

## Chapter 4

### Hong Kong Harbour Fest

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#### Background

Hong Kong's economy and international image suffered a major blow as a result of the outbreak of the Severe Acute Respiratory Syndrome (SARS). The Chief Executive (CE) announced on 23 April 2003 a package of relief measures amounting to \$11.8 billion to help the community tide over the difficulties and revive the economy, including \$1 billion for large-scale publicity and promotions to relaunch Hong Kong's economy. Two ad hoc bodies were established by the Government:

- the Economic Relaunch Strategy Group (ERSG), which comprised government officials and members of the business community, academics and other relevant parties, to give advice on the strategic approach for relaunching Hong Kong; and
- the Economic Relaunch Working Group (ERWG), which comprised the same government officials in the ERSG, to oversee and coordinate the implementation of the various relaunch programmes.

2. Both the ERSG and the ERWG were chaired by the Financial Secretary (FS) with the Director-General of Investment Promotion (DGIP) as the secretary. On 30 May 2003, the Finance Committee (FC) of the Legislative Council (LegCo) approved the creation of a new commitment of \$1 billion to provide funds for the campaign to relaunch Hong Kong's economy (the Relaunch Campaign). As head of Invest Hong Kong (InvestHK), the DGIP was the Controlling Officer responsible for administering the \$1 billion commitment for the Relaunch Campaign.

3. In response to the Relaunch Campaign, on 5 June 2003, the American Chamber of Commerce in Hong Kong (AmCham) proposed to organise an entertainment showcase festival, which was later named the Hong Kong Harbour Fest (HF). It was scheduled to be held at the Tamar site on Harcourt Road from 17 October to 9 November 2003. On 2 July 2003, AmCham presented its proposal to the ERWG which supported the proposal in principle. On 12 July 2003, the ERWG approved a maximum of \$100 million to InvestHK for underwriting the HF to be organised by AmCham.

4. Various problems were encountered during the organisation of the HF concerts, leading to a great deal of negative publicity and public concern over the financial arrangements and the cost-effectiveness of the event. Against this background, Audit conducted a review to examine the Administration's role in the planning, monitoring and implementation of the HF. The review focused on the following areas:

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- project conceptualisation and approval;
- project monitoring;
- organisation of the HF;
- evaluation of the HF; and
- lessons to be learned and Audit's recommendations.

5. In view of public concern over the HF, on 12 December 2003, the CE appointed a panel of inquiry to investigate the handling of the HF. The Independent Panel of Inquiry on the Harbour Fest (Inquiry Panel) submitted its Report to the CE on 15 May 2004. The Report was made available to the LegCo and the public on 17 May 2004. On the same day, the CE announced that he accepted the Inquiry Panel's findings and recommendations.

6. The Committee held four public hearings on 3, 7, 18 and 20 May 2004 to receive evidence from the Administration on the findings and observations of the Audit Report. As Chapters 2 and 4 of the Inquiry Panel Report concern the ERWG's assessment and approval of the HF proposal and the Government's role in the HF respectively and are directly relevant to Audit's review, the Committee drew on the materials contained therein, where appropriate, in its third and fourth hearings held on 18 and 20 May 2004.

7. The following paragraphs set out the evidence taken by the Committee at the four public hearings and the written evidence submitted to the Committee after the hearings, as well as the Committee's conclusions and recommendations.

8. **Mr Mike Rowse, DGIP**, made an opening statement at the second public hearing on 7 May 2004, the full text of which is in *Appendix 25*.

### **Project conceptualisation and approval**

#### *Assessment of project feasibility*

9. Audit stated in paragraph 2.8 of the Audit Report that four factors should have been thoroughly considered in assessing the feasibility of the HF, namely, concept viability, timeframe for organising the concerts, timeframe for promotion/publicity and ticketing, and

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organising ability of AmCham. However, Audit stated in paragraph 2.11 that it could not find documentary evidence that these important factors had been thoroughly analysed and discussed at the meeting of the ERWG on 2 July 2003 to consider AmCham's proposal.

10. According to paragraph 2.14(a), the FS accepted Audit's observation that the ERWG had not fully examined the above factors before accepting AmCham's proposal for the Government to be a sponsor, up to a maximum of \$100 million, of the HF. In particular, as pointed out in paragraph 2.11, the ERWG had not required AmCham to provide its track record in successfully organising similar events (i.e. large-scale open-air concerts). Neither had the ERWG requested AmCham to provide evidence, such as market research, that the series of concerts would be well received.

11. The Committee questioned:

- whether the FS agreed that the ERWG should have fully examined the above factors at its meeting on 2 July 2003 before deciding to support the proposal in principle, and why it had not done so;
- how AmCham had proved its ability to organise the HF when it sought the ERWG's support for the proposal. For example, whether it had informed the ERWG of the companies or experts that it would engage to organise and manage the project; and
- why the ERWG believed that AmCham had the ability and professional expertise to organise the HF despite the fact that it had no experience in organising large-scale concerts.

12. **Hon Henry TANG Ying-yen, FS**, responded that:

- the ERWG understood that AmCham per se did not have experience in organising entertainment events. In fact, Hong Kong companies did not have experience in organising such a large-scale festival which comprised a series of major open-air concerts. However, the members of the Sports and Entertainment Committee of AmCham included such companies as the Walt Disney Company and the National Basketball Association (NBA) which had the experience of organising entertainment and sports activities. The AmCham representatives who presented the proposal to the ERWG on 2 July 2003 included the chairman and vice-chairman of the Sports and Entertainment Committee. The ERWG therefore considered that AmCham had the ability to organise the HF;

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- it was against exceptional circumstances that the ERWG gave its in-principle support to the HF proposal. In July 2003, in the wake of the outbreak of SARS, the spirit of Hong Kong people was very low and the economy was in the doldrums. The Government was keen to take urgent action to relaunch Hong Kong, restore Hong Kong's reputation and boost the morale of the community. The ERWG considered that the HF proposal was worthy of Government support as it was an initiative volunteered by AmCham, which was a non-profit-making organisation, an entity in the business sector and a foreign chamber of commerce. In particular, the concept of creating an international entertainment showcase matched Hong Kong's image as a world city; and
- in the circumstances, the ERWG had not thoroughly assessed the factors highlighted by Audit before agreeing to support the proposal. As Chairman of the ERWG, he accepted responsibility for that.

13. Regarding Invest Hong Kong (InvestHK)'s evaluation of the HF proposal prior to the ERWG meeting on 2 July 2003, the **DGIP** said that:

- as the officer responsible for coordinating the entire Relaunch Campaign, he was part of the evaluation process even before InvestHK was designated the subject department for the HF. In early June 2003, the then AmCham Chairman approached InvestHK with the idea of an international entertainment festival. InvestHK then arranged a meeting on 26 June with relevant departments, i.e. the Leisure and Cultural Services Department (LCSD), the Environmental Protection Department and the Tourism Commission, to evaluate the proposal; and
- in view of the scale of the project and amount of funding sought, the meeting concluded that AmCham should put its proposal to the ERWG direct.

14. The Committee referred to Note 3 in paragraph 1.16(f) of the Audit Report in which Audit stated that the basic management principles should always be followed despite the unique circumstances in which the Administration found itself at the time. The Committee queried whether the ERWG had complied with such principles in handling the matter.

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15. The Committee also noted from paragraph 2.5 of the Audit Report that at the meeting on 26 June 2003, the government departments had commented that the concept of the HF was great but rather ambitious. In addition, as revealed in paragraph 4.18, during the ERWG's discussion on 2 July 2003, the Commissioner for Tourism had expressed the view that sufficient lead time must be available for marketing the HF. It appeared to the Committee that such initial reaction of the departments should have alerted the ERWG to the need to properly assess the risks involved in AmCham's proposal. However, as it turned out, the ERWG had not critically examined the feasibility of the HF proposal before agreeing to sponsor it.

16. The Committee further referred to paragraphs 3.9 and 3.16 of the Inquiry Panel Report which revealed that there was no formal structure within AmCham to support the "de facto Organising Committee" which only comprised the three AmCham representatives who presented the HF proposal to the ERWG. The AmCham Board of Governors had not been consulted on the terms of the sponsorship agreement signed between AmCham and the Government.

17. Against the above background, the Committee asked:

- why, despite the relevant departments' comment on the HF proposal at the inception stage, the ERWG still failed to critically assess the complexity and project risks involved; and
- whether, with the benefit of hindsight, the FS considered that the AmCham representatives had misled the ERWG into believing that they had the professional expertise to organise the event and that the Government had been fooled by them.

18. The FS responded that:

- the AmCham representatives had not misled or fooled the ERWG. Rather, they had put up the proposal with sincerity and a sense of commitment. The team that presented the proposal comprised people from world-class entertainment and marketing companies, such as the NBA. Therefore, at that time, the ERWG believed that AmCham had the necessary professional expertise for organising the event. It was disappointing that, in the end, the good initiative did not attain the results it set out to achieve;

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- the Administration had learnt a lesson from this incident. With hindsight, the ERWG had over-estimated the benefits of staging 16 large-scale concerts in 100 days as well as the number of people who would be willing to pay market price for the concert tickets. If the Government were to make the decision again, it might have adopted a different approach. For example, it might have considered more carefully AmCham's ability to organise the event, the resources that AmCham would commit to the programme, the feasibility of the proposal, etc.; and
- the Administration accepted that there was room for improvements with regard to the HF project. It also accepted the lessons to be learned and the recommendations set out in the Audit Report.

