reclamation works started.

24. Director of Civil Engineering (DCE) said that the Antiquities and Monuments Office had engaged a research team from the Mainland to carry out under-water search for antiquities at Penny's Bay. DCE added that the team was expected to complete its work before the commencement of reclamation works.

25. Mr Andrew CHENG said that according to information provided by the Education and Manpower Bureau on the employment situation of construction site workers in 2000-2001, the supply would exceed the demand by about 9 600 workers. He further said that as about 16 000 jobs would be created from land formation and infrastructure construction works for the HKD, the Government should start planning now to ensure that there would be a sufficient number of trained construction site workers to occupy jobs arising from the HKD project.

26. S for W responded that the current assessment was that there would be no shortage of construction site workers to meet employment creation from the construction of the HKD and associated infrastructure facilities. The Administration would monitor the situation closely and liaise with the Construction Industry Training Authority to provide sufficient training places if a shortage of workers in a particular sector of the construction industry was identified. He stressed that the Government's policy on employment was to give priority to local workers. Only when an insufficient number of local workers were available to fill job vacancies would consideration be given to importing workers.

27. Mr Fred LI asked about the staff cost of the 49 posts (including four directorate posts) required for overseeing and monitoring the implementation of the HKD project. He also enquired about whether the cost of building a rail link between HKD and Yam O had been included in the \$13.6 billion infrastructure costs for the project.

28. S for Tsy responded that the four directorate posts, which would be provided on a temporary basis, would be deleted when the project was completed in 2005. S for Tsy added that the full annual average staff cost of the 49 posts represented only a very small proportion of the overall cost of the project.

29. S for Tsy further said that the Mass Transit Railway Corporation (MTRC) would be responsible to pay for the cost of the Airport Railway extension to the theme park.

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Secretary for Transport added that discussion with the MTRC on the funding arrangements for constructing the rail extension was in progress.

30. Mr LEE Wing-tat asked why the land premium for Phase I which had been set at \$4 billion, or \$143 per sq. ft., was much lower than the land premium of \$4,000 - \$5,000 per sq. ft. charged on the land granted for the Cyber Port project. He said that the subordinated shares issued to the Government by HKITP in settlement of the land premium attracted no dividends until they became convertible to ordinary shares after five years of theme park operation. He also enquired why the land premium for Phase II was also set at a low figure of \$2.8 billion, which was equivalent to the construction cost at current prices.

31. Director of Lands said that the land premium, which was based on the estimated pro rata cost for the reclamation and land formation, was far above the cost of agricultural land. In his view, the premium was considered reasonable given that the Government was to receive income from the shares it held in HKITP.

32. S for Tsy added that the technology part of the Cyber Port project, unlike its residential part, was granted at nil land premium. S for Tsy stressed that in reaching an agreement with WD, the Government had done its utmost to safeguard the interest of taxpayers. S for Tsy pointed out that if the Hong Kong Government had charged premium at the same unit price as that charged by the French Government for Disneyland Paris, the Hong Kong Government would only collect a land premium equivalent to \$40 million for Phase I at current prices, and that this amount would be paid over a period of 20 years. S for Tsy further explained that the reason for the conversion of subordinated shares to ordinary shares to begin after five years of theme park operation was to allow for fluctuation of business in the early years of HKD, having regard to the financial difficulties faced by Euro Disneyland during the initial years of its operation.

33. Mr LEE Wing-tat said that the land premium for the whole of the Cyber Port project, inclusive of both the residential part and the technology part, was much higher than that for the HKD project. He asked why the land premium for Phase II of the project was not set at full market value.

34. S for Tsy responded that the development of a theme park was different from the development of a residential area. HKD and its associated facilities would bring about significant quantifiable as well as non-quantifiable economic benefits far exceeding those that would derive from a property development. S for Tsy added that substantial potential benefits would also arise from extending to Phase II with the second theme park and related facilities. S for Tsy further said that the different aspects contained in the agreement now reached with WD were negotiated as a package.

35. Mr Ambrose CHEUNG Wing-sum asked whether a time-table had been set for bringing in third party investors at a later stage. CT said that it was possible for third party investors to be brought in later, but no firm plans had yet been drawn up.

