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Panel on Economic Services

Background Brief on Hong Kong Disneyland

This paper provides background information on the Hong Kong Disneyland (HKD) project.

Equity and loan from the Capital Investment Fund

2. On 26 November 1999, the Finance Committee approved a commitment to inject \$3,250 million as equity and to provide \$5,619 million as a loan from the Capital Investment Fund to Hongkong International Theme Parks Limited (HKITP) to allow HKITP to proceed with the development and operation of Hong Kong Disneyland (HKD). The Finance Committee also approved a non-cash investment of \$4,000 million in subordinated equity by the Capital Investment Fund representing land premium for the HKD Phase 1 site on Lantau Island. The subordinated equity shares can be converted to ordinary shares progressively during the life of HKD depending on operating performance. On this basis, the Government entered into an agreement with The Walt Disney Company and HKITP in December 1999 for the development of HKD Phase 1.

3. HKITP is a joint venture company owned by the Government and The Walt Disney Company for the purpose of developing and operating HKD. The \$3,250 million equity injection will entitle the Government to a 57% shareholding in HKITP. As at 31 March 2002, a total of \$153 million had been injected as equity into HKITP. In 2002–03 and 2003–04, the Government injections are expected to be \$360 million and \$764 million respectively. The loan of \$5,619 million plus capitalised interest must be completely repaid within 25 years of HKD Phase 1 opening starting from the eleventh year after the said opening. As at 31 March 2002, loans totalling \$264 million had been provided to HKITP. In 2002–03 and 2003–04, the loan drawdowns are expected to be \$624 million and \$1,321 million respectively.

Funding proposals relating to reclamation and infrastructure works

4. To implement the development of HKD Phase 1, the Government has to provide a fully formed and serviced site on reclaimed land at Penny's Bay including associated and supporting infrastructure and government, institution and community (GIC) facilities. In this regard, various funding proposals had been submitted to the Finance Committee for consideration. Details are set out in the ensuing paragraphs.

5. On 17 December 1999, the Finance Committee approved the upgrading of part of 660CL to Category A as 662CL entitled "Reclamation of Penny's Bay Stage 1 works, design of site formation at Yam O and design of associated infrastructure and GIC facilities for the development of Hong Kong Disneyland Phase 1 on Lantau Island" at an estimated cost of \$6,923.9 million in money-of-the-day (MOD) prices. The Administration commenced the reclamation works in May 2000 for completion in phases from October 2001 to December 2002.

6. On 27 April 2001, the Finance Committee approved the upgrading of another part of 660CL to Category A as 322WF entitled "Infrastructure for Penny's Bay Development, Package 1 – Yam O Tuk fresh water service reservoir and associated works" at an estimated cost of \$165 million in MOD prices. The Administration commenced the construction works on 9 August 2001.

7. On 22 June 2001, the Finance Committee approved the upgrading of another part of 660CL to Category A as 687CL entitled "Infrastructure for Penny's Bay Development, Package 2" at an estimated cost of \$3,917 million in MOD prices. The Administration commenced the construction works of the first infrastructure contract on 24 October 2001.

8. On 24 May 2002, the Finance Committee approved the upgrading of another part of 660CL to Category A entitled "Infrastructure for Penny's Bay Development, Package 3 and Penny's Bay Reclamation Stage 2" at an estimated cost of \$2375.9 million in MOD prices. The scope of the project also included the decommissioning of the former Cheoy Lee Shipyard at an estimated cost of \$450 million in MOD prices.

Decommissioning of Cheoy Lee Shipyard

9. Cheoy Lee Shipyard (CLS) was located on the north and eastern shores of Penny's Bay with a site area of about 19 hectares. CLS had been in operation for boat manufacture, repair and maintenance from 1964 to April

2001 when the site was returned to the Government on voluntary surrender^{note 1} in support of the HKD. The CSL site falls within the area designated for the construction of roads, including the Penny's Bay Section of Chok Ko Wan Link and Road P2, leading to the park. As the decommissioning of CLS was a designated project under the Environmental Impact Assessment (EIA) Ordinance (Cap. 499) which required an Environmental Permit, an EIA study on the decommissioning project was commenced in April 2001. The primary objectives of the study were to analyze the conditions of the CLS site and examine all possible environmental impacts.

10. The EIA report was published on 21 February 2002 for public inspection until 22 March 2002. It revealed the existence of hazardous substances, inter alia, dioxins^{note 2} in the soil at the CLS site. To return the site to a condition suitable for development, the EIA report recommended a remediation and clean up plan under which the 30 000 m³ dioxin-contaminated soil would be excavated and treated off-site in a thermal desorption^{note 3} plant to be set up at To Kau Wan (TKW). About 600 m³ of organic oily residue would be generated from the process over a period of one or two years. They would be collected and despatched in batches for incineration at the Chemical Waste Treatment Centre in Tsing Yi. The soil after thermal desorption would be solidified by adding cement to immobilize the remaining metals in the soil.

11. The financial arrangements for the decommissioning of CLS was discussed at the meeting of the Economic Services Panel on 20 March 2002. Members were concerned about the substantial rise in the decommissioning cost from \$22 million quoted in November 1999 to \$450 million in the revised proposal put forward by the Administration. While acknowledging that the rise was attributed to the treatment of dioxin-contaminated soil which was very expensive, some members were of the view that the situation could have been avoided if the decommissioning project was included in the original EIA for HKD. They pointed out that the Administration had allowed the HKD project to proceed in the absence of the EIA for the decommissioning of CLS in order to adhere to the scheduled opening of HKD to achieve maximum economic gains. As a result, the huge decontamination cost had not been considered during the planning stage and the community had to bear the consequences in the end.

^{note 1} Apart from a land compensation of \$22.7 million, Government also paid out an ex gratia payment of \$1.48 billion in accordance with the zonal compensation rate for Zone A land which was required for essential project with territory-wide significance.

^{note 2} Dioxins are highly toxic substances that can bioaccumulate in the fatty tissues of animals and humans. They are carcinogenic and will adversely affect immune and reproductive systems.

^{note 3} Thermal desorption is an enclosed separation process in which indirect heat is applied to the contaminated soil. Upon indirect heating, the contaminants will be evaporated into gaseous phase, trapped and subsequently condensed for further treatment.

12. Given that the extent of contamination at the CLS site was much higher than expected, doubt had been cast on whether CLS had been operating under approved conditions. Questions had been raised on whether CLS should be held responsible for the decontamination cost under the polluter-pays principle. Members asked the Administration to brief the Panel on the options available for the Government to seek legal remedies from CLS for the additional decommissioning cost.

13. The environmental impact of the decommissioning of CLS was also discussed at a number of meetings of the Panel on Environmental Affairs.

14. The funding proposal for the decommissioning of CLS, together with the proposal for the construction of infrastructure and GIC facilities to serve HKD Phase 1 and the reclamation works for the future development of HKD Phase 2 was endorsed by the Finance Committee on 24 May 2002.

Other concerns expressed by Members

15. At previous meetings, members also expressed concern over a wide range of issues. The major ones include the following -

- (a) Progress of settlement of the mariculturists' claims against fish loss caused by the reclamation works during Penny's Bay Reclamation;
- (b) Government's liability in case of delay in the completion of works related to the development of HKD Phase 1;
- (c) Environmental and sustainability impact assessment of HKD and potential environmental impact of the Penny's Bay Reclamation Stage 2 on the operation on HKD Phase 1;
- (d) Development and design of complementary and GIC facilities in the vicinity of HKD;
- (e) Possible development of another Disneyland project in the Mainland and the forecast base tourists and attendance of HKD; and
- (f) Economic benefits and employment creation of HKD.