19. To ascertain the details of the ERWG's discussion on matters relating to the HF, the Committee requested to have sight of the minutes of the relevant meetings of the ERWG. In response, the Financial Secretary's Office provided extracts from the minutes of the ERWG meetings held on 2 July, 12 July, 2 August, 20 August and 31 October 2003 (in *Appendices 26 to 30* respectively).

20. Regarding the assessment by the ERWG at its meeting on 2 July 2003, the Committee noted from paragraph 2.4 of the Inquiry Panel Report that the presentation and subsequent discussion lasted for about 45 minutes only. Referring to the minutes of that meeting, the Committee noted that they were brief and had no record of the matters raised with the AmCham representatives, or details of the ERWG's deliberation. On the other hand, the FS had informed the Inquiry Panel that, in deciding that the Government would act as a sponsor only of the event, the intention was for the Government to maintain an overview of AmCham's preparation of the HF to ensure that the items as promised would be delivered and the objectives met (paragraphs 2.13 and 2.14 of the Inquiry Panel Report).

21. The Committee asked:

- about the basis of the ERWG's agreeing to give in-principle support to the proposal during its short meeting on 2 July 2003;
- whether the ERWG members were so impressed by the presentation that they neglected to look into the details of the proposal or raise pertinent questions with the AmCham representatives at the meeting; and
- whether the ERWG had given any instruction to InvestHK as to how it should maintain an overview of AmCham's preparation of the HF.

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22. In response, the **FS** said that:

- the ERWG had held two meetings on 2 and 12 July 2003 to consider the HF proposal. He was then Secretary for Commerce, Industry and Technology and attended both meetings. He remembered that at the meeting on 2 July, he had commented that as \$100 million was a huge sum, InvestHK should critically examine whether the budget could be reduced so as to reduce the amount for underwriting the project. However, as the minutes were brief, he could not recall the specific questions asked at the meeting or other details of the meeting; and
- given the unique circumstances at that time, the ERWG was very attracted by the innovative concept of the project. It had not discussed how the Government should maintain an overview of AmCham's preparation for the festival. It only decided that the Government would be the sponsor. With hindsight, he agreed that the ERWG should have considered more thoroughly such important issues as the scale of the concerts, time constraint, ticket price, etc.

23. In the light of the **FS**'s reply, the Committee referred to paragraph 2.10 of the Inquiry Panel Report which stated that, the ERWG, in assessing the HF proposal, primarily relied on the visual presentation by the AmCham representatives and their verbal undertakings as to the involvement of AmCham member companies, being US entertainment industry leaders, backed up by external professional expertise as appropriate. The Committee further noted the Inquiry Panel's observation in paragraph 2.17 that the ERWG's assessment lacked depth and was cursory in nature. It appeared to the Committee that the **FS**'s reply proved that the Inquiry Panel's criticism was justified.

24. The Committee queried whether the **FS** agreed that the ERWG had failed to discharge its duties.

25. The **FS** responded that:

- it was true that the ERWG did not have experience in organising concerts and was unable to appreciate the difficulties involved in staging a large number of concerts in a short time. The ERWG had under-estimated the complexity of organising the HF and over-estimated its benefits. There were indeed inadequacies in the preparation of the HF. In many respects, the Administration and all parties concerned could have done better. The Administration would certainly learn from these experiences; and

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- as regards the outcome, the 16 concerts had been held and the general feedback of the audience was not bad.

26. According to paragraph 2.17 of the Audit Report, instead of sponsoring the HF organised by AmCham, the Government had not considered taking over the project or exploring other options, such as organising the concerts in-house or outsourcing to the private sector through a competitive selection process. The Committee enquired:

- why the ERWG, at its meeting on 2 July 2003, had not considered the possibility of inviting other organisations or business associations to submit proposals for organising the HF;
- why the ERWG had not considered holding the HF at a later time, such as December, so as to allow a longer lead time for organising and marketing; and
- whether the ERWG had considered downsizing the scale of the HF.

27. The FS explained that:

- the ERWG had not considered conducting a tender exercise because there was not enough time. Moreover, the HF was AmCham's concept and AmCham would provide free and voluntary service and expertise for organising it. The ERWG also believed that AmCham had the ability to carry the project through as the presenters on 2 July had strong entertainment business background;
- there was only a short period of time in Hong Kong which was suitable for holding open-air concerts. The HF could not be held during the typhoon and rainy seasons, or chilly days. Thus, it was decided that the HF should be held in October and November; and
- when the ERWG viewed the presentation by AmCham, it had the impression that the programme had already been well thought out. It therefore had not considered downsizing the scale of the HF.



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28. The Committee referred to paragraph 2.15(a) of the Audit Report in which the DGIP said that AmCham's original proposal was to pitch ticket prices in the range of \$100 to \$150 and this might be the reason why AmCham did not see a need to conduct any market research to ascertain the receptivity of such a "big names-cheap tickets" formula. The Committee considered that the ERWG should be aware that changing the pricing strategy by pitching ticket prices at market level would affect the attendance rate of the HF concerts. It questioned why the ERWG had not considered conducting a market research when it decided to make the change.

29. Paragraph 2.44 of the Inquiry Panel Report also revealed that there was no discussion by the ERWG about the impact of the change in ticket pricing on ticket sales. The Committee doubted whether, in changing the pricing strategy of the HF concerts, the ERWG had made a prudent decision.

30. The **DGIP** explained that when the decision was made on 12 July to pitch ticket prices at market level, only 96 days were left before the date of the first concert. A proper market research would have taken a substantial part out of that already very short time. Therefore, AmCham proceeded to do the best it could within the parameters.

31. The **FS** said that while ticket price would have an impact on attendance rate, he did not agree that it was the only factor. In fact, the concerts of Santana and Rolling Stones almost had a full house despite their high ticket prices.

### *Appraisal of project proposal*

32. According to paragraphs 2.23 to 2.26 of the Audit Report, at the meeting on 2 July 2003, the ERWG agreed to support AmCham's proposal in principle, "subject to InvestHK's scrutiny and satisfaction of the detailed budget". However, Audit noted that InvestHK had neither sought the assistance of government departments with experience/expertise in the entertainment field (e.g. the LCSD and the Radio Television Hong Kong), nor engaged experts in the show business, to vet AmCham's detailed budget for the HF project. It only adopted a "common-sense approach" in checking the completeness and reasonableness of the budget submitted by AmCham.

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33. The Committee questioned whether:

- the FS considered that InvestHK's adoption of a common-sense approach in scrutinising the budget was reasonable and appropriate; and
- InvestHK had diligently scrutinised and satisfied itself with the detailed budget of the HF proposal before its submission to the ERWG on 12 July 2003, as instructed by the ERWG.

34. The **FS** responded that the Administration would have asked more questions if it had been very objective and prudent. With hindsight, as \$100 million was a huge amount, it was doubtful whether sponsorship was an appropriate way of financing the event. The Administration should have done more work to monitor the use of the funds.

35. The **DGIP** said that AmCham submitted the budget to InvestHK on 6 July 2003. There was a reasonable amount of details to support the various items in the budget. InvestHK had looked at all the items for income and expenditure and asked itself whether they seemed reasonable. It had sent emails to AmCham asking a number of questions and seeking clarifications, and satisfied itself that the budget was reasonable. However, it had not specifically asked the LCSD to evaluate the budget professionally.

36. In reply to the Committee's enquiry about whether Audit had checked the emails sent by InvestHK in the course of the review, **Mr Benjamin TANG, Director of Audit**, advised, in his letter of 10 May 2004 in *Appendix 31*, that:

- Audit was aware that InvestHK had considered the budget submitted by AmCham and had sought clarifications from AmCham by emails about some of the items in the budget. In conducting the review on the HF, Audit had examined the emails exchanged between InvestHK and AmCham regarding the consideration of the budget. However, in Audit's view, InvestHK's "common-sense approach" of vetting did not provide a sound basis for it to satisfy itself that AmCham's budget for the project was reasonable and acceptable to the Government. Without the benefit of expert advice and information on the market prices of performances by international artists, InvestHK was unable to properly assess the reasonableness of the venue construction and operations costs and the talent costs in AmCham's budget; and

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- notwithstanding that InvestHK had considered the budget submitted by AmCham and had sought clarifications from AmCham by emails, Audit maintained that the observations in paragraph 2.25 of the Audit Report, that “Audit could not ascertain the basis on which InvestHK was able to satisfy itself that AmCham’s detailed budget for the project was reasonable and acceptable to the Government. It is unclear whether InvestHK had conducted a proper appraisal of AmCham’s budget proposal, as required by the ERWG....”, were valid.

37. Regarding the budget scrutiny process, the Committee pointed out that, according to paragraph 2.37 of the Inquiry Panel Report, there were only two emails in relation to the budget during the material time and these only raised minor questions. Moreover, the DGIP had said in paragraph 2.27 of the Audit Report that the outline budget submitted by AmCham on 6 July 2003 was still indicative only and it was not open to in-depth analysis. Having regard to the fact the ERWG gave its in-principle approval on 2 July on condition that InvestHK scrutinise and satisfy itself that the AmCham’s detailed budget was reasonable and acceptable to the Government, the Committee questioned:

- why the ERWG had not followed up the matter with InvestHK at the following meeting on 12 July 2003 before approving a maximum of \$100 million to InvestHK for underwriting the HF; and
- whether the InvestHK staff present at the meeting had informed the ERWG that AmCham’s budget was indicative only and not open to in-depth analysis by the department.

38. The **FS** replied that he had asked at the meeting on 2 July whether the project required \$100 million. He had also asked at the meeting on 12 July whether, after assessment, the budget of \$100 million was considered reasonable and whether it could be reduced. The answer given was that InvestHK had studied the budget and considered the amount reasonable. However, the ERWG had not raised questions about the details of the budget. As a matter of fact, the ERWG did not have the ability to examine each and every item in the budget.

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### Project monitoring

#### *Financing the project in the form of sponsorship*

39. As revealed in paragraph 2.29 of the Audit Report, at the ERWG meeting of 12 July 2003 when the HF project was approved, the Chairman of the ERWG emphasised that “the Government would act as the sponsor only” and “AmCham had to plan, organise and implement the whole event”. Audit considered that, by confining the Government’s role in the project to a sponsor and by capping the sponsorship grant at \$100 million, the Government intended to limit its role and liability.

40. The Committee also noted from paragraph 2.33 of the Audit Report that, according to the government guidelines “Miscellaneous Subventions — Guidelines on the Management and Control of Government Subventions” (the subvention guidelines) issued in 1988 (in *Appendix 32*), sponsorship referred to a contribution, usually of a token amount, to help meet part of an organisation’s operational expenses and to demonstrate support for the organisation’s objectives. The controls over an organisation in receipt of government sponsorship were generally much less stringent than in other forms of government grants.

41. The Committee asked:

- why the ERWG chose to adopt the less stringent form of control and distance itself from the project, when it should have known that the project was ambitious and involved high risks;
- whether the ERWG was aware of the subvention guidelines when it decided on 12 July 2003 to sponsor the HF project; and
- whether any person attending the meeting had raised query about the appropriateness of the Government’s financing the project in the form of sponsorship.

42. As the DGIP was absent at the ERWG’s meeting on 12 July 2003, the Committee also asked whether Ms Ophelia TSANG, Associate Director-General of Investment Promotion (ADG) who was present at the meeting, had brought the subvention guidelines to the attention of the DGIP subsequently.

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43. Ms **Ophelia TSANG, ADG**, replied that there was no mention of the subvention guidelines during the meeting. As a decision had been made by the ERWG, InvestHK only discharged its duties according to the decision.

44. The **DGIP** supplemented that as the FS who chaired the ERWG had already decided that the Government was to act as the sponsor and the \$100 million would be paid to AmCham as a sponsorship fee, there was no question of the InvestHK staff re-assessing the appropriateness of the decision after the meeting.

45. The **FS** said that:

- as there was only a short time between July and October, in order to allow AmCham the maximum flexibility and for the sake of efficiency, the ERWG decided that the Government should act as the sponsor while AmCham would take up the planning, organisation and implementation of the whole event;
- nobody had mentioned the subvention guidelines at the meeting on 12 July. The type of sponsorship referred to in the guidelines was that made by the Government on a recurrent basis. It was inappropriate to apply them in the present case as the HF was a one-off event; and
- in the absence of specific guidelines applicable to events like the HF, and drawing on the experience from the present case, the Administration had issued Financial Circular (FCir) No. 1/2004 in February 2004 to remind Controlling Officers of their responsibilities under the Public Finance Ordinance.

46. Regarding the responsibilities and accountability of Controlling Officers, the Committee referred to paragraph 9 of FCir No. 1/2004 (in **Appendix 33**). It was stated that “Controlling Officers are ultimately responsible and accountable for the proper use of funds under their control. Irrespective of whether public funds are disbursed through a procurement contract, subvention, sponsorship, or any other form or vehicle, Controlling Officers should satisfy themselves that an appropriate system of cost control or monitoring is in place, having regard to economy, efficiency and effectiveness in the delivery of public service and use of the public funds.” The Committee enquired whether there was any difference in the Controlling Officers’ responsibilities before the issuance of the circular.

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47. The FS responded that:

- FCir No. 1/2004 replaced FCir No. 14/84 (in *Appendix 34*). There was no difference between the requirements in these two circulars. It was stated in FCir No. 14/84 that “From time to time, controlling officers may find themselves the client for projects over which their exercise of control differs in some way from normal procedures ..... Controlling officers are reminded that, in these circumstances, they remain fully responsible and accountable for the proper disbursement of the funds under their control.” This requirement was basically the same as that in FCir No. 1/2004. As FCir No. 14/84 was brief, the Secretary for Financial Services and the Treasury issued another one in February 2004 to “remind” Controlling Officers of their responsibilities; and
- irrespective of whether an event was financed by the Government through sponsorship or other modes of subvention, the responsibilities of the Controlling Officers remained the same i.e. they should satisfy themselves that an appropriate system of cost control or monitoring was in place. In discharging their responsibilities, Controlling Officers would decide on the appropriate level of involvement in and the appropriate way for monitoring an event, having regard to the means of financing and their capacities.

48. In view of the FS’s comment that the subvention guidelines were not applicable in the case of the HF, the Committee enquired why Audit considered them relevant. In his letter of 20 May 2004, in *Appendix 35*, the **Director of Audit** advised that:

- it was stated in paragraph 2.34 of the Audit Report that “given that the Government paid for the bulk of the cost of the Harbour Fest, and in view of the need to account for such a large sum of public expenditure, Audit considers that sponsorship did not seem to be an appropriate form of financing this project”. Audit held this view because sponsorship in the present case had resulted in entrusting a large sum of public money to AmCham without stringent controls. Audit considered the amount of sponsorship should normally be a small portion of the sponsored project cost. This principle should always be followed; and
- in making the above remarks, it was noted that the subventions guidelines issued in 1988 had already referred to sponsorship as “a contribution, usually a token amount, to help meet part of an organisation’s operational expenses and to demonstrate support for the organisation’s objectives”. Audit therefore considered it relevant to refer to the principle and good practice set out in these guidelines.

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### *The DGIP's monitoring approach and interpretation of "sponsorship"*

49. According to paragraph 2.30 of the Audit Report, the DGIP had informed Audit that, in discharging his duties in relation to the HF, he adopted a "hands-off" approach, as it was not the Government's intention to "micro-manage" the project. The Committee queried why the DGIP had not realised that the HF project called for a more hands-on approach and more stringent control, because the amount of public money involved was by no means a token amount but an enormous sum.

50. The **DGIP** said that:

- on 12 July 2003, the ERWG decided to sponsor the HF project. InvestHK was designated as the subject department for the sponsorship arrangement. At that point, AmCham needed to carry out a number of important tasks very quickly. In the normal course of events, many of these tasks would have been carried out sequentially or with only minor overlaps requiring up to a year to implement. But with the very short timeframe of less than 100 days to implement the project, all these tasks had to be undertaken in parallel;
- this unprecedented set of circumstances inevitably affected the arrangements for monitoring. On the one hand, the Government was committing up to \$100 million of public funds, which argued for a high degree of scrutiny and even shared control. On the other hand, in recognition of the extraordinary time pressures, the ERWG had specifically decided that AmCham should have sole responsibility for planning, organising and implementing the event; and
- it was against the above background that InvestHK undertook its monitoring role. It had no direct executive responsibility or powers, because of the ERWG decision that it should be a sponsor only. But it needed to monitor the situation closely, identify problem areas, promptly draw them to AmCham's attention, and assist in remedying them - in cooperation with the organiser. InvestHK accepted that the outcome fell short of its hopes. But it did all of these things to the utmost of its ability and gave them its best effort.

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51. On the question of whether he had adopted a “hands-off” approach, the **DGIP** said that:

- he had never used the term “hands-off” approach with respect to monitoring. As stated in paragraph 3.20(d) of the Audit Report, he had adopted a “hands-off” approach only with respect to the implementation of the HF and the executive responsibility for it. It meant that because AmCham was made responsible for planning, organising and implementing the project, InvestHK was a step back from the direct implementation. However, InvestHK did realise that because of the amount of money involved, the novelty of the proposal and the high profile that the project inevitably would have, it needed to monitor the event closely; and
- InvestHK had maintained regular and frequent contacts with AmCham, either in the form of small group meetings or through telephone calls, email etc. to keep track of what was happening in different aspects of HF as it evolved. It identified problems and offered advice and assistance to AmCham as the circumstances warranted. For example, he had assisted in soliciting sponsorships. This was by no means hands off. Rather, InvestHK had monitored extremely closely and much more proactively than in its other sponsorship arrangements. But it was different from having executive responsibility for the actual implementation which had been specifically given to AmCham.

52. The Committee noted that the **DGIP** was absent at the ERWG’s meetings on 2 July, 12 July and 2 August 2003 during which important decisions about the HF project were made and the progress was discussed. Having regard to the fact that the HF proposal was introduced to the ERWG by InvestHK and **DGIP** was the Controlling Officer for the \$100 million sponsorship fee, the Committee considered that the **DGIP** had an important role over the event, and asked why he had not attended the meetings.

53. The **DGIP** explained that:

- on 2 July 2003, he was in Chicago conducting investment promotion work. At that time, InvestHK had not yet been designated as the subject department for the HF although he was the Controlling Officer of the \$1 billion funding for the Relaunch Campaign;



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- the meeting on 12 July 2003 involved a clash of priorities. That was the final day when the Government negotiated with various consortia for the construction of the \$2.3 billion International Exhibition Centre at the Chek Lap Kok Airport. He was the leader of the government team making the assessment and finalising the negotiations. He judged that it was appropriate for him to finalise those negotiations. Therefore he did not attend the ERWG meeting; and
- as regards the meeting on 2 August 2003, he was on leave.

54. As requested by the Committee, the DGIP provided, in his letter of 17 May 2003 in *Appendix 36*, a summary of the periods between July and mid-November 2003 during which he was not in office, either on duty trip or on vacation leave. The Committee noted that during the three months from July to September 2003, the DGIP was absent from Hong Kong for 60 days, including 34 days' vacation leave from 14 July to 16 August 2003. The Committee questioned how the DGIP could have effectively discharged his responsibilities regarding the HF, given that he was out of town for two-thirds of the lead-up to the HF.

55. In this connection, the Committee noted that the Inquiry Panel also made a similar observation. It was stated in paragraph 4.95 of the Inquiry Panel Report that, in considering InvestHK as the subject department, the ERWG should have examined the capabilities and suitability of InvestHK for the job. The Inquiry Panel also highlighted InvestHK's lack of experience in financial management and concert promotion, which was required for overseeing the HF project. The Committee doubted whether it was a prudent decision to appoint InvestHK as the subject department for the HF.

56. The FS responded that:

- he was then Secretary for Commerce, Industry and Technology and the supervisor of the DGIP. He knew that the DGIP was on leave at that time. As a head of department, when the DGIP applied for vacation leave, he should have already made the judgment that his leave would not affect his work; and
- apart from the HF, the DGIP had other duties as the head of InvestHK. He should have prioritised his different duties and decided if it was appropriate to undertake the duty visits.

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57. The **DGIP** responded that he had applied for vacation leave in the normal way and the leave was approved. He felt that it was not unreasonable to take leave as InvestHK had been undertaking the extra responsibilities in connection with the Relaunch Campaign for many months. In fact, the HF was only one project under the entire Relaunch Campaign. It was an additional responsibility given to InvestHK on top of its regular duties which InvestHK had attempted to continue to perform as best as it could.

58. The Committee pointed out that it was incumbent upon a senior official like the DGIP to have asked for assistance if he had concern over InvestHK's lack of resources to take up the extra responsibility as the subject department for the HF. The Committee queried why the DGIP had not done so.

59. The **DGIP** explained that:

- it was a question of juggling different priorities and responsibilities. As the DGIP, he was responsible for running InvestHK. The department performed strongly as an investment promotion agency, as shown by past results. Regarding the Relaunch Campaign, the department provided a secretariat for both the ERWG and ERSG. It had put in place a machinery for assessing economic relaunch proposals and coordinated with other bureaux and departments. Altogether, the ERWG considered 95 proposals and approved 84 of them; and
- InvestHK had a particular understanding of what sponsorship meant. That understanding did not include putting a member on the HF Organising Committee and sharing the executive responsibility, as suggested by the Inquiry Panel. For the HF, InvestHK had actually gone beyond its normal understanding of sponsorship arrangement and exercised close monitoring.

60. In view of the DGIP's claim that InvestHK had already exercised a high degree of monitoring over the HF, the Committee asked whether the various problems surrounding the HF was the result of wrong decisions or poor implementation.

61. The **FS** said that:

- as the Controlling Officer for the \$1 billion relaunch fund, the DGIP had the responsibility to properly monitor the use of the fund, irrespective of whether the fund was disbursed through sponsorship or other modes of subvention.

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It was possible that there was a disparity in the interpretation of “sponsorship” between the ERWG and InvestHK, which was responsible for implementation. Given that \$100 million was 10% of the relaunch fund and was a huge amount, the level of monitoring required for the HF should be different from that for other normal sponsored events; and

- it was difficult for him to judge whether the decision made by the ERWG at that time to finance the HF by way of sponsorship was right or wrong. At its meeting on 12 July 2003, the ERWG had not discussed whether sponsorship was an appropriate way to finance the HF. It decided to act as the sponsor because it did not want the Government to micro-manage the project. Admittedly, there was much room for improvement.

62. Regarding the DGIP’s interpretation of “sponsorship”, the Committee noted that the Inquiry Panel “considers it disappointing for DGIP and InvestHK to have over-leveraged on the concept of sponsorship” (paragraph 4.22 of the Inquiry Panel Report). The Inquiry Panel also concluded in paragraph 5.46 that the “DGIP and InvestHK traded due diligence for expediency in unjustifiably hiding behind a narrow interpretation of sponsorship”. To ascertain the basis of the DGIP’s and InvestHK’s interpretation of sponsorship, the Committee asked the DGIP whether he had, at any stage, communicated with the then Chairman of the ERWG as regards how he was expected to monitor the HF under the sponsorship arrangement.

63. The **DGIP** confirmed that he had not communicated with the Chairman of the ERWG in this respect. He further said that:

- he had not devised a new interpretation of sponsorship for the purpose of the HF. InvestHK had sponsored a number of events, such as the Fortune Global Forum in 2001 and the Forbes Global CEO Conference in 2002. For all these events, it sponsored them on the same basis, i.e. InvestHK compared the fee involved and the benefits. If the sponsorship was considered worthy of the fee, it would enter into a contract arrangement. In none of those cases did InvestHK send a representative to sit on the organising committee or track the cashflow;
- InvestHK initially applied the same interpretation to the HF and managed it on the same basis. However, it soon realised that it needed to exercise a higher degree of monitoring for the HF because of the magnitude of the sponsorship fee. It had therefore considerably enhanced its level of monitoring compared to its normal practice for other sponsorship

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arrangements. Indeed, InvestHK was very “hands-on” with regard to monitoring. That was why it could identify problems and rendered direct assistance to AmCham;

- with the benefit of hindsight, the decision that the Government was to be a sponsor, rather than a co-organiser, was not correct. He also accepted that whether it was called sponsorship or not, the Government should have co-organised the HF. Nevertheless, the word “sponsorship” was specifically used on 12 July 2003 and the Chairman of the ERWG also emphasised that the Government would act as the sponsor only. AmCham had to plan, organise and implement the whole event. To InvestHK, the decision was not ambiguous and it matched exactly InvestHK’s experience in sponsoring events. InvestHK understood it clearly in that meaning;
- the Inquiry Panel had commented that even if the ERWG had the narrow sponsorship concept in mind, he was duty bound to counter-propose a more responsible approach to the ERWG. As a member of the ERWG, similar to the ERWG Chairman, he felt at that time that sponsorship was an appropriate course of action; and
- if the ERWG had on 12 July 2003 considered that InvestHK should not only be a sponsor but also a co-organiser, and was to be involved in the execution of the HF, then InvestHK would have had to ask for reinforcement from other departments. Alternatively, in the extreme case, it should have asked for a change of subject department, since it was totally beyond InvestHK’s experience to be involved in the organisation of an event at the executive level to that degree.

### *The three Memoranda of Understanding (MOUs) and the agreement between the Government and AmCham*

64. According to paragraph 1.8 of the Audit Report, the Government and AmCham entered into three legally binding MOUs in relation to the HF on 31 July, 29 August and 3 October 2003 (in *Appendices 37, 38 and 39* respectively). On 10 October 2003, the Government and AmCham entered into a full agreement (in *Appendix 40*).

65. To ascertain the involvement of the Department of Justice (DoJ) in the MOUs and the agreement, the Committee asked the Secretary for Justice whether the DoJ:

- had been consulted on any of those agreements at any stage; and

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- had given any advice or comments upon such consultation and, if so, when they were given, and whether they were accepted and/or reflected in the agreements.

66. The **Deputy Principal Government Counsel (Commercial)** I informed the Committee, in his letter of 6 May 2004 in *Appendix 41*, that:

- the DoJ had not been consulted on any of the three MOUs, but it had been consulted on the draft agreement between the Government and AmCham. On 1 August 2003, the department received the request for advice on the draft agreement prepared by InvestHK vide its memo dated 30 July 2003;
- the DoJ was first consulted on 1 August 2003 after the ERWG had agreed in principle that the Government would sponsor the HF and after the Government and AmCham had entered into a legally binding MOU which provided, amongst other things, for the first installment (\$25 million) of the sponsorship fee payable to AmCham. The DoJ was given two draft agreements, one prepared by AmCham and the other by InvestHK. The department was invited to comment on some specific clauses in the draft agreement prepared by InvestHK to ensure that the wording accurately reflected the intention of InvestHK. In response to the specific requests, advice was given on 8 August 2003 and subsequently prior to the execution of the agreement. Most of the advice was adopted; and
- the DoJ had raised the need for provisions for access to documents in AmCham's possession and was instructed that the requirement for AmCham to prepare proper books of account and to submit independently audited accounts of the festival should instead be incorporated in the agreement. This was because the Government had decided to limit its role to that of sponsor only, and AmCham would be responsible for planning, organising and implementing the event.

67. The Committee was concerned that InvestHK had not consulted the DoJ before signing three legally binding MOUs with AmCham, each of which effected payment of \$25 million (or 25%) of the total sponsorship fee to AmCham. In addition, it had rejected the DoJ's advice to include in the agreement provisions for access to documents in AmCham's possession. In the event, the Government (including Audit) did not have the power to access the accounts, contracts and records in relation to the HF.

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68. In this regard, the Committee shared the feeling of the Inquiry Panel in paragraph 4.30 of its Report, that “The Panel is astonished to note that InvestHK could and did, on behalf of the Government, enter into binding obligations with AmCham to the extent of HK\$100 million under three MOUs without consulting DoJ.” The Committee queried the reason for such an omission.

69. The **DGIP** and the **ADG** explained, in their letters of 21 and 27 May 2004 in *Appendices 42 and 43* respectively, the background leading to the signing of the MOUs, before both parties entered into the final sponsorship agreement. They stated that:

- after InvestHK had conveyed to AmCham the ERWG’s decision of 12 July 2003 that the Government would sponsor the HF and that AmCham had to plan, organise and implement the whole event, AmCham came up with a draft sponsorship agreement on 24 July 2003 prepared by its lawyer. InvestHK made some initial comments and suggested amendments with a view to setting out more precisely the respective rights and obligations of the two signing parties, and sent out the revised draft document to the DoJ for legal advice on 30 July. It also included some specific questions for the DoJ’s comments;
- in parallel, AmCham was proceeding with the preparation for the HF itself. Mr James Thompson (then the Chairman of AmCham) approached ADG exploring the possibility of the Government making an advance payment, equivalent to 25% of the approved sponsorship fee, in order that AmCham would be able to settle some essential upfront payments. InvestHK was always mindful of the need to protect the interest of Government in view of the substantial amount of public money involved, notwithstanding the fact that the sponsorship fee had already been approved by ERWG. On the other hand, as the subject department responsible for coordinating Government’s support and facilitation to enable this economic relaunch project to proceed as smoothly as possible, it needed to strike the right balance with flexibility within its scope of authority; and
- against the above background, InvestHK entered into a simple legal document in the form of an MOU with AmCham, setting out the understanding between the two parties on their respective roles on the HF in anticipation of the full sponsorship agreement. This also provided the formal basis for making an advance payment of sponsorship fee to AmCham.

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70. As regards the reasons for not seeking legal advice on the MOUs, the **DGIP** and the **ADG** said at the public hearings and in the same letters that:

- InvestHK had not consulted the DoJ specifically on the (first) MOU because it was a simple legal document pointing to the final sponsorship agreement that the Government and AmCham would enter into. Most important of all, there was perceived urgency for executing the document before any advance payment of sponsorship fee could be made to AmCham;
- it was not unprecedented for government bureaux/departments to not seek legal advice from the DoJ on grounds of perceived urgency. In his letter to the Inquiry Panel dated 11 February 2004, the relevant DoJ officer stated, inter alia, that “there is no general requirement for a government bureau or department to consult the Department of Justice on every contract it enters into. From experience government bureaux or departments might not consult the Department of Justice for legal advice for various reasons, such as the absence of legal implications, the perceived urgency of the matter or in respect of the renewal of contracts in similar terms to those previously cleared by this Department”; and
- time was of the essence. In an ideal situation InvestHK should have proceeded to draw up and sign the full contract first before AmCham began preparation of the HF, including submission of a comprehensive business plan to the Government for approval, and before any advance payment was made to AmCham. In such a scenario, there would have been no need for any MOU at all. However, the HF was targeting a very narrow window of opportunity in the autumn of 2003. Therefore, a number of things which should have been done sequentially were done in parallel. In practice, both the Government and the AmCham were fully committed to the HF project in good faith. When signing the MOUs, neither side had contemplated that the final agreement would not come through.

71. The Committee further questioned the basis for InvestHK’s rejecting the DoJ’s advice on access to documents on the ground that the Government had decided to limit its role to that of sponsor. It asked whether InvestHK had made reference to the subvention guidelines of 1988 in making the decision.

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72. The **DGIP** stated at the public hearings and in his letter of 21 May 2004 that:

- he had not made specific reference to the subvention guidelines in connection with the organisation of the HF, although he was generally aware of them. InvestHK had relied in part on its past experience of event sponsorship, e.g. 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 events did it seek access to the accounts. Against this background, InvestHK did not see that it needed to have access to all the detailed accounts in respect of the HF because it was a sponsorship arrangement;
- having regard to the special circumstances of the HF and the amount of government sponsorship, InvestHK felt that it should go further than its usual practice. Hence, in seeking the DoJ's advice on the draft sponsorship agreement, it sought specific input on the following aspects:
  - (a) 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;
  - (b) whether the provisions were adequate to make AmCham expend the government sponsorship fee in accordance with the budget (which would have to be agreed by the Government);
  - (c) 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
  - (d) 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 the DoJ's advice on the above points, InvestHK felt that requiring AmCham to have the HF accounts independently audited and submitted to InvestHK represented a reasonable balance between the relatively limited requirements of sponsorship and the need for public accountability; and



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- the arrangement was also in line with normal sponsorship arrangements. As stated in paragraph 2.33(b) of the Audit Report, in the case of sponsorships, the Government normally did not have access to the subvented organisations' records and accounts. The Government would only review the audited accounts of the organisations.

73. The Committee pointed out that the objectives of the HF were to boost local morale and consumption, boost tourism and promote Hong Kong to international and Mainland communities. However, the agreement only required the delivery of a series of concerts and the production of a TV special. In none of the three MOUs or the agreement had InvestHK stipulated any measurable criteria, such as the minimum requirement for attendance or revenue, relating to the stated objectives. Moreover, as mentioned in paragraph 4.34 of the Inquiry Panel Report, there was no reference in the MOUs even to the repayment of funds advanced in the event that the parties failed to enter into a full agreement. In contrast, the Government had a clear obligation under these agreements to pay a sum of up to \$100 million to finance the HF. It appeared to the Committee that InvestHK had entered into unequal contracts on behalf of the Government. The Committee questioned how the MOUs and agreement could protect the Government's interest and safeguard the taxpayers' money.

74. The **DGIP** said at the public hearings and in his letter of 21 May 2004, that:

- the MOUs were simple documents setting out the understanding between the two parties on their respective roles on the HF in anticipation of the full sponsorship agreement. Clauses 1.1 to 1.4 set out the commitment of AmCham, the decision of the Government (as made by the ERWG) and pointed towards 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 provided a basis for the Government to make an advance payment of the approved sponsorship fee to AmCham. 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 HF preparation. Two more MOUs on identical terms were subsequently signed before the agreement itself was formally signed;

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- in a normal commercial relationship with a degree of adversarial nature, an advance payment should only be of a nominal amount or no advance payment should be made at all. However, the HF was a collaborative venture between the Government and AmCham to help relaunch Hong Kong's economy. That was why a number of things which would not normally have been done were done; and
- InvestHK had specified reasonable measures in the agreement, i.e. AmCham had to produce a specified number of concerts with world-class artists and a TV special. AmCham should arrange for the TV special to be as widely shown as possible and the clips from it could be used by the Government and its organs in other promotions. Having decided that the tickets should be priced at the market level, it would be impractical to set a target attendance because the popularity of different artists at the commercial level varied. Similarly, for viewership, while InvestHK could specify access to a number of TV homes, it would not have been possible to specify the number of TV viewers who would actually watch the film.

75. The Committee noted that the first two MOUs of 31 July and 29 August 2003 were signed by Ms Ophelia TSANG in the capacity of ADG, during the absence of DGIP. As revealed in paragraph 4.28 of the Inquiry Panel Report, when DGIP returned from leave and signed the third MoU, he considered it beside the point to consult the DoJ then because two installments were already advanced to AmCham with the execution of the first two MOUs. The Committee asked the DGIP:

- whether he had been consulted by his subordinates before the MOUs were signed;
- whether he had asked about the first MOU after he had returned from leave; and
- if he had not been on leave, whether he would have instructed that the DoJ be consulted first.

76. The **DGIP** replied that:

- his views had not been sought as he was on leave. Although he was in office for about a week after the signing of the first MOU, he did not know about it at that time. When he returned from duty visit and was presented with the third MOU, that was when he learnt that it was the third one;

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- he agreed that handing over \$50 million in exchange for very simple MOUs was out of ordinary. It was an exceptional way of coping with exceptional circumstances. The key point was that all the three MOUs pointed clearly towards the final agreement which was, in fact, negotiated and signed; and
- it would have been better if legal advice had been sought on the first MOU and then that would have carried through to the subsequent ones. Ideally, he would have preferred that top priority had been given to signing the full contract and avoided the MOUs altogether.

77. The Committee considered it unbelievable that two MOUs making payment of some \$50 million were signed by the DGIP's subordinate in the absence of a detailed budget, legal advice and instruction from the supervisor. It wondered whether this was the right procedure recognised by the civil service.

78. On the question of whether he had been consulted on the first MOU, the **DGIP** subsequently clarified, in another letter of 21 May 2004 in *Appendix 44*, that:

- at the hearing of the Committee held on 20 May 2004, he indicated that he did not recall having seen the first MOU dated 31 July 2003 before it was signed and arrangement made for payment of \$25 million to AmCham. That statement remained correct, but was incomplete;
- after an exhaustive search of InvestHK's records, he found an email dated 30 July sent by his deputy Ms Ophelia TSANG to his personal email address at home. He had not seen that email until 3 August as he was on leave and out of town. He apologised for this lapse of memory; and
- in his opinion, Ms TSANG's decision to sign the MOU and effected payment was understandable in the exceptional circumstances prevailing. He took full responsibility for it.

79. To ascertain whether Ms Ophelia TSANG had proper authorisation and followed proper internal procedure before she signed the two MOUs of 31 July and 29 August 2003, the Committee enquired:

- about the acting arrangements when the DGIP's was on leave from 14 July to 16 August 2003, and on duty visits to Shanghai from 21 to 22 August 2003 and Australasia from 25 to 30 August 2003;

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- whether Ms TSANG considered it necessary to obtain the approval of the DGIP or the Acting DGIP before signing the MOUs; if so, whether she had obtained the approval; if not, what the reasons were;
- whether she had informed, consulted or discussed with the DGIP or the Acting DGIP on the two MOUs before signing them and, if so, when and how, and what the details were;
- whether she had reported the signing of the two MOUs to the DGIP upon his return to office and if so, when and what the details were; if not, what the reasons were; and
- whether, in her view, there was any negligence on her part in signing the two MOUs, in view of the fact that no legal advice had been obtained on them beforehand and particularly if the DGIP or the Acting DGIP had not been properly consulted in the first instance.

80. In her letter of 27 May 2004, **Ms Ophelia TSANG, ADG**, informed the Committee of the acting arrangements to cover the DGIP's absence on leave/duty visits, as follows:

14 to 27 July 2003	ADG(1) Mr John Rutherford doubling up
28 July to 10 August 2003	ADG(2) Mr Simon Galpin doubling up
11 to 16 August 2003	ADG(3) (herself) doubling up
21 to 22 August 2003	ADG(1) Mr John Rutherford doubling up
25 to 30 August 2003	ADG(3) (herself) doubling up

81. The **ADG** further said that:

- she was deputising for the DGIP on all matters relating to the Relaunch Campaign, including the HF. In the light of the need for the organisation of the HF to proceed as smoothly as possible, she saw the need to effect the MOU urgently. This was fully in line with the ERWG's decision to sponsor and support the HF. For the first MOU, she had sent an email on 30 July 2003 to the DGIP's home email address informing him of it and the advance payment. She had also briefed the Acting DGIP on the MOU, but accepting

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that he was not at all familiar with the background to the Relaunch Campaign, she was prepared to sign it on her own authority. For the second MOU, she was the Acting DGIP herself though she signed it in the capacity of her substantive post;

- she had updated the DGIP on the progress of the HF, including the advance payments, on each occasion after he returned from leave/duty trip, though she did not recall the details of their discussions due to the lapse of time; and
- she did not consider that there was any negligence regarding her signing the two MOUs, which were part of implementing the ERWG's sponsorship decision on the HF under very exceptional circumstances. With the benefit of hindsight, she could have adopted a holding line and invited the DoJ's input before responding to AmCham's request for urgent advance payment of sponsorship fee in the absence of a full sponsorship agreement.

82. The Committee noted the reply of the DGIP and the ADG that there was perceived urgency for executing the MOUs so as to transfer money to AmCham for settling some essential upfront payments. However, the Committee noted from paragraph 4.29 of the Inquiry Panel Report that the first advance payment of \$25 million from InvestHK was effected on 4 August 2003. The first transfer of fund from AmCham to Red Canvas Limited (Red Canvas), the Special Purpose Vehicle appointed by AmCham to carry out the HF event, did not take place until 13 August 2003 at \$7 million. The second advance payment of \$25 million was effected on 1 September 2003. The transfer of fund to Red Canvas did not take place until 9 September 2003 at \$18 million. Paragraph 4.32 of the Inquiry Panel Report further revealed that InvestHK had not requested AmCham to substantiate the need for advance payment on each occasion of transfer.

83. The Committee questioned the basis for the perceived urgency and whether InvestHK had been over cooperative with AmCham.

84. The **DGIP** replied that there was a very short time span and Red Canvas, on behalf of AmCham, was entering into contracts that bound it to spend very large sums of money on a daily basis. AmCham had told InvestHK that it needed the money in the bank account as foreign artists' companies wanted proof of Red Canvas's ability to pay when it entered into contracts with them. InvestHK took on faith the then AmCham Chairman's requests for money.

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### *Due diligence checks on AmCham and Red Canvas*

85. The Committee was concerned that, as revealed in paragraph 4.50 of the Inquiry Panel Report, InvestHK had failed to conduct due diligence checks on AmCham's ability to pay in the event that the cost of the HF exceeded the government sponsorship of \$100 million. The Committee shared the Inquiry Panel's view that it would be highly embarrassing to the Government should there be non-payment to any contractor because of cost overrun in the HF beyond the sponsorship fee.

86. In addition, paragraph 4.47 of the Inquiry Panel Report further revealed that InvestHK had not conducted any due diligence checks on Red Canvas. In the circumstances, InvestHK failed to discover that Red Canvas was owned by Mr James Thompson and his wife, which was inconsistent with the reference in the sponsorship agreement that Red Canvas being "wholly owned by members of AmCham". The Committee questioned:

- why InvestHK had not followed the standard practice in the private sector of conducting due diligence checks on the contracting parties before the execution of an agreement; and
- whether InvestHK had placed all its trust on the then Chairman of AmCham such that it ignored the prudent practice.

87. The **DGIP** responded that:

- it was specified in the agreement with AmCham that on no account would the Government be responsible for more than \$100 million. Moreover, InvestHK had monitored the HF closely and kept in touch with its forecast finances as they rolled forward. All along, it had pressed for the final sponsorship fee to be less than \$100 million. In the end, the event had only a small amount of cost overrun and the former AmCham Chairman had agreed to pay for it;
- AmCham was a responsible organisation and its former Chairman was a prominent member of the community who had the global headquarters of his company in Hong Kong for a quarter of a century. InvestHK took his word for it that he was authorised to sign the agreement on behalf of AmCham and its Board of Governors. In fact, all the people involved in assessing the HF proposal and in assessing AmCham's ability to deliver were persuaded by the AmCham representatives who attended the various meetings; and

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- as regards Red Canvas, InvestHK signed the sponsorship agreement with AmCham and dealt only with AmCham. Hence, no company search on Red Canvas was conducted.

88. The Committee noted the Inquiry Panel's conclusion in paragraph 5.47 of its Report that the DGIP had failed to adequately discharge the role of Controlling Officer in respect of the \$100 million public funds for the HF. The Committee asked whether the DGIP agreed with this conclusion.

89. The **DGIP** said that:

- he did not agree with the conclusion that he had failed in his duty as Controlling Officer. He was actually Controlling Officer at two levels:
  - (a) first, he was the Controlling Officer for the whole Relaunch Campaign which involved \$1 billion. In discharging those duties, he and InvestHK staff had assisted the ERWG to receive, consider, reject or approve spending proposals to relaunch the economy of Hong Kong. InvestHK had devised the procedures and the criteria against which the different proposals would be measured. It also made arrangements to pay the sums. At this level, he believed that he had fulfilled his responsibilities as Controlling Officer; and
  - (b) second, he was the Controlling Officer of the subject department for the HF. At this level, he executed the decisions of the ERWG, of which he was also a member. He implemented the sponsorship arrangement, which was that InvestHK must make sure that AmCham deliver a series of world-class entertainment events and the Government would pay up to, but not exceeding, \$100 million. All these had materialised. Unfortunately, the final result was disappointing and did not meet the community's expectations;
- he was not the Controlling Officer for the HF project. In this regard, the Controlling Officer was the person who could authorise contracts and expenditure, etc. The only person in that position was the then Chairman of AmCham; and

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- the problem was in the execution, compounded with the short time within which AmCham had to plan, organise and implement the event. As noted in the Inquiry Panel Report, the HF was an extremely ambitious project and time was extremely short. InvestHK knew what the problems were and had drawn them to AmCham's attention. InvestHK had given AmCham its maximum support in putting them right.

### *Risk management and contingency planning*

90. The Committee noted Audit's observation in paragraph 3.28 of the Audit Report that no risk management and contingency plan had been prepared by the Government to formally identify, analyse and address the project risks of the HF. The Committee wondered how InvestHK could ignore such basic management practice in implementing such a high-risk and high-visibility project like the HF.

91. The **DGIP** responded that due to the shortage of time, there was not a formal contingency plan. In the present case, the contingency arrangements were that every time an emergency arose, everyone took immediate action to fix the problem.

### **Keeping the LegCo informed**

92. According to paragraphs 3.23 and 3.24 of the Audit Report, the DGIP had undertaken to keep the Financial Affairs (FA) Panel of the LegCo posted, on a regular basis, of the activities carried out under the Relaunch Campaign. However, he failed to act on his undertaking until he was required to respond to concerns raised by the public over the organisation of the HF at the FA Panel's meeting held on 11 October 2003, which was arranged at the Panel's request. The Committee queried why the DGIP had not diligently discharged his responsibility to keep the LegCo informed on a timely basis, and whether it was because he was on leave then.

93. The **DGIP** replied that his leave coincided with the summer recess of the LegCo. With hindsight, he accepted that he could have requested the FA Panel to call special meetings or could have submitted written reports to the Panel during the summer recess to brief it on the progress of the organisation of the HF.



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94. According to paragraph 3.8 of the Audit Report, it was stated in the FA Panel Paper of 11 October 2003 that, on the approval of a project by the ERWG, the Controlling Officer of the bureau/department concerned would oversee the implementation of the project, and monitor the performance of the outside party, who had been commissioned to carry out the project, where appropriate. On the other hand, the DGIP stated in paragraph 3.20(b) that AmCham had not been “commissioned” by the Government to implement the HF. It appeared to the Committee that, by emphasising that AmCham had not been “commissioned” to implement the HF, the DGIP was suggesting that the Government merely acted as a sponsor for the HF and hence InvestHK only had a limited monitoring role over the event.

95. The Committee asked why it was not mentioned in the FA Panel Paper that there were substantive differences in the Government’s monitoring role between commissioning other Relaunch Campaign projects and just acting as a sponsor for the HF.

96. The **FS** responded that given that \$100 million was a huge sum amounting to 10% of the \$1 billion relaunch fund, the Government had the duty to monitor how it was used, irrespective of whether the HF was a commissioned or sponsored event.

97. The **DGIP** explained that the reference to “commissioned” in paragraph 3.20(b) was only an effort to clarify that the HF was not a government project, but an AmCham project sponsored by the Government. But the requirement to report back to the LegCo was still valid even with a sponsorship arrangement. InvestHK had tried its best to oversee and monitor the implementation of the HF.

98. According to paragraph 5.12(b) of the Audit Report, the DGIP told the FA Panel on 15 November 2003 that “AmCham had already secured broadcast for the whole one-hour TV special by the ABC Channel in US, which had access to 80 million TV homes with a potential audience of 100 to 150 million viewers.....”. However, as revealed in paragraphs 5.15 and 5.18, the TV film was aired on MTV2 and MTV networks, not ABC. In making the airing arrangements, the AmCham representative had even said that “regarding the network, we almost have to live by ‘beggars can’t be choosers’”. In the event, the three airings in the USA had only achieved a total viewership of less than 1 million TV homes, which was less than 1% of the target viewership of 100 million TV homes in the USA.

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99. In the light of the above development, the Committee asked whether the DGIP had confirmed with AmCham the broadcast by the ABC network before advising the LegCo on such arrangement, and whether he had given misleading information to the LegCo.

100. The **DGIP** replied that:

- he did not mean to mislead the LegCo. He had only relayed the information from AmCham's submission. InvestHK had asked and were told that there was a written commitment from the ABC Family cable network, not the free-to-air ABC network. However, he had not seen the letter of commitment;
- he understood that the ABC Family network offered to air the TV film once but MTV networks offered to air it three times. The viewership of the MTV networks was also higher than that of the ABC Family network. Hence, AmCham decided to go for the MTV networks; and
- he said at the FA Panel meeting that the ABC Channel "had access" to 80 million TV homes with a "potential" audience of 100 to 150 million viewers. It was unfortunate that he had used the term "ABC Channel". However, as at that date, the TV special could have been shown on the ABC Family network and, if so, it could have reached 84 million TV homes. Hence, he had not been misleading or factually wrong. As regards the results, he agreed that the ultimate viewership in the USA was extremely disappointing.

101. As regards the reason for the scornful remark that "beggars can't be choosers", the **DGIP** said that the AmCham representative might be referring to the attitude of the free-to-air channels to this kind of programme.

102. In reply to the Committee's enquiry on the same question, **Ms Lucille Barale, Chairman of AmCham**, said in her letter of 20 May 2004, in *Appendix 45*, that the AmCham representative might be referring to the lack of a specified budget for promoting the airing of the film.

103. The Committee also noted that the DGIP had told the FA Panel on 15 November 2003 that the target was to bring the TV film to over 0.5 billion viewers worldwide. To ascertain whether this target could be achieved, the Committee asked about the viewership figures of the film so far.

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104. The **DGIP** informed the Committee, at the public hearings and in his letter of 15 June 2004, in *Appendix 46*, that:

- the figure of 0.5 billion viewers referred to the size of potential TV audience that the TV special could reach;
- following the broadcast of the TV special on the HF in the USA on the MTV2 and MTV channels in January and February 2004 respectively, the same video had been aired locally in Hong Kong on TVB Pearl on 1 May and in 34 countries in Asia and the Middle East in May on the STAR World International and STAR World India channels; and
- according to AC Nielson, the third airing of the video on the MTV channel achieved a viewership of 0.2 million households in the USA, representing about 314,000 viewers. AmCham had advised that the ratings for MTV2 were not released to the public. TVB had advised that there were 136,000 viewers of the local showing. STAR had also advised that the five broadcasts on their channels (two broadcasts on 5 and 6 May on STAR World International and three broadcasts on 19 and 20 May on STAR World India) were seen by 625,000 people in Hong Kong, Singapore, India and metro Manila. STAR World reached 15 million homes in the 34 countries, but it was not possible to quantify the total number of people who watched the TV special as the company did not monitor the viewership in places other than the four mentioned.

### Organisation of the HF

105. Audit pointed out in paragraph 4.11 of the Audit Report that the number of free tickets issued represented 30% of the audience turnout. The Committee was concerned that the distribution of a large number of free tickets gave the impression that the HF concerts were not well received by the market and the distribution of too many free tickets in the earlier concerts could have affected the ticket sales for some of the subsequent concerts. The Committee asked for a breakdown of the 12,000 complimentary tickets distributed by AmCham.

106. In his letter of 6 May 2004 in *Appendix 47*, the **DGIP** said that, according to AmCham, the 12,000 complimentary tickets had mainly been distributed to commercial entities (e.g. shops and restaurants, etc), which were either sponsoring the HF in kind or providing assistance in support of it (e.g. helped distribute flyers and/or put up posters in their premises, etc). Most of these tickets were for the less expensive seats. However, AmCham was not able to provide further details of the breakdown of the distribution.

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### Rolling Stones concerts

107. The Committee was concerned that the chequered events leading to the Rolling Stones concerts had caused much uncertainty and confusion and attracted a lot of negative media attention. As revealed in paragraph 4.25 of the Audit Report and paragraph 4.68 of the Inquiry Panel Report, when AmCham and the DGIP announced at the press conference on 3 September 2003 that the Rolling Stones would be performing in Hong Kong, AmCham had only reached a broad agreement with the Rolling Stones management. No firm commitment had been obtained from the band. The Inquiry Panel also commented that InvestHK should have ascertained from the AmCham representatives the actual state of play before rushing to a premature announcement on the Rolling Stones performance.

108. The Committee asked whether the DGIP was aware that no formal agreement had been signed with the Rolling Stones management when he attended the press conference on 3 September 2003. The **DGIP** responded that:

- he knew at that time that many of the contracts had not been signed and were oral contracts. The announcement was made by AmCham in consultation with InvestHK. It was a direct consequence of the shortness of time. As the time available for putting tickets on sale before the first concert was diminishing, AmCham felt that it could not delay any longer the announcement of the artist line-up for the HF; and
- it was one of Audit's criticisms that there was insufficient time for ticket sales. If the announcement had been delayed beyond 3 September, the situation would have been even worse.

109. In response to the Committee's enquiries, the **Chairman of AmCham** stated in her letter of 20 May 2004 that:

- AmCham understood that the announcement on 3 September 2003 was an indicative list of the talent line-up based on oral commitments; and
- the plans for the Rolling Stones concerts were made in consultation between Mr James Thompson and representatives of the Government. The Rolling Stones concerts were to be a major highlight of the HF. Both concerts had been sold out and thoroughly enjoyed by those who attended. This had been acknowledged in the press coverage.

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110. The Committee noted that there had been press reports that the Rolling Stones might have been overpaid for their appearance at the HF. To ascertain whether AmCham had incurred a substantial loss in staging the Rolling Stones concerts, the Committee asked InvestHK for a breakdown of the expenditure of \$89.1 million for artist fees in the audited accounts of Red Canvas, as well as a specific profit and loss account of the two Rolling Stones concerts.

111. In his letter of 6 May 2004, the **DGIP** stated that:

- regarding the breakdown of the expenditure of \$89.1 million for artist fees, InvestHK understood from AmCham that a confidentiality agreement existed covering all contracts of talents performing in the HF. Therefore, it did not have access to and hence were unable to provide the Committee with the breakdown; and
- AmCham had advised that there were no profit and loss accounts for individual shows of the HF, because a number of overhead costs were spread over the various shows in the festival.

112. Regarding the “confidentiality agreement”, the Inquiry Panel had discovered that, save the Rolling Stones’ contracts, there were no confidentiality clauses in the other artist contracts (paragraph 4.59 of the Inquiry Panel Report).

113. In the circumstances, the Committee asked whether the DGIP agreed with the Inquiry Panel’s comment that he had over relied on what he heard from the HF organisers without seeking documentary details. The **DGIP** responded that:

- the statement made in his letter of 6 May 2003 was factually correct. As noted by the Inquiry Panel, there was indeed a confidentiality provision covering the artists’ fees, but it was not in the artists’ contracts themselves. It existed in the talent acquisition agreement between Red Canvas and East Art International Limited (the western talent coordinator for the HF); and
- the then AmCham Chairman had informed InvestHK in writing that the artists’ fees were covered by a confidentiality clause, although he had not specified where the clause existed. InvestHK had only conveyed to the Committee the information provided by the then AmCham Chairman.

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114. The Committee also understood from paragraph 4.79 of the Inquiry Panel Report that the FS, upon reading the press report about the high fees for the Rolling Stones, had asked for an explanation from the DGIP. The Committee asked about the details of the meeting.

115. The FS responded that:

- there was a report in the English press in August 2003 that the Rolling Stones might have been overpaid. Therefore, he asked the DGIP for an explanation. He was not given a satisfactory answer and was told that there was a confidentiality clause in the artists' contracts. The Inquiry Panel had now confirmed that there was indeed a confidentiality clause in the contracts of the Rolling Stones; and
- his understanding at that time was that the original promoter of the Rolling Stones concerts had requested government sponsorship to stage the event but was unsuccessful. Subsequently, she complained about the high fees for the Rolling Stones. He had not ascertained whether this was true or not because at that time he did not realise that there would be upcoming problems over the staging of the concerts. In fact, the AmCham representatives made a presentation of the HF to the ERSG on 1 September 2003 and informed the meeting that the programme line-up had been confirmed. He thus had the impression that the overall situation was under their control.

116. Based on the information available, the Committee calculated that the artist fees for the Rolling Stones would amount to some \$40 million. The Committee asked how this figure compared to the amount of sponsorship requested by the original promoter.

117. The DGIP said at the public hearings and in his letter of 27 May 2004, in *Appendix 48*, that:

- the original promoter's first proposal, dated 8 July 2003, quoted a total fee of HK\$50.57 million (US\$6.48 million) for the Rolling Stones to perform two shows at the Hong Kong Stadium, including artist fee, staging and production and freight and airfares. The anticipated deficit for the two shows was in excess of HK\$18 million, and she was seeking government sponsorship to offset it; and

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- she submitted later in the same month (July 2003) a revised proposal for a single show by the Rolling Stones, again at the Hong Kong Stadium. This time, the quoted total fee was substantially reduced to HK\$24.12 million. She was seeking government subsidy in the order of HK\$6 million.

### Follow-up actions

118. Noting that the Inquiry Panel Report had raised a number of questions concerning the accounts of the HF, the Committee asked whether the Administration would:

- consider referring the Inquiry Panel Report to any law enforcement agencies for investigation; and
- request AmCham to fully cooperate with Audit to facilitate the conduct of a value-for-money audit on Red Canvas and any records relating to the HF held by AmCham and the project subcontractors.

119. In his letter of 15 June 2004, the **DGIP** advised that:

- the Administration had referred the Inquiry Panel Report to the Police for further follow-up action as deemed necessary. The Independent Commission Against Corruption was also carrying out an investigation; and
- InvestHK had written to AmCham on 27 May 2004 requesting permission for the Director of Audit to have access to the records of AmCham and Red Canvas on matters relating to the HF. It was still awaiting a formal reply from AmCham, but had been advised that both AmCham and Red Canvas were prepared to allow access to the same files as examined by the Inquiry Panel.

120. **Conclusions and recommendations** The Committee:

### Project conceptualisation and approval

- expresses grave dismay that the Economic Relaunch Working Group (ERWG) had put a substantial amount of public fund at risk as early as the inception stage of the event by approving too hastily the American Chamber of Commerce in Hong Kong (AmCham)'s proposal for the Government to sponsor the Harbour Fest (HF), in that it:

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- (a) failed to thoroughly assess the complexity and risks involved, as well as the benefits, before agreeing to support the proposal in principle;
  - (b) failed to ask for a proper business plan from AmCham, thus depriving itself of the detailed information required (such as market analysis, risk assessment and human resource plan) for conducting a proper project appraisal;
  - (c) failed to call for the views of experts within the relevant departments on the feasibility of the HF despite the initial reaction of the departments that the project was rather ambitious;
  - (d) appointed the Invest Hong Kong (InvestHK), which had little hands-on experience in organising such mega event, as the subject department without considering other available options; and
  - (e) failed to explore the options of organising the concerts in-house, outsourcing to the private sector through a competitive selection process or co-organising the HF with AmCham;
- notes that the Financial Secretary (FS) has accepted Audit's observation that the ERWG had not fully examined the concept viability, the timeframe for organising the concerts, the timeframe for promotion and ticketing, and the organising ability of AmCham, before it accepted AmCham's proposal for the Government to sponsor the HF;

### **Project monitoring**

- condemns the Director-General of Investment Promotion (DGIP) for the reasons that he:
- (a) failed to take positive steps to consult the government bureau and departments with expertise in the entertainment field, engage outside experts in the show business, or make reference to their relevant practices during the critical initial stages of budget-vetting and monitoring processes;
  - (b) failed to seek the Department of Justice (DoJ)'s advice on the three Memoranda of Understanding (MOUs) with AmCham, which are legally binding;



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- (c) rejected the DoJ's advice to include in the agreement with AmCham provisions for access to documents in AmCham's possession; and
- (d) failed to adhere to the basic management principles and to put in place an appropriate system of cost control or monitoring to oversee the project. In particular, he:
  - (i) failed to adequately supervise InvestHK in the discharge of his responsibilities over the HF, which was evidenced by:
    - the fact that he was absent from Hong Kong for 60 days during the three-month period leading up to the HF; and
    - his ignorance of the fact that two legally binding MOUs were signed during his absence and \$50 million were paid to AmCham;
  - (ii) failed to conduct any due diligence checks on AmCham and Red Canvas Limited and to inquire into AmCham's ability to pay the difference between the cost of the HF and the government sponsorship;
  - (iii) failed to ensure that there were proper risk management and contingency planning on the HF; and
  - (iv) chose to rely on a liberal interpretation of "sponsorship" in order to justify his monitoring the HF from a distance;
- concurs with the FS that irrespective of whether the HF is financed by the Government through sponsorship or other modes of subvention, the responsibilities of the Controlling Officers remain the same as those provided in FCir No. 1/2004, i.e. they should satisfy themselves that an appropriate system of cost control or monitoring is in place;
- expresses serious dismay that the ERWG:
  - (a) failed to carry out appropriate supervision over such crucial matters as InvestHK's scrutiny of the budget for the HF and the InvestHK's monitoring of the actual progress of the organisation of HF;

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- (b) failed to ensure that the DGIP exercise the appropriate level of supervision over the sponsorship of the HF which is effectively close to its full cost; and
- (c) had not considered downsizing the scale of the HF;

### **Keeping the Legislative Council (LegCo) informed**

- expresses serious dismay that the DGIP failed to discharge his responsibility to keep the LegCo informed by providing reliable and complete information in a timely manner, in that he:
  - (a) failed to act on his undertaking to keep the LegCo informed on a regular basis until 11 October 2003 when he was required to respond to concerns raised by the public over the organisation of the HF;
  - (b) misled the LegCo into believing that AmCham had already secured the broadcast of the whole one-hour TV special by the ABC Channel in the USA and that the film would be brought to 0.5 billion viewers worldwide, which ultimately did not materialise; and
  - (c) failed to inform the LegCo that there were substantive differences in the Government's monitoring role between commissioning other Relaunch Campaign projects and just acting as a sponsor for the HF;
- notes that the DGIP has accepted that he could have requested the Financial Affairs Panel to call special meetings or submitted written reports to the Panel during the summer recess of the LegCo, to brief the Panel about the HF;

### **Organisation of the HF**

- expresses serious concern that:
  - (a) although the HF was expected to generate positive publicity, the vast majority of the media reports on the HF were negative;
  - (b) the overall audience turnout rate for the HF concerts was only 61%, including 18% being holders of free tickets;
  - (c) the ticket sales position was not satisfactory as tickets sold represented only 43% of the total capacity of all concerts, with the number of tickets sold for individual concerts varying from 15% to 89% of concert capacity;

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- (d) the distribution of a large number of free tickets, amounting to 30% of the audience turnout, gave the impression that the concerts were not well received by the market and the distribution of too many free tickets in the earlier concerts could have affected the ticket sales for some of the subsequent concerts;
  - (e) the three months allowed for the organisation of the HF, involving a total of 16 high profile performances by international, regional and local artists, were grossly inadequate;
  - (f) because of the insufficient time for organising the HF, the programme line-up was only completed at a very late stage, which in turn affected the time allowed for the promotion of individual artists and the time available for ticket sales; and
  - (g) the significant changes in the line-up of artists had resulted in the late completion of the final programme line-up which affected the time allowed for the promotion of individual performances and the time available for ticket sales;
- acknowledges the assurance by the FS that the Administration will follow up the outstanding tasks that require monitoring by the Government;

### **Rolling Stones concerts**

- expresses serious concern that:
  - (a) the Rolling Stones concerts were included late in the programme line-up for the HF in late August 2003, leaving little lead time for the smooth organisation of concerts of such high international profile;
  - (b) the concerts had caused uncertainty and confusion and attracted a lot of negative media attention, which gave the impression that the organising of the concerts was not well coordinated; and
  - (c) in organising these concerts, AmCham incurred a substantial loss at taxpayers' expense, although the number of tickets sold was 25% of the overall tickets sold for the HF concerts, and their audience turnout was 19% of the total audience turnout;

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### **Evaluation of the HF**

- expresses dismay that the agreement between AmCham and the Government only required the delivery of a programme of events and the TV production without providing safeguards and measurable criteria to ensure that the stated objectives of the HF (i.e. boosting local morale and consumption, boosting tourism and promoting Hong Kong to international and Mainland communities) would be achieved. In the event, the Government's interests were left unprotected in that:
  - (a) the HF concerts had fallen short of expectations and some of the concerts were not well attended;
  - (b) the TV film was not aired on the ABC network and the three airings in the USA only achieved less than 1% of the target viewership; and
  - (c) to date, the viewership of the TV film worldwide has been far lower than the target viewership;

### **Follow-up actions**

- urges InvestHK to liaise with AmCham to make arrangements for the Government to have access to all HF records of AmCham, Red Canvas Limited and the project subcontractors, in order to facilitate any necessary follow-up actions by the Government and the Audit Commission;
- invites the Director of Audit to consider conducting a value for money audit on other events and activities sponsored by InvestHK to ensure that they did not similarly suffer from the lack of proper cost control;
- urges the Administration to consider taking disciplinary action against the DGIP, having regard to the gravity of his failure in discharging his duties; and
- wishes to be kept informed of the developments in following up the outstanding tasks of the HF and the progress on the implementation of Audit's recommendations.