

Our Ref : L/M to IHK/AMB/2/3 IV

Your Ref: CB(3)/PAC/R42

21 May 2004

Ms Miranda Hon  
Clerk to Public Accounts Committee  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

{Urgent by fax}

Dear Ms Hon,

**The Director of Audit's Report on the  
Results of Value for Money Audits (Report No. 42)  
Chapter 4 : Hong Kong Harbour Fest**

I refer to your letter of 14 May 2004.

On (a), I did not make specific reference to the Government guidelines "Miscellaneous Subventions – Guidelines on the Management and Control of Government Subventions" in connection with the organisation of Harbour Fest, although I was generally aware of them.

We relied in part on our past experience of event sponsorship, for example the Fortune Global Forum 2001, the Forbes Global CEO Conference 2002, the Business Week CEO Forum in 2003, the World Economic Forum's East Asia Economic Summit, annual meetings of the Cable & Satellite Broadcasting Association of Asia etc. In none of these did we seek access to the accounts.

Having regard to the special circumstances of Harbour Fest and the amount of Government sponsorship, we felt we should go further than our usual practice. Hence in seeking DoJ's advice on the draft Sponsorship Agreement we sought specific input on the following aspects:

- (i) whether the provisions were sufficient to make AmCham revise the budget when there were changes to the programme of events for the festival, including the performing talents;
- (ii) whether the provisions were adequate to make AmCham expend the Government sponsorship fee in accordance with the budget (which

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would have to be agreed by the Government);

- (iii) whether the provisions adequately reflected the Government's intention that if the actual shortfall were smaller than the amount already advanced to AmCham, the latter should refund the difference to the Government; and
- (iv) whether (and, if so, how) any express reference should be made to the MoU signed with AmCham and the advance of sponsorship fee paid.

Having regard to DoJ's advice on these points, we felt that requiring AmCham to have the Harbour Fest accounts independently audited and submitted to us represented a reasonable balance between the relatively limited requirements of sponsorship and the need for public accountability.

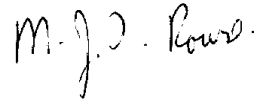
On (b), the MoUs were simple documents setting out the understanding between the two parties on their respective roles on Harbour Fest in anticipation of the full Sponsorship Agreement. Clauses 1.1 to 1.4 set out the commitment of AmCham, the decision of Government (as made by ERWG) and pointed toward a full Agreement setting out in detail each party's rights and obligations regarding the sponsorship arrangement.

The MoUs were signed to register the commitment of both parties and provide a basis for the Government to make an advance payment of the approved sponsorship fee to AmCham. There was a perceived urgency for the advance payment as AmCham indicated that it needed to commit some upfront payments for the preparation of the festival. At the time when the first MoU was signed, a draft of the Sponsorship Agreement had been prepared and was pending legal advice. The formal signing of the contract was expected to be forthcoming imminently. However, the negotiation of some terms and conditions in the Agreement took a longer lead-time than originally envisaged because priority had to be given to other aspects of Harbour Fest preparation. Two more MoUs on identical terms were subsequently signed before the 10 October Agreement itself was formally signed.

It is worth recording that time was of the essence. In an ideal situation we should have proceeded to draw up and sign the full contract first before AmCham began preparation of the festival, including submission of a comprehensive business plan to Government for approval, and before any advance payment was made to AmCham. Under such a scenario, there would have been no need for any MoU at all. However, the Harbour Fest event was targeting a very narrow window of opportunity in the autumn of 2003. In practice, both the Government and the AmCham were fully committed to the Harbour Fest project in good faith. When signing the MoUs, neither side contemplated that the final Agreement would not come through.

I hope the above clarifications would be useful to the Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. J. T. Rowse". The signature is written in a cursive style with a distinct loop at the end of the last name.

(M J T Rowse)  
Director-General of Investment Promotion

cc Financial Secretary  
Director of Audit  
Secretary for Financial Services and the Treasury  
(Attn: Mr Manfred Wong)