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36. Mr CHEUNG further asked the Administration to provide -
- (a) a detailed breakdown of the \$13.6 billion infrastructure costs by (i) costs directly related to HKD project and (ii) costs not related to HKD project;
 - (b) details on the difference in interest cost at present value term if the Government loan of \$6.1 billion (including capitalized interest of \$0.5 billion) to HKITP was a commercial loan; and
 - (c) the financial benefits which WD would gain under the financing arrangement whereby the \$4 billion land premium for Phase I of the HKD project would be paid in subordinated shares which would attract no dividends until they were converted to ordinary shares progressively depending on performance above the Base Case forecast return.

Adm 37. S for Tsy and CT undertook to give written replies to Mr CHEUNG's questions in paragraph 36 above.

38. Mr CHEUNG Man-kwong asked why that part of the \$13.6 billion infrastructure costs directly related to the HKD project was not included as a part of the Government investment in the project.

39. Acting Financial Secretary (Ag FS) replied that the agreement reached with WD was a fair and balanced one. He added that the significant economic benefits that would come from business activities in support of the theme park and associated facilities as well as the additional tourist spending should also be taken into account in assessing whether the agreement was a good deal for Hong Kong. Secretary for Economic Services (SES) added that the land price in areas adjacent to HKD would increase and this should also be included in the assessment of the overall economic benefits arising from the HKD project.

40. Mr CHEUNG further asked whether excluding the part of the infrastructure costs directly related to the HKD from the Government's investment in the project was because the amount involved was less than half of the total infrastructure costs of \$13.6 billion for the HKD project.

41. S for Tsy said that the \$13.6 billion would provide 280 hectares of reclaimed land and associated infrastructure facilities. She pointed out that as Phase I of the HKD project would occupy about 126 hectares (about 44% of total reclaimed land), the cost directly attributed to Phase I would be about \$6 billion on a pro-rata basis, of which \$4 billion would be repaid by HKITP by way of \$4 billion worth of subordinated shares issued to the Government. The remaining \$2 billion represented infrastructure costs which would not normally be included in the overall land formation costs.

42. Mr SIN Chung-kai said that the debt part of the capital structure for the HKD project, which amounted to \$8.4 billion, included a Government loan of \$6.1 billion and

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a commercial loan of \$2.3 billion. He asked why the whole of the \$8.4 billion would not be raised by a commercial loan.

43. S for Tsy said that the interest obtained from the government loan would be higher than that obtained from putting the \$6.1 billion in a bank deposit. S for Tsy pointed out that the main concession for the government loan laid in the repayment period of 25 years, which was much longer than the normal 10-year repayment period for a commercial loan. S for Tsy further explained that the reason for raising just over a quarter of the \$8.4 billion from the open market was that the cash flows in the early years of the project could not prudently cover loan servicing of a greater amount.

44. Mr Martin LEE asked whether the agreement reached between the Government and WD was a sign of more Government involvement in the business sector.

45. Ag FS said that it had been the long-standing policy for the Government to take part in large-scale infrastructure projects such as the construction of roads, tunnels or telecommunication facilities. Ag FS was of the view that the Government's involvement in the HKD project was consistent with such a policy and he did not consider that there would be a change in policy in the future.

46. Mr Gary CHENG Kai-nam expressed concern that if HKD was a replica of the Disney theme parks in the US, Paris and Tokyo, additional tourists from those places would not be induced by HKD to come to Hong Kong. On the other hand, if HKD was the same as the theme parks in China, it would not attract a significant number of Mainland residents coming to Hong Kong to visit HKD. He asked whether this factor had been taken into account in planning the attractions to be provided in HKD.

47. SES responded that the attractions in HKD would be a mixture of East and West, centring around traditional Disney characters and Chinese cultural heritage. This would ensure that HKD would attract tourists from Europe and the US as well as tourists from Southeast Asia and the Mainland.

48. The Chairman said that it was time to bring the meeting to a close. Mrs Selina CHOW and Mr James TIEN said that many members had not had the chance to ask questions at the meeting. The Chairman suggested and Mr TIEN agreed that the special meeting of the Panel on Economic Services scheduled to discuss the HKD project be cancelled, so that another special House Committee meeting would be held on Friday, 5 November 1999 immediately after the regular House Committee meeting to continue discussion with the Administration on the HKD project. The Chairman added that as there were 16 members who had raised their hands but were unable to ask questions at this meeting, he suggested that these members be given priority in asking questions at the next special House Committee meeting. Members agreed.

49. The meeting ended at 12:36 pm.

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16 November 